The information contained in this preliminary offering memorandum is not complete and may be changed. The preliminary offering memorandum is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

OFFERING CIRCULAR

SUBJECT TO COMPLETION AND AMENDMENT
PRELIMINARY OFFERING CIRCULAR DATED MAY 10, 2004

Offering of up to 479,049 Offer Shares
(*of which 60,000 are subject to an over-allotment option described below)*

SAF TEHNIKA A/S

(Incorporated with limited liability in the Republic of Latvia)

Offer Price Range LVL 32.00 to LVL 37.00 per Offer Share

Up to 479,049 shares with a par value of LVL 1.00 each (the "Offer Shares") of SAF Tehnika A/S (together with its subsidiaries, the "Company" or "SAF"), are being offered in a combined offering (the "Combined Offering"), which comprises (i) an offering of up to 444,049 existing Offer Shares (including 60,000 Shares covered by the Over-Allotment Option described below) by AS MicroLink ("MicroLink") and certain other existing shareholders of the Company (the "Selling Shareholders") and 35,000 new Offer Shares by the Company. The Combined Offering is made to (i) institutional and professional investors in Latvia and to institutional investors outside Latvia and the United States in reliance on Regulation S ("Regulation S") under the United States Securities Act of 1933, as amended (the "Securities Act") and a private placement in the United States to qualified institutional buyers ("QIBs"), as defined in and in reliance on Rule 144A ("Rule 144A") under the Securities Act (the "Institutional Offering"); (ii) the public in Latvia (the "Retail Offering"). Up to 10,000 new or existing Offer Shares in the Retail Offering have been reserved for a preferential right of subscription by the employees of SAF (the "Employee Offering"). A number of new Offer Shares in the Institutional Offering has been reserved for later delivery to Viking Microwave AB ("Viking Microwave") in Sweden in payment of certain assets proposed to be purchased by the Company no later than June 1, 2004. The existing Offer Shares are offered by the Selling Shareholders (see "Shares, Share Capital and Ownership Structure – Shareholders of the Company and the Selling Shareholders"). The offer price per Offer Share will be determined through a book building process and is expected to be the same for all investors in the Combined Offering. The initial offer price range for the Offer Shares is LVL 32.00 – 37.00 (approximately EUR 49.00 – 56.00) (the "Offer Price Range"). MicroLink has granted the Global Coordinator an option (the "Over-Allotment Option"), exercisable within 30 days of the date of the commencement of the trading on the Official List of the Riga Stock Exchange (the "Riga Stock Exchange"), to purchase up to an additional 60,000 existing Shares of the Company (the "Additional Shares") for purposes of covering possible over-allotments. See "Underwriting – General."

Prior to the Combined Offering, there has been no public market for the Offer Shares or the existing shares of the Company (together the "Shares"). See "Underwriting" for a discussion of certain factors affecting the Offer Price. The Company has made an application to list the Shares on the Riga Stock Exchange. Trading in the Shares is expected to commence on the Official List of the Riga Stock Exchange on or about May 26, 2004. A Latvian-language offering circular relating to the Combined Offering has been registered with the Latvian Finance and Capital Markets Commission (the "Finance Commission"). This English-language offering circular (the "Offering Circular") has not been registered with the Finance Commission and the Finance Commission is not responsible for the information provided in this Offering Circular. The Offer Shares will rank *pari passu* with the existing shares of the Company and will be eligible for any dividends declared and paid on the Shares for the financial period starting on July 1, 2003 and for any dividends declared and paid thereafter. Possible dividends paid by the Company to shareholders who are not generally subject to taxation in Latvia may be subject to deduction of Latvian taxes as described in "Taxation – Latvian Taxation."
See "Risk Factors" for a discussion of certain factors that should be considered by prospective investors.

THE OFFER SHARES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT AND MAY NOT BE OFFERED OR SOLD IN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S) EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT. ACCORDINGLY, THE OFFER SHARES ARE BEING OFFERED AND SOLD IN THE UNITED STATES ONLY TO QIBs IN RELIANCE ON THE EXEMPTION PROVIDED BY RULE 144A AND ARE BEING OFFERED OUTSIDE THE UNITED STATES IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT. YOU ARE HEREBY NOTIFIED THAT THE SELLERS OF THE OFFERED SHARES MAY BE RELYING ON THE EXCEPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A. THE SHARES ARE SUBJECT TO CERTAIN SELLING RESTRICTIONS. SEE "UNDERWRITING - SELLING RESTRICTIONS."

Advisor to the Company and Global Coordinator:

SUPREMA
EVLI GROUP

The date of this Offering Circular is May , 2004

TABLE OF CONTENTS

This Offering Circular has been prepared by the Company and the Selling Shareholders in connection with the Combined Offering to be used solely for the purpose of enabling a prospective investor to consider the subscription and purchase of the Offer Shares. The information contained in this Offering Circular has been provided by the Company, the Selling Shareholders and other sources identified herein. It is prohibited to copy or distribute the Offering Circular or to reveal or use the information contained therein for any other purpose than considering an investment in the Offer Shares.

The Company and the Board of Directors accept responsibility for the information contained in this Offering Circular. To the best of the knowledge and belief of the members of the Board of Directors of the Company, the information contained in this Offering Circular is accurate and complete in all material respects and does not omit any material facts.

The Selling Shareholders accept responsibility for the information in the subsection "Shares, Share Capital and Ownership Structure — Shareholders of the Company and the Selling Shareholders." To the best of the knowledge and belief of the Selling Shareholders, the information contained in the said subsection is accurate and complete in all material respects. To the best of the knowledge and belief of the Selling Shareholders, this Offering Circular does not omit any material facts.

Riga, May 10, 2004

SAF Tehnika A/S
Board of Directors

Selling Shareholders

This Offering Circular has been prepared in accordance with Latvian law, including the Law on the Market of Financial Instruments (*Finanšu instrumentu tirgus likums*) and the rules and regulations applied by, and the exemption granted by, the Finance Commission. The Offering Circular has been prepared in accordance with the requirements of regulation "On the Information to be Disclosed in Public Offering Prospectus" issued by the Finance Commission.

The Combined Offering will be governed by and construed in accordance with Latvian law. Any disputes relating to the Combined Offering will be settled in a competent court of law, having its jurisdiction in Latvia. The Latvian offering circular shall prevail with regard to the Retail Offering carried out in Latvia. In all other situations the Offering Circular shall prevail.

No person has been authorized to give any information or to make any representation in connection with the Combined Offering other than as contained in this Offering Circular and, if given or made, such information or representation must not be relied upon as having been authorized by the Company, by the Selling Shareholders or by AS Suprema Securities and AS Suprema (collectively, the "Managers"). This Offering Circular does not constitute an offer to sell or a solicitation of an offer to buy any of the Offer Shares in any jurisdiction to any person to whom it is unlawful to make such an offer or solicitation in such jurisdiction. The distribution of this Offering Circular and the offering or sale of the Offer Shares in certain jurisdictions is restricted by law. Persons into whose possession this Offering Circular may come are required by the Company and the Managers to inform themselves about and to observe such restrictions. Further information with regard to restrictions on offering and sale of the Offer Shares and the distribution of this Offering Circular is set out in "Underwriting." Neither the delivery of this Offering Circular nor any sale made in connection with the Combined Offering shall, under any circumstances, create any implication that the information contained herein is correct as of any time subsequent to the date hereof or that the affairs of the Company have not since changed.

THE OFFER SHARES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT AND MAY NOT BE OFFERED OR SOLD IN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S) EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.

ACCORDINGLY, THE OFFER SHARES ARE BEING OFFERED AND SOLD IN THE UNITED STATES ONLY TO QIBS IN RELIANCE ON THE EXEMPTION PROVIDED BY RULE 144A AND ARE BEING OFFERED OUTSIDE THE UNITED STATES IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT. SEE "UNDERWRITING — SELLING RESTRICTIONS."

The Offer Shares may not be lawfully offered or sold to persons in the United Kingdom except in circumstances which do not constitute an offer to the public in the United Kingdom within the definition of the Public Offer of Securities Regulations 1995 as amended or otherwise in compliance with all applicable provisions of the Financial Services and Markets Act 2000 (the "FSMA"). Neither this nor any other document issued in connection with the offer of the Offer Shares has been approved by an authorized person for the purposes of section 21 of the FSMA and hence may not be passed on to any person in the United Kingdom unless that person is entitled to receive this document by virtue of him falling into one of the categories of exemptions under the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 or is a person to whom the document may otherwise lawfully be issued or passed on.

Each prospective purchaser and subscriber of the Offer Shares must comply with all applicable laws and regulations in force in any jurisdiction in which it purchases, subscribes, offers or sells the Offer Shares or possesses or distributes this Offering Circular and must obtain any consent, approval or permission required by it for the purchase, offer or sale by it of the Offer Shares under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, subscriptions, offers or sales, and none of the Company, the Selling Shareholders and the Managers shall have any responsibility for these obligations.

The contents of this Offering Circular are not to be construed as legal, business or tax advice. Each prospective investor should consult with its own legal adviser, business adviser or tax adviser as to legal, business and tax advice.

IN CONNECTION WITH THE COMBINED OFFERING, THE GLOBAL COORDINATOR MAY EFFECT TRANSACTIONS INTENDED TO STABILIZE OR MAINTAIN THE MARKET PRICE OF THE OFFER SHARES AND/OR THE OTHER SHARES OF THE COMPANY AT A LEVEL WHICH MIGHT NOT OTHERWISE PREVAIL. SUCH ACTIVITY MAY BE CONDUCTED ON THE RIGA STOCK EXCHANGE WITHIN 30 DAYS FROM THE COMMENCEMENT OF THE LISTING ON THE OFFICIAL LIST. SUCH ACTIVITIES, IF ANY, MAY BE DISCONTINUED AT ANY TIME. IN CONNECTION WITH SUCH ACTIVITIES, THE GLOBAL COORDINATOR MAY PURCHASE UP TO 60,000 SHARES, WHICH AMOUNT MAY, HOWEVER, BE RAISED UNDER UNFAVORABLE CIRCUMSTANCES ON THE MARKET. AFTER THE TIME RESERVED FOR THESE ACTIVITIES, THE GLOBAL COORDINATOR WILL PUBLISH INFORMATION ON THE TOTAL AMOUNT OF SHARES SOLD AND PURCHASED, AS WELL AS ON THE HIGHEST, LOWEST AND AVERAGE PRICE OF SUCH TRANSACTIONS.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in “Summary”, “Risk factors”, “Business”, “Management’s Discussion and Analysis of the Company’s Financial Condition and Results of Operations” and elsewhere in this Offering Circular are forward-looking. Such forward-looking statements and information are based on the beliefs of the Company’s management or are assumptions based on information available to the Company. When used in this document, the words “anticipate,” “believe,” “estimate” and “expect” and similar expressions, as they relate to the Company or its management, are intended to identify forward-looking statements. Such forward-looking statements reflect the current views of the Company or its management with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause the actual results, performance or achievements of SAF to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements, including, among others, risks or uncertainties associated with SAF’s products, technological development, growth management, relations with customers and suppliers and, more generally, general economic and business conditions, changes in domestic and foreign laws and regulations (including those of the European Union), taxes, changes in competition and pricing environments, and other factors referenced in this document. Some of these factors are discussed in more detail under “Risk Factors.” Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in this document as anticipated, believed, estimated or expected.

The Company does not intend, and does not assume any obligation, to update the forward-looking statements included in this Offering Circular as at the date set forth on the cover.

PRESENTATION OF FINANCIAL INFORMATION AND DEFINITION OF TERMS

SAF prepares its financial statements in accordance with Latvian generally accepted accounting principles (the “Latvian GAAP”), which differ in certain significant respects from international financial reporting standards (“IFRS”). For a description of certain differences between the Latvian GAAP and IFRS, see “Annex A — Summary of Significant Differences between Latvian GAAP and IFRS.”

Certain financial and other information set forth in a number of tables in this Offering Circular has been rounded, for the convenience of the readers. Accordingly, in certain instances, the sum of the numbers in a column may not conform exactly to the total figure given.

All references in this Offering Circular to (i) “lat”, “LVL” or “Ls” refer to the currency of Latvia, (ii) “U.S. dollars”, “U.S.$” or “USD” refer to the currency of the United States of America, (iii) “Pound Sterling” refers to the currency of the United Kingdom of Great Britain and Northern Ireland, and (iv) “euro” or” EUR” refer to the single currency of the European Union Member States participating in the European Monetary Union (“EMU”).

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT SO FILED IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT ANY EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY, OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO

ANY PROSPECTIVE PURCHASER, CUSTOMER, OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

AVAILABLE INFORMATION

The Company is not required to file periodic reports under Sections 13 or 15(d) of the United States Securities Exchange Act of 1934, as amended (the "Exchange Act"). In the event the Company is neither subject to Section 13 or 15(d) of the Exchange Act nor exempt from reporting under the Exchange Act pursuant to Rule 12g3-2(b) thereunder, in order to preserve the exemption for resales and transfers under Rule 144A, the Company will provide upon request to the holder of any Offer Share, and to each prospective purchaser designated by any such holder, the information specified in, and meeting the requirements of Rule 144A(d)(4).

ENFORCEABILITY OF JUDGMENTS

The Company is a public limited company incorporated under Latvian law. All of the directors and executive officers of the Company are citizens or residents of countries other than the United States. All or a substantial portion of the assets of such persons and substantially all the assets of the Company are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon such persons or the Company, or to enforce or collect judgments of U.S. courts against them, including judgments predicated upon civil liabilities under the securities laws of the United States or any State or territory of the United States.

SUMMARY

The summary information set out below is based on, should be read in conjunction with, and is qualified in its entirety by, the full text of this Offering Circular, including the financial information presented herein. The Section headed "Risk Factors" sets forth information that prospective investors should carefully consider before making an investment in the Offer Shares.

Overview

SAF is a designer, producer and distributor of digital microwave point-to-point radio data transmission equipment which offers an alternative to cable channels. The Company markets its portfolio of approximately 130 products to cellular network operators, data service providers (such as internet service providers and telecommunication companies), governments and private companies in over 20 countries. SAF's mission is to provide affordable fixed wireless solutions for data and voice connectivity. The Company attributes its success to its flexibility, its distinctive approach to research and development and its ability to deliver high-value solutions to its customers at a low price.

In the year ended June 30, 2003, the Company's total revenue was LVL 4,881,291 and its net profit was LVL 811,786.

Strategy

Since its inception in 1999, the Company has become an international player, able to compete with such multinational corporations as Ericsson, Nokia and Siemens in its market segment. The Company has experienced solid growth in the face of adverse market conditions, including the reduction of capital expenditures in the telecommunications and wireless data transmission sectors.

The Company plans to expand further internationally by penetrating new geographic markets both in developing and developed countries. In particular, the Company believes that the digital data transmission equipment market in the Asia-Pacific region has significant growth potential.

Competitive strengths

The Company's competitive strengths include:

- ***Strong R&D.*** The Company focuses its research and development efforts on low-cost, high-quality solutions suited to cost-conscious customers. As a general rule, it takes six to ten months for a new product to be developed to the moment the product becomes available to customers.
- ***Low-cost structure.*** The Company can offer its products at a substantial discount to the competition and yet maintain profitability. This is attributable to the maximum usage of commodity components and the outsourcing of non-core activities to countries with low labor costs, primarily Eastern Europe.
- ***Fast and efficient penetration of new markets.*** The Company relies on strong local distributors to enter new markets at a fast pace and low cost. The Company is also able to rapidly adapt its products to local user preferences based on its flexible production process.
- ***Vast pool of radio engineers.*** The Company benefits from a large pool of radio engineers with distinctive, cost-effective engineering traditions inherited from Latvia's central place in the Soviet Union's radio-electronic production.

Summary of the financial statements of the Company

Profit or loss account data	Year ended June 30, 2001 (LVL)	Year ended June 30, 2002 (LVL)	Year ended June 30, 2003 (LVL)	Six months ended December 31, 2002 (LVL)	Six months ended December 31, 2003 (LVL)
Revenue	**948,285**	**1,582,877**	**4,881,291**	**1,587,112**	**7,813,536**
Cost of goods sold	(674,304)	(999,539)	(3,032,357)	(906,076)	(3,503,713)
Gross profit	**273,981**	**583,338**	**1,848,934**	**681,036**	**4,309,823**
Sales and distribution expenses	(149,655)	(418,744)	(492,072)	(196,618)	(541,639)
General and administrative expenses	(50,075)	(73,881)	(205,598)	(62,750)	(158,052)
Other operating income	—	62	90	—	—
Operating profit	**74,251**	**90,775**	**1,151,354**	**421,668**	**3,610,132**
Other interest income and similar income	—	—	12	—	—
Interest payments and similar expenses	(19,959)	(38,749)	(90,314)	(27,267)	(181,695)
Profit before taxes	**54,292**	**52,026**	**1,061,052**	**394,401**	**3,428,437**
Corporate income tax	(8,518)	(9,924)	(249,266)	(124,633)	(641,465)
Net profit	**45,774**	**42,102**	**811,786**	**269,768**	**2,786,972**

Balance sheet data	Year ended June 30, 2001 (LVL)	Year ended June 30, 2002 (LVL)	Year ended June 30, 2003 (LVL)	Six months ended December 31, 2002 (LVL)	Six months ended December 31, 2003 (LVL)
Intangible assets	35,141	28,429	82,069	54,281	145,196
Fixed assets	92,623	187,164	508,294	310,654	657,623
Long-term financial investments	—	—	31,654	—	31,654
Total long-term assets	127,764	215,593	622,017	364,935	834,473
Inventories	597,526	465,050	1,964,455	864,170	2,163,915
Accounts receivable	180,678	239,990	777,684	402,651	2,629,636
Cash and cash equivalent	8,145	51,115	1,540	16,415	80,454
Total current assets	786,349	756,155	2,743,679	1,283,236	4,874,005
Total assets	**914,113**	**971,748**	**3,365,696**	**1,648,171**	**5,708,478**
Total shareholders' equity	228,546	442,465	1,604,413	712,233	4,241,385
Provisions	19,241	27,262	69,596	64,358	63,636
Long-term liabilities	—	24,315	80,137	97,498	99,032
Short-term liabilities	666,326	477,706	1,611,585	774,082	1,304,425
Total liabilities and shareholders' equity	**914,113**	**971,748**	**3,365,696**	**1,648,171**	**5,708,478**

Cash flow data	Year ended June 30, 2001 (LVL)	Year ended June 30, 2002 (LVL)	Year ended June 30, 2003 (LVL)	Six months ended December 31, 2002 (LVL)	Six months ended December 31, 2003 (LVL)
Profit before income taxes	54,292	52,026	1,061,052	394,401	3,428,437
Net cash flow from operating activities	(313,071)	242,513	(721,849)	144,923	1,235,618
Net cash flow from investing activities	(106,796)	(20,607)	(383,290)	(100,907)	(276,452)
Net cash flow from financing activities	384,414	(178,936)	1,055,564	(78,716)	(880,252)
incl. Dividends	—	—	—	—	(36,750)
Net increase/decrease in cash	**(35,453)**	**42,970**	**(49,575)**	**(34,700)**	**78,914**
Cash at the beginning of the period	43,598	8,145	51,115	51,115	1,540
Cash at the end of the period	**8,145**	**51,115**	**1,540**	**16,415**	**80,454**

THE COMBINED OFFERING

The Company

SAF Tehnika A/S, a public company with limited liability incorporated under the laws of the Republic of Latvia and its subsidiary SAF International AS in Estonia.

The Selling Shareholders

AS MicroLink, a company with limited liability incorporated under the laws of the Republic of Estonia and certain individual shareholders ("Individual Selling Shareholders"). See "Shares, Share Capital and Ownership Structure — Shareholders of the Company and the Selling Shareholders."

The Offering

The Combined Offering will comprise up to 444,049 existing and 35,000 new Offer Shares (including 60,000 existing Shares covered by the Over-Allotment Option). The Combined Offering comprises (i) the Institutional Offering to institutional and professional investors in Latvia and to institutional investors outside Latvia and the United States in reliance on Regulation S and to qualified institutional buyers in the United States, as defined in and in reliance on Rule 144A under the Securities Act (see "Underwriting — Selling Restrictions"); and (ii) the Retail Offering to the public in Latvia. Up to 10,000 existing and new Offer Shares included in the Retail Offering will be offered in the Employee Offering in which the employees of the Company will have a preferential right to subscribe. The Combined Offering will comprise in the aggregate up to 479,049 new and existing Offer Shares.

Over-allotment option

MicroLink has granted the Global Coordinator an option, exercisable within 30 days of commencement of trading on the Official List of the Riga Stock Exchange, to purchase up to 60,000 Additional Shares for the purposes of covering possible over-allotments.

Shares outstanding prior to the Combined Offering

955,060 Shares with a par value of LVL 1.00 each.

Offer Price

In the Institutional Offering, the selling and subscription price (the "Offer Price") will be decided by the Board of Directors of the Company and the Selling Shareholders in consultation with the Global Coordinator on or about May 24, 2004 following a book-building process. In the Retail Offering, the subscription price of the Shares will be the same as the Offer Price in the Institutional Offering.

Allocation

In the event that the demand for the Offer Shares exceeds the number of Offer Shares available, the allocation will be decided by the Board of Directors of the Company and the Selling Shareholders in consultation with the Global Coordinator.

Preferential allocations

Up to 10,000 Offer Shares included in the Retail Offering will be reserved for a preferential subscription by employees of SAF. If the demand from SAF employees is lower than 10,000 Offer Shares, the remaining Offer Shares will be added to the number of Offer Shares available to other investors in the Combined Offering.

A certain number of Offer Shares included in the Institutional Offering will be reserved for preferential subscription by or on behalf of Viking Microwave in Sweden, and placed on escrow for later delivery in payment of certain assets proposed to be purchased by the Company pursuant to an asset purchase agreement entered into between the Company and Viking Microwave on April 6, 2004 (the "Viking Purchase Agreement").

The number of Offer Shares that will be reserved for this purpose equals the Latvian lat equivalent of 600,000 euros divided by the Offer Price, rounded downwards to a full Share. The Latvian lat equivalent will be established by using the official exchange rate between euro and lat published by the Central Bank of Latvia of the date when the allocation is decided. These reserved Shares will be subscribed by or on behalf of Viking Microwave and placed in escrow pending the closing under the Viking Purchase Agreement. If no closing has taken place under the Viking Purchase Agreement by July 31, 2004, the reserved Shares will be sold by the Global Coordinator on behalf of SAF for the then prevailing Share price quoted at the Riga Stock Exchange.

Lock-up

The Selling Shareholders have agreed not to sell or otherwise transfer shares of the Company for 12 months subsequent to signing the Underwriting Agreement (as defined hereafter) without the prior written consent of the Global Coordinator. The Company has agreed not to issue or sell Shares of the Company or securities convertible into Shares of the Company for 12 months subsequent to signing the Underwriting Agreement without the prior written consent of the Global Coordinator.

Listing and trading

The Company has made an application for the Shares, including the Offer Shares, to be listed on the Riga Stock Exchange. Trading of the Shares on the Official List of the Riga Stock Exchange is expected to commence on or about May 26, 2004. See "Underwriting." The investors may place sale and purchase orders with the custodian banks starting on May 26, 2004, to settle after May 28, 2004.

Voting rights

The Offer Shares rank *pari passu* with all other Shares. Each Share is entitled to one vote at meetings of shareholders.

Dividends

The Shares will be entitled to future dividends paid by the Company, commencing with any dividend declared for the financial period starting July 1, 2003 and all dividends declared and paid thereafter. The timing and amount of future dividend payments, if any, will be decided by the General Meeting of Shareholders on the basis of a proposal of the Board of Directors, which will depend upon the Company's future earnings, financial position, capital requirements and prospects, as well as other factors that the Board of Directors may deem relevant. See "Dividends and Dividend Policy."

Risk factors

For a discussion of factors to consider in an evaluation of an investment in the Shares, see "Risk Factors."

Taxation

For a discussion of withholding taxes payable on dividends payable in respect of the Shares and other relevant tax considerations, see "Taxation."

Use of proceeds

The Company will not receive any portion of the proceeds from the sale of Offer Shares by the Selling Shareholders in the Combined Offering. The net proceeds to the Company from any issuance of new Offer Shares in connection with the Combined Offering will be used for research and development projects aimed at facilitating the expansion of the Company's operations. See "Use of Proceeds."

Payment and settlement

The settlement date for the existing and new Offer Shares is expected to be May 28, 2004. Trade instructions (attaching payment) for the existing Offer Shares have to reach a Latvian custodian bank at the latest by 2:00pm (Riga time) on May 27, 2004 and it is expected that registration or transfer, as applicable, of the Offer Shares in the Latvian book-entry securities system will be confirmed on or about May 28, 2004. See "Latvian Securities Market — The Latvian Book-Entry Securities System."

All investors including institutional investors outside of Latvia will be required to have an account with a Latvian custodian bank, either directly or indirectly through their own custodian banks outside Latvia.

The identification number (ISIN code) for the Shares is LV0000101129.

BACKGROUND TO THE COMBINED OFFERING

The purpose of the Combined Offering is to finance the Company's expansion and business development activities, broaden the Company's ownership base and enable MicroLink and other Selling Shareholders to sell their shares in the Company. The Combined Offering provides the prerequisites for the Company's listing. Furthermore, the listing is expected to enhance the Company's profile among current and prospective customers, cooperation partners and prospective future employees to be recruited by the Company.

For a discussion of the Company's plans concerning the use of proceeds from the Combined Offering, see "Use of Proceeds."

RISK FACTORS

Prospective investors should carefully consider the risks described below before purchasing Offer Shares. The risks described below are not the only risks that the Company and investors in the Offer Shares will face. Additional risks not currently known to the Company or that the Company currently believes are immaterial may also adversely affect its business, financial condition and results of operation. The trading price of the Offer Shares could decline due to any of these risks and investors could lose all or part of their investment.

Risks relating to the Company's business

Global operations and exchange rate fluctuations

The Company markets its products in over twenty countries. Management estimates that a major part of the Company's revenue for 2004 will originate outside the Baltic States. Management proposes to continue the Company's expansion to global markets. The Company faces numerous risks characteristic of international businesses, such as the need to adapt to a large number of different rules and regulations, maintaining a global distribution network, unexpected changes in export tariffs, tax practice or import and export quotas, foreign exchange rate fluctuations and general difficulties in operating in a new market such as enforcing and controlling intellectual property rights. In addition, the expansion of the Company's operations requires financial resources. These factors may have adverse effects on the Company's operating results and financial position.

International sales account for a significant portion of the Company's revenues. The major part of the Company's contractual obligations and receivables are denominated in foreign currencies other than those tied to the lat, and the Company's revenues are accordingly subject to foreign exchange rate fluctuations. The proportionate share of the Company's revenues received from exports and foreign operations is expected to grow in the future. No assurance can be given that exchange rate fluctuations would not have an adverse effect on the Company's operating results or financial position. See "Management Discussion and Analysis of the Company's Financial Condition and Results of Operations — Currency Fluctuation Impact."

Currency exchange risks

An investment in shares denominated in lat by a foreign currency investor exposes the investor to a foreign currency risk. Any depreciation or appreciation of the lat in relation to such foreign currency will correspondingly reduce or increase the value of the investment in foreign currency terms.

Due to the accession of Latvia to the European Union and the adoption of the euro scheduled for January 1, 2008, the operating results and the financial position of the Company will be reported in euro at some point in the future. Because SAF generates a majority of its revenue and operating expenses in currencies other than the euro, particularly in lat, fluctuations in the value of the euro against other currencies may have a material effect on SAF's operating margins. In addition, as the Company's financial statements will be given in euro, the translation effect of such fluctuations may have a material effect on the Company's operating results and financial position and may significantly affect the ability to compare SAF's results from different financial periods. The Company is engaged in, and will continue to engage in, exchange rate hedging activities. There can be no assurance that any hedging techniques implemented by the Company will be successful.

The official and only legal tender in Latvia is the lat. The lat is pegged to the SDR (Special Drawing Right). The SDR is an artificial currency unit unofficially created by the IMF which is defined as a basket of four currencies in following proportions: U.S. dollar 45%, Euro 31%, Japanese yen 13% and the British pound sterling 11%. Foreign investors can open both lat and foreign currency accounts in banks registered in Latvia. Any foreign currency may be freely purchased and sold at the market exchange rates. There are no capital movement restrictions. There is a possibility that major changes in the currencies of Latvia's trading partners could impact the actions of the Latvian government and lead it to renounce to the peg. Any devaluation of the lat may have inflationary consequences for the Latvian economy as a whole and may have a material adverse effect on the Company's financial condition and results of operations.

Growth and its control

The Company invests a significant part of its resources in R&D and market development by means of increasing its potential customers' awareness of its products. The Company's success is largely based on the growing demand for existing and new products and services. No assurance can be given that the growth in demand projected by the Company will take place. As a consequence, it is possible that the Company may not achieve its growth targets.

The Company has grown very fast and management expects that it will continue growing rapidly, both through organic expansion of its business and through acquisitions. The Company's ability to manage future growth, particularly in connection with its plans for international expansion, will require the Company to enlarge its presence in the microwave radio market. In addition, the Company needs to continually improve its financial and management controls, reporting systems and procedures, implement new systems when necessary and support, train and manage its personnel. Growth through possible acquisitions will cause separate risks connected with the integration of the acquired businesses into the Company. If the Company fails to control its growth and development successfully, this may have an adverse effect on its profits and financial position. The continuing growth requires investments in fixed assets and additional working capital. The availability of additional financing on advantageous terms cannot be assured.

Development of technology and Company's product development activities

The Company and most of its customers operate in a market characterized by rapid changes in technology. The future success of the Company will depend on successful product development, changes in customer requirements and technology as well as the Company's ability to enhance the functionality and performance of its current products and develop and market new products which keep up with technological developments and evolving industry standards.

The Company plans to introduce and market several new products in the near future, the success of which depends on the acceptance of key customers. Unless the Company can adapt or respond in a cost-effective and timely manner to new technologies and new customer requirements, it could have an adverse effect on the Company's operating results or financial position.

Dependence on a single product family

Because the Company's operating results depend upon sales of a small number of products, a reduction in demand for a single product may disproportionately decrease the Company's operating results.

Revenues from sales of the CFM product family and services have previously accounted for substantially most of the Company's revenue. Although the Company has added new products to its product range, any decline in price or reduction in demand for the Company's CFM product family and services could adversely effect the Company's operating results or financial position.

Dependence on key personnel

SAF's performance depends to a significant extent on the abilities and continued service of its management and highly skilled personnel. SAF anticipates that demands on the management and professional staff will increase. The loss of the services of these key persons could adversely affect SAF's results of operations. For example, if one or more key persons joins a competitor or forms a competing company, the resulting competition could hurt SAF's business. In addition, in the event of the loss of any key employee, it may not be possible to prevent the unauthorized disclosure or use of SAF's procedures, practices, new product developments or advertiser lists. Also, future success depends on SAF's continuing ability to identify, hire, train and retrain such personnel in the future. See "Business — Personnel" and "Management."

Dependence on key suppliers

The Company relies on a limited number of suppliers for the components of its products. While certain components are custom-made, most of them are standard and can easily be substituted. While the Company does not believe that it is dependent on any one of these suppliers, there cannot be any assurance that the Company could find a cost-effective replacement for a key supplier, which could result in an increase in its production costs and cause it to lose its competitive advantage.

Dependence on low labor costs

Following the accession of Latvia to the European Union, Latvia will be part of the European employment market upon expiration of the relevant transition periods. Because the level of labor compensation in Latvia is significantly below the average in the European Union, the accession of Latvia to the European Union will likely result in an increase in labor costs. Consequently, the Company may not be able to manufacture its products in a cost-effective way, which would result in an increase in its production costs and the loss of its competitive advantage.

Dependence on key customers

Although the Company has a large number of customers spread throughout Europe, Central and South America and Asia, from time to time some customers can represent a significant share of the Company's revenue. In the six months ended December 31, 2003, China Telecom, China Mobile and China Unicom together represented 69% of the Company's revenue. The loss of any key customer or a reduced rate in their purchases may have a negative effect on the financial position and the operating profit of the Company.

Intellectual property

The Company relies on intellectual property, principally know-how, trade secrets, patent rights and trademarks. Failure to protect these intellectual property rights could harm the Company's business. The Company has chosen not to seek patents or other formal protection for its technology or know-how. The Company believes that the complexity and continually changing nature of its product design and the cost-efficiency of its production would be factors deterring third parties from reverse engineering the Company's products by making such reverse engineering difficult, time-consuming and costly.

In addition, although the Company is not aware of any third-party intellectual property rights which are infringed by its technology, and believes that it has all intellectual property rights needed to conduct its business, it is possible that the Company would have to respond to claims alleging infringement of third-party intellectual property rights. Any claims could result in costly litigation and could subject the Company to an injunction, damage payments and/or the application of significant resources to develop non-infringing technology.

DG Telecom agreement

The Company entered into an original manufacturer (OEM) agreement (the "DG Agreement") with its currently biggest customer, Beijing DG Telecommunications Equipment Co. Limited ("DG Telecom") in 2002. Under the DG Telecom Agreement, the Company (i) grants DG Telecom the right to market, sell, supply, install, service and support the Company's products directly to its customers, (ii) supplies its products to DG Telecom and (iii) arguably grants DG Telecom a license to manufacture the Company's products for a royalty. In the year ended June 30, 2003, the DG Agreement accounted for 45% of the Company's total revenue.

Considering the complexities involved in the enforcement of intellectual property claims in China, the Company has chosen not to restrict the license rights granted to DG Telecom. Similarly, the DG Agreement does not contain certain standard clauses that normally would be included in similar agreements in order to protect Company's intellectual property, such as indemnification against third-party claims in connection with use of DG Telecom's trademarks or brands, as well as against third-party intellectual property infringement claims in connection with DG Telecom's manufacture of the licensed product, or the Company's title to improvements.

However, the management of the Company believes that the risk of DG Telecom manufacturing products in competition with the Company is limited. The management believes that DG Telecom does not intend to engage in a commercially significant production of the Company's products. Management is aware that DG Telecom did an earlier attempt to establish a full-scale production of certain products of the Company, but having failed to create a commercially viable alternative to the Company's products, DG Telecom now purchases its supplies from the Company and only carries out the final assembly of the products. However, should DG Telecom cease to purchase its requirements from the Company or terminate the DG Agreement, it would have a material adverse effect on the Company's revenue and financial position. For further details on risks to the Company's business associated with intellectual property, see "Risk Factors — Intellectual Property."

Limited independent operating history

Until the completion of this Offering, the Company will be a subsidiary of MicroLink. Accordingly, SAF has a limited independent operating history to use as a basis for evaluating its financial condition, results of operation and expected future performance. There can be no assurance that the risks and challenges SAF faces as an independent company, including obtaining financing on a stand-alone basis, will not have an adverse effect on the Company.

Contractual risks

SAF's evaluation, confidentiality, license, maintenance and delivery agreements have mainly been drafted on the basis of the Company's own standard contracts. SAF uses confidentiality agreements with its customers and cooperation partners containing provisions commonly used in the industry.

A dispute may arise between the Company and its contractual counterpart on the interpretation or the validity of a contract or fulfilling of contractual obligations, which can lead to arbitration or litigation with an unfavorable outcome for the Company. Contractual claims and other demands may also have an adverse effect on the Company's profits or financial position. See "Business — Legal Proceedings."

Lease agreement

The lease agreement for the Company's headquarters and its main production facilities can be terminated at any time by the landlord with three months' notice. The Company does not believe that it is likely that the lease would be terminated.

Product liability

Management believes that the products marketed by SAF are not likely to give rise to product liability claims that would have a significant effect on the financial position of SAF. Any operating failure in the Company's products could cause complications to the communications networks in which it is being used. This could result in litigation and a loss of customers, which could have a material adverse effect on the business activities, financial position or operating results of the Company.

Environmental issues

SAF is not engaged in operations that constitute material environmental risk. However, it is possible that SAF may become involved in legal actions commenced against its customers for violation of environmental laws or regulations. There can be no certainty that such legal action, if it occurs, would not have an adverse effect on the Company's business activities, financial position or operating results.

Acquisition strategy

The Company intends to grow through acquisitions as well as strategic investments and strategic alliances with other companies that have products, technologies, services, marketing capabilities, distribution channels or geographic coverage that would extend or complement the Company's existing business. The Company is currently seeking opportunities to expand into new geographic markets and into new product lines and delivery forms in its current geographic markets. SAF may not be successful in (1) identifying these opportunities, (2) entering into acquisition transactions, strategic alliances or joint venture arrangements on favorable terms, or (3) integrating acquired businesses with pre-existing operations.

Industry standards and regulation

The Company's product development strategy is based on an extensive use of wireless data transmission technology. Should the standards required for the Company's future product development strategy ultimately fail to become widely adopted, the Company's products will also fail to achieve market acceptance. If the Company's products fail to achieve market acceptance or if their targeted markets fail to develop, the Company's revenue and financial position may be negatively affected. SAF is an active member of the European Telecommunications Standards Institute.

SAF's ability to sell its products in a particular country is affected by local government regulations with respect to standardization of and certification requirements for national telecommunications equipment, as well as radio spectrum frequency allocation as radio spectrum is considered to be a limited resource. Any changes in the existing standards, certification requirements or spectrum allocation may render some of the products non-compliant to government regulations and require the Company to modify its products, which may require significant time and resources and have a negative impact on SAF's financial results or operations.

SAF's ability to compete in international markets may also be negatively affected by any trade restrictions, tariffs and export license requirements.

Competition

SAF operates in highly competitive businesses that are sensitive to technological advances. Although successful product and systems development is not necessarily dependent on substantial financial resources, some of the Company's competitors in its business are larger than the Company and can maintain higher levels of expenditures for research and development. There can be no assurance that the Company will be able to compete successfully against current and future competitors. Increased competition could result in price reductions, slower growth, reduced margins or loss of market share, any of which could have an adverse effect on the Company's business, operating results or financial condition.

Latvian tax system and the Company's tax audit

In recent years, the Latvian tax system has undergone extensive reforms and administrative practice and case law are still being formed in respect of many issues. In these circumstances, it may not always be possible to establish definitively how businesses should treat various items in their tax accounting.

The Latvian State Revenue Service ("SRS") is currently conducting a general tax audit in the Company in respect of calculation, declaration and payment of (i) Value-Added Tax (VAT) for the period from January 1, 2001 until December 31, 2002, and (ii) the Corporate Income Tax (CIT) for the period from July 1, 2001 until June 30, 2002. The audit was commenced on April 7, 2004 and it is expected to completed by June 1, 2004. The management expects to receive the initial findings of the tax authorities on or about May 20, 2004. Should the SRS tax inspectors find errors in the Company's tax accounting or otherwise determine that the Company has failed to pay tax, additional tax may be assessed on the Company. The SRS may impose a surtax of 100% on the amount of tax that the Company has, according to the assessment of SRS, failed to pay. Under the applicable Latvian tax legislation, the Company may also have to pay interest on the assessed amounts ('increase of the principal debt') at the interest rate set by the Central Bank of Latvia (currently 3.5% per annum) and an overdue payment penalty interest at the rate of 0.05% per day.

An assessment of the tax inspectors may be appealed first to the General Director of SRS and then to the administrative court of Latvia. First-level objections to the SRS suspend payment of the assessed taxes and penalties. However, if the General Director of the SRS rejects the appeal, the tax assessed as well as any surtax, interest and penalties become due for payment. An appeal against a decision of the General Director of the SRS may be filed in the administrative court, and further appeals are available within the general court system.

Risks associated with the relationship with MicroLink

MicroLink's influence over the management of the Company

Three out of five members of the Supervisory Council of SAF are also officers of MicroLink. As a result, MicroLink will effectively have substantial influence over the activities of the Company's Board of Directors. MicroLink has indicated that its membership of SAF's Supervisory Council was transitional in nature and that it intends to withdraw from SAF's Supervisory Council as soon as reasonably practicable.

Contractual relationships with MicroLink

The Company and MicroLink have contractual relationships relating to a variety of the Company's operations, including contracts related to sales agency in Belarus, Latvia, Lithuania and Estonia. While SAF believes that these contracts reflect market terms, many of them were entered into prior to, or as part of, the preparation of the Combined Offering and were not subject to a competitive process. Accordingly, there can be no assurance that the terms of some or all of these contracts are not less favorable to SAF than the terms that SAF would have been able to obtain from an independent third party.

Risks associated with the Offering

Lack of prior public market for the Offer Shares; volatility of technology stocks

Prior to the Combined Offering, there was no public market for the Shares. While an application for listing on the Official List of the Riga Stock Exchange has been filed and the Riga Stock Exchange has indicated its willingness to list the Shares, there can be no assurances regarding the future development of a market for the Shares or the ability of holders of the Shares to sell their Shares or the price of any such sale. Prevailing market prices from time to time will depend on many factors, including then existing interest rates, the Company's operating results and cash flows and the market for the securities of companies in the same or similar industries. Accordingly, if a trading market for the Shares does develop, there can be no assurances as to the liquidity of that market or whether the market will be sustained.

The Riga Stock Exchange is in the process of harmonizing its standards with those of OMHEX, an securities marketplace which covers a number of Baltic and Nordic countries. While the implementation of this change might cause some disruption to trading in the Company's Shares, the Company expects that in the longer term it will benefit from relying on a uniform trading system in the Northern European region.

In recent years, most major stock markets in general, and the market for technology-related companies in particular, have experienced significant price and trading volume fluctuations. These fluctuations have often been unrelated or disproportionate to the operating performance of the underlying companies. Accordingly, there could be significant fluctuations in the price of the ordinary shares, including a substantial decline, following the Combined Offering even if the Company's operating results meet expectations.

Insiders' influence

Upon completion of the Combined Offering, the Directors of the Company will beneficially own, in the aggregate, more than 50% of the Company's outstanding shares. As a result, these shareholders will be able to exercise significant control over all matters requiring shareholder approval, including the election of Directors and approval of significant corporate transactions, which could delay or prevent an outside party from acquiring control of the Company. The ability of insiders to prevent or delay these transactions could cause the price of the Offer Shares to decline.

Liquidity

The Latvian equity market is relatively undeveloped, and significantly smaller, less liquid, and more volatile than established markets such as those of the United States or the United Kingdom. Brokerage commissions and other transaction costs on the Riga Stock Exchange are higher than those in Western European countries, and securities settlement for the Offer Shares may in some instances be subject to administrative delays at the clearing banks.

As a result of the limitations of the Latvian equities market, the price of the Offer Shares may be relatively volatile and investors may have difficulty disposing of their Shares in the Latvian market in the event of unfavorable market conditions.

Prices on the Riga Stock Exchange may also be affected by external factors, such as the performance of world markets generally, or other emerging markets in particular, or the imposition of trading or capital gains taxes.

Significant differences between Latvian GAAP and IFRS

The Audited Financial Statements and the Interim Financial Statements included in the Offering Circular are prepared and presented in accordance with Latvian GAAP. Significant differences exist between IFRS and Latvian GAAP that might be material to the financial information herein. Other than as disclosed in "Annex A — Summary of Significant Differences between Latvian GAAP and IFRS" elsewhere herein, there has been no attempt to describe the impact of those differences. In making an investment decision, a prospective investor must rely upon his own examination of the Company, the terms of the Combined Offering and the financial information. Prospective investors should consult their own professional advisers for an understanding of the differences between Latvian GAAP and IFRS, and how those differences might affect the financial information herein.

Risks associated with the Viking transaction

The Company has entered into an asset purchase agreement with Viking Microwave in Sweden on April 6, 2004, for the acquisition of the business assets of Viking Microwave. Under the Viking Purchase Agreement, part of the consideration representing EUR 600,000 is intended to be paid to Viking Microwave in Shares of SAF. The Shares would be issued in connection with the Combined Offering and placed on an escrow account with Hansabanka. Should the Viking transaction fail to close prior to July 31, 2004, the Shares reserved for Viking Microwave would be sold by the Global Coordinator at the then prevailing Share price and the net proceeds would be paid to the Company.

Should the Share price at the time the Shares are sold be less than the issue price, the Company would sustain a financial loss. For further details of the Viking transaction, see "The Combined Offering" and "Business — Recent Developments."

Possible unavailability of pre-emptive rights for U.S. holders of Offer Shares

Under the Latvian Commercial Code, shareholders of Latvian companies have the preferential right to subscribe, in proportion to their shareholdings, for new shares, as well as for issues of subscription warrants or debt instruments convertible into such shares or carrying warrants to subscribe for such shares.

U.S. holders of Offer Shares may not be able to exercise any future preemptive or preferential rights in respect of their Offer Shares unless a registration statement under the Securities Act is effective with respect to such exercise or an exemption from the registration requirements thereunder is available. See "Shares, Share Capital and Ownership Structure — Pre-emptive Rights."

Political, economic and legal risks

Latvia was a Soviet Republic from 1944 until August 21, 1991 when the country re-established its independence. The last Russian troops left Latvia in 1994 but the Russian minority remains significant (some 30% of the population) and of concern to the Russian government.

Latvia's transitional economy has recovered from the 1998 Russian financial crisis, largely due to government's budget stringency and a gradual reorientation of exports toward EU countries, lessening Latvia's trade dependency on Russia. The majority of companies, banks, and real estate have been privatized, although the state still holds sizable stakes in a few large enterprises. Latvia joined the World Trade Organization in February 1999 and became a Member State of the European Union on May 1, 2004.

Due to its relatively recent transition to a market economy, Latvia has experienced and will experience changes to its economy and government policy that can affect investors or the Company. Although Latvia has developed institutions and a legal and regulatory system characteristic of parliamentary democracies, these institutions and systems lack institutional history and regularly observed procedural standards. Thus, they are not as firmly entrenched as their counterparts in the older EU member states.

Frequently changing governments have been a characteristic of the Latvian politics since 1991. While the EU membership will likely have a stabilizing influence on the government, shifts in government policy and regulation may be less predictable than in many of the older EU member states.

The Latvian civil code and corporate, competition, securities, environmental and other laws have been substantially revised in the recent years as part of Latvia's transition to a market economy and to meet EU requirements and standards. The new legislation remains in part largely untested in courts and no clear administrative or court interpretation practice has evolved.

DIVIDENDS AND DIVIDEND POLICY

SAF is a relatively new company and prior to the Combined Offering it was a subsidiary of MicroLink. Accordingly, SAF has only a limited dividend history. For Latvian companies, if a dividend is to be declared, it must be proposed by the Board of Directors, reviewed by the Supervisory Council and approved at the Annual General Meeting of shareholders.

SAF's operations have historically generated sufficient cash flow to finance initial operations with some additional financing in a form of equity issue. As a result of successful initial operations SAF has managed to substantially improve its cash flow allowing for the first time to pay dividends in the amount of LVL 150,000 for the year ended June 30, 2003, which represented 18% of net income for the period or LVL 0.15 per Share. While there can be no assurance that SAF will continue to generate strong cash flows, SAF anticipates that, absent significant changes in its operations or capital structure or the telecommunications and data transmission equipment industry, it will have capacity to pay dividends. SAF estimates that its board of directors will propose to pay dividends on an annual basis and estimates that such proposed dividends will on average be approximately 10 to 30% of SAF's net profit subject to investment needs for that period. The Offer Shares are entitled to dividends for the year ending June 30, 2004, if and when proposed by the Board of Directors and approved at the Annual General Meeting of shareholders.

As is the case with all forward-looking statements, this statement regarding SAF's dividend policy is subject to a variety of risks and certainties, including that (1) strong cash flows may not continue and (2) the Company may elect to invest substantially all cash flows in operations, acquisitions or other initiatives. For a discussion of certain factors that could cause SAF's actual dividend activities to deviate from its current estimates, see "Risk Factors."

USE OF PROCEEDS

The net proceeds of the Combined Offering are estimated to be EUR 23,970,866 (approximately LVL 15,739,271) after deducting estimated offering expenses, fees and commissions.

The net proceeds to the Company from the issue of new Offer Shares are estimated to be EUR 1,751,345 (approximately LVL 1,149,933) after deducting expenses, fees and commissions.

The net proceeds to the Selling Shareholders from the sale of existing Offer Shares are estimated to be approximately EUR 22,219,520 (approximately LVL 14,589,337) after deducting expenses, fees and commissions, assuming the Additional Shares are purchased in full. The estimates are based on the Offer Price of EUR 52.54 (approximately LVL 34.50).

The Company plans to use the funds received by the Company from the issue of new Offer Shares to finance expansion of the Company's operations, such as research and development projects relating to new products, and establish its sales and distribution networks and strengthening its liquid assets and possible acquisitions. A strong financial position is aimed at enhancing the Company's ability to conclude strategic alliances which seek to improve its competitiveness.

The Company will not receive any portion of the proceeds from the sale of existing Offer Shares by the Selling Shareholders.

CAPITALIZATION

The following table sets forth the actual capitalization and indebtedness of the Company as of March 31, 2004 and as adjusted for the Combined Offering and the application of the estimated net proceeds as described above under “Use of Proceeds”, expected to be EUR (approximately LVL) (not taking into account costs and fees to be paid by the Company). The estimate is based on the Offer Price of EUR . The table should be interpreted in conjunction with the financial statements presented elsewhere in this Offering Circular. For further information on the Company’s capitalization and indebtedness, see the Notes to the Financial Statements for the Financial Year Ended June 30, 2003.

	As of March 31, 2004	
	Actual	**As adjusted**
	(LVL)	**(LVL)**
Cash and cash equivalents	881,174	
Short-term interest-bearing liabilities	88,594	
Long-term interest-bearing liabilities	99,378	
Shareholders’ equity	4,888,481	
Total capitalization and indebtedness	5,957,627	

EXCHANGE RATES

The national currency, the lat, was introduced in 1993 and since February 1994 it is pegged to the SDR (Special Drawing Right) at a rate of 1 SDR = 0.7997 lat. SDR is an artificial currency unit created by the International Monetary Fund. It is defined as a basket of four currencies with the following proportions: U.S. dollar 45%, euro 29%, Japanese yen 15% and British pound sterling 11%. The current basket structure has been in force since January 1, 2001 following the introduction of the Euro and the rate of the SDR set by the Bank of Latvia as of May 5, 2004 was 1 SDR = 1.451 U.S. dollar or 1 U.S. dollar = 0.551 lat, 1 euro = 0.659 lat. According to the Bank of Latvia, the lat will be pegged to the euro from January 1, 2005, at a rate which is not yet known. On the same date, Latvia will join the Exchange Rate Mechanism II, which is an arrangement for exchange rate pegging and a procedure for testing the maturity of the accession countries to introduce the euro. This arrangement will have to be maintained for at least two years and upon successful completion of all the necessary requirements for its introduction, the euro might become national currency of Latvia from January 1, 2008.

The table below shows the high, low, average and period end exchange rates for Latvian lats, based on the reference exchange rate published by the European Central Bank, expressed in euros per LVL 1.00 for the periods indicated. The average is computed using the published reference exchange rate on the last business day of each month during the period indicated.

Year ended December 31,	High	Low	Average	End of period
1999	1.7068	1.4979	1.6083	1.7004
2000	1.9264	1.6502	1.7926	1.7349
2001	1.8632	1.7044	1.7917	1.7976
2002	1.8073	1.6287	1.7173	1.6287
2003	1.6356	1.4870	1.5543	1.4870

The table below shows the high and low published reference exchange rates for each month during the six months prior to the date of this offering circular.

Month (2003-2004)	Low	High
November 2003	1.5256	1.5630
December 2003	1.4870	1.5274
January 2004	1.4773	1.5090
February 2004	1.4824	1.5042
March 2004	1.5020	1.5323
April 2004	1.5223	1.5456

The published reference exchange rate on May 5, 2004 was LVL 1.00 = EUR 1.5232.

The effects of exchange rate fluctuations on the Company's business are discussed under "Management's Discussion and Analysis of the Company's Financial Condition and Results of Operations — Currency Fluctuation Impact" and under "Accounting Policies" in the Notes to the financial statements.

BUSINESS

Summary

SAF is a designer, producer and distributor of digital microwave point-to-point radio data transmission equipment which offers an alternative to cable channels. The Company markets its portfolio of approximately 130 products to cellular network operators, data service providers (such as internet service providers and telecommunication companies), governments and private companies. SAF's mission is to provide affordable fixed wireless solutions for data and voice connectivity. The Company attributes its success to its flexibility, its distinctive approach to research and development and its ability to deliver high-value solutions to its customers at a low price. In the year ended June 30, 2003, the Company's total revenue was LVL 4,881,291 and its net profit was LVL 811,786.

Since its inception in 1999, the Company has succeeded in becoming an international player in its market and in the six months ended December 31, 2003, it sold products in over 18 countries. The Company has been able to compete with such multinational corporations as Ericsson, Nokia, Siemens and NEC in its market segment. The Company has experienced strong growth in the face of adverse market conditions, including the dramatic reduction of capital expenditures in the telecommunications and wireless data transmission sectors. In the course of the last five years, the Company has built a solid portfolio of customers which includes Tele2, Lattelekom, Omnitel (TeliaSonera's Baltic arm), China Mobile, China Unicom, China Telecom and the SEB Group.

The Company plans to expand further internationally by penetrating new geographic markets both in developing and developed countries while accommodating local user preferences and market-specific characteristics. The Company believes that the digital data transmission equipment market in developing countries, particularly in the Asia-Pacific region, has significant growth potential. The Company believes that it can achieve significant global expansion quickly and at a relatively low cost mainly because of its distribution strategy. Rather than establishing its own local sales force, the Company enters into distribution agreements with local companies involved in the sale and distribution of data transmission equipment, system integration or telecommunications equipment production. As of March 1, 2004, the Company had 24 distribution agreements in place, some of which cover several countries.

Competitive strengths

The Company focuses on the provision of affordable fixed wireless solutions for data and voice connectivity. This strategy is based on the extensive outsourcing of non-core activities such as production of low value-added sub-assemblies which allows the Company to focus on its key activities: research and development, product assembly and testing. The design of the Company's products maximizes the use of commodity components. This, together with relatively low labor costs, allows the Company to manufacture its products at a lower cost than its competitors while strictly adhering to industry standards.

The Company's strategy has enabled it to become a prime low-cost quality solutions provider at a time when its customers were seeking affordable suppliers. When global telecommunications players reduced their capital expenditure budgets in recent years, SAF has been able to gain market share and yet remain profitable due to its low cost structure.

The Company's competitive strengths include:

- ***Strong R&D.*** The Company believes that its R&D focus on developing low-cost, high quality solutions and the matching skills of the R&D personnel provide it with significant advantages in marketing its products to cost-conscious customers. The Company also believes that its R&D is more efficient than the average of the industry both in cost and in speed. As a general rule, it takes six to ten months for a new product to be developed to the moment the product becomes available to customers.

- ***Low-cost structure.*** The Company can offer its products at a substantial discount to the competition and still maintain profitability, due to the distinctive design of the products and an efficient production process:
  - The products' design provides for a maximum usage of commodity components as opposed to custom-made components; and
  - The sub-assembly and final assembly of the products are carried out in countries with low labor costs, primarily in Eastern Europe.
- ***Fast and efficient new market penetration process.*** The Company enters into distribution agreements with third parties who sell and support its products. This limits the size of the Company's own sales force and related fixed costs. The ability of the Company to select a strong local distributor allows it to successfully enter new markets at a faster pace and lower cost than if it were building a sales organization of its own.
- ***Radio engineers.*** The Company benefits from a vast pool of radio engineers with distinctive, cost-effective engineering traditions inherited by Latvia after the break-up of the Soviet Union. Riga, where the Company's principal operations are located, was historically the centre of radio-electronic production in the Soviet Union, employing in excess of 200,000 staff at its highest level.

History

SAF Tehnika A/S was established relatively recently and has rapidly grown into an enterprise delivering low- and medium-capacity fixed wireless access solutions to customers around the world. While the Company was incorporated in Latvia in 1999, its initial shareholders have been involved in the wireless radio communications since 1994.

SAF's key milestones include:

December 1999	SAF was established by four individuals and SIA Fortech, the leading Latvian IT company at the time.
February 2001	The Company entered into its first contract with a mobile telecommunications operator, A/S Baltcom GSM, a Latvian mobile telecommunications company which was later acquired by Tele2.
July 2001	SAF was reorganised as a joint stock company.
July 2002	The Company entered into its first sales contract in China.
March 2003	The Company moved its operations to larger premises and significantly stepped up its production capacity, in order to meet the increase in demand for its products.
November 2003	SAF obtained ISO 9001 certification for its products from Bureau Veritas Quality International.
November 2003	SAF became a member of the European Telecommunications Standards Institute.

March 2004............... SAF was re-registered as a joint stock company with the Latvian Register of Enterprises.

Market

Digital microwave radio is a key component in any wireless data or voice transmission network. In the past ten years, when massive mobile telecommunications networks were rolled out, the demand for digital microwave radios came primarily from mobile operators in developed countries. Additional demand was generated by a few other groups of customers, including internet service providers, corporations and other entities in connection with their private networks and utility companies.

The Company believes that in the future, the market growth will be driven by the construction of mobile telecommunications infrastructure in developing countries. In addition, the Company expects the demand for its products to be fuelled by the rollout of third-generation ("3G") wideband code division multiple access ("W-CDMA") networks in many countries over the next few years. Finally, as the internet continues to expand, the Company also anticipates an increase of demand from internet service providers because wireless data transmission is more affordable and more versatile in implementation than solutions based on fibre optic cable.

Market size

Because digital microwave radio is a niche industry, there is no trade association or other body which collects reliable and consistent market data. The Company believes that the most comprehensive and reliable source of information on the digital microwave point-to-point radio market currently is a market research report published by CIBC World Markets Inc. in 2003 (the "CIBC Research").

According to the CIBC Research, in 2001, total worldwide digital radio shipments were in excess of 370,000 units and generated sales of approximately U.S.$ 2.9 billion. In 2002 and 2003, the telecommunications sector experienced a global recession and, according to the CIBC Research, sales decreased to approximately U.S.$ 1.6 billion and U.S.$ 1.4 billion, respectively. In 2004, various industry experts predict a recovery in capital expenditures in telecommunications network infrastructure, which should have a positive impact on the digital microwave radio market.

The CIBC Research estimates that in 2001, mobile operators were by far the largest group of customers for digital radios. In 2001, they represented approximately 71% of the total demand in number of units sold. As a result, the Company expects that the demand will grow fastest in geographic markets which are in the early stages of the investment cycle in mobile networks.

In Western Europe and other developed regions, mobile networks are already in place and there is limited demand for network expansion or capacity increase. On the other hand, internet service providers, which may already have upgraded their network backbones with fibre optic cable, are faced with issues related to the so-called 'last-mile bottleneck', where end users are linked to the network backbone via local access telephone network typically consisting of older copper wires.

The Company believes that there will be substantial future demand for data transmission technologies in Eastern Europe, because mobile telecommunications networks are still in the deployment stage.

The most intense growth in the last couple of years has been observed in the Asia-Pacific region. The demand has largely been driven by the rollout of mobile networks in mainland China. The Company believes that the Asia Pacific region will continue to experience sustained growth also in the coming years.

Similarly, Latin America has seen a rapid expansion in the demand for data transmission technologies, due to massive rollout of mobile telephony networks. The Company expects such growth to continue in Latin America in the near future.

In the longer term, regions such as the Middle East and Africa, where mobile telephony is still in its infancy, may have a significant impact on the global demand for digital microwave radios.

Market segments

The digital microwave radio market can be segmented in accordance with two criteria: product characteristics (data transmission capacity and radio frequency band) and end user. Radios can be divided into three market segments in accordance with their data transmission capacity: low, medium and high capacity.

Market segments by data transmission capacity

The following table sets forth the various market segments in accordance with data transmission capacity:

Segment	Data transmission capacity (T1/E1 multiples or fractions)	Mbps
Low capacity	1x T1/E1 to 8x T1/E1	1.544/2.048 to 12.352/19.071
Medium capacity	16x T1/E1 to 32x T1/E1	24.704 to 76.286
	1x DS3/E3 to 3x DS3/E3	34.368 to 134.08
	OC-1/STM-0	51.48
High capacity....................................	OC-3/STM-1 to 2xOC-12/STM-4	155-1200

Source: CIBC Research

The production of low and medium capacity radios involves the use of a technology different from the one used in high capacity radios. The technology involved in the production of high capacity radios is recent and more sophisticated. As a result, SDH or high-capacity radios have significantly higher manufacturing costs and are significantly more expensive than low and medium capacity radios. Sales of high-capacity radio units currently represent approximately 10% of worldwide sales of digital point-to-point radios. SAF focuses on the low and medium segments and does not currently manufacture any products in the high capacity segment. According to the CIBC Research, in 2001, the combined low and medium segments represented 87% of digital microwave radio shipments in volume and 62% in value. The Company is in the process of entering the high-capacity segment. For further details, see "— Recent Developments."

Market segments by radio frequency band

The digital microwave radio market can also be divided into two broad market segments in accordance with radio frequency band used: low (under 12 GHz) and high (above 12 GHz). The Company believes that low-frequency radios perform better and have a longer range in humid weather conditions, which makes them particularly well-suited for sparsely populated areas and tropical areas. On the other hand, high-frequency radios allow customers to reduce annual licensing fees for bandwith utilization, which makes them more popular in developed countries.

The table below, which sets forth worldwide sales of wireless radios by frequency and the Company's product offering, demonstrates that SAF covers the most popular frequencies:

Frequency	Number of units sold	SAF's product offering
5/6 GHz	12,203	No
7/8 GHz	52,751	Yes
10/11 GHz	5,994	No
13 GHz	24,755	Yes
15 GHz	60,281	Yes
18 GHz	58,726	Yes
23 GHz	74,587	Yes
26 GHz	22,002	Yes
28 GHz	2,762	Yes
31- 38, 40, 58 GHz	56,748	Yes
Total	370,808	

Source: CIBC Research and the Company

Market segments by end application

The digital radio market can also be divided into four market segments in accordance with the end application to which the product is integrated: mobile networks, private networks, fixed wireline networks and local exchange carrier networks. The following table sets forth the breakdown of digital microwave radio unit sales worldwide by end application in 2001:

End application	Percentage of worldwide units sold
	(%)
Mobile networks	71.2
Private networks	13.9
Fixed wireline networks	8.7
Local exchange carrier networks	6.2

Source: CIBC Research

The Company believes that its sales structure by end application is largely similar to the breakdown of sales in the industry.

Trends and market development

The recent economic slowdown has compelled many mobile telephone service providers to engage in cost-cutting programs in the midst of fierce competition. As a result, low-cost supply alternatives have attracted greater interest. This situation has allowed low-cost independent microwave radio producers such as the Company to enter a market otherwise dominated by large scale manufacturers.

The Company believes that increased competition will result in an overall decrease in the pricing power of telecommunication equipment vendors, particularly in developed countries where digital microwave radio prices have traditionally been higher than in developing countries (particularly the Asia-Pacific region). The Company believes that in the next two to three years, microwave radio prices worldwide will converge at the level currently observed in the Asia Pacific region.

Customer preferences are also evolving with respect to the interface used in the data transmission equipment. The Company anticipates that the market will gradually switch from the traditional T1/E1 interface to the Ethernet interface, as such change would result in significant cost savings related to the fact that Ethernet-based data transmission infrastructure is cheaper to build and operate.

Concurrently with the rollout of 3G mobile networks, the market may experience more widespread adoption of the point to multipoint technology, which directly competes with that of the Company but so far has seen very limited demand. The Company believes that the point to multipoint technology is not yet a viable economic alternative for mobile networks. However, the Company believes that it has the necessary competence to develop products with point to multipoint technology, should demand for such products become significant in the market.

Products

The Company manufactures digital microwave radio equipment for modern voice and data networks. Microwave radio equipment is used as an alternative to other means of data transmission such as optical cable, telephone copper cable or coaxial cable. The customers choose microwave solutions because in many instances they are cheaper, more flexible and faster to implement than their alternatives. For certain industries such as mobile telecommunications, microwave radio links have become a standard solution to address data networking needs.

The products' typical installation site comprises the following components:

- Indoor unit
- Outdoor unit
- Antenna
- Coaxial cable connecting the indoor unit with the outdoor unit
- DC power source to supply power to the equipment

Product lines

Substantially all of SAF's revenues are generated from the sale of point-to-point fixed wireless access radio equipment. In the year ended June 30, 2003, approximately LVL 4,869,248, or 99%, of SAF's total revenues were derived from this product segment. Approximately LVL 12,043, or less than 1%, of total revenues was generated by consulting, services and sales of software developed by SAF.

SAF's main product line is a wireless system called CFM. The Company customizes this system to serve the specific needs of several client groups such as cellular and fixed line telecommunication companies, internet service providers, corporate networks, local governments and utilities. In addition to the CFM line, the Company supports a small number of older products which have a negligible impact on the Company's performance.

CFM comprises a broad product mix which is primarily differentiated by the type of interface employed in the indoor unit ("IDU"), and by frequency and appropriate sub-band in the outdoor unit ("ODU"). In addition, differences in frequency plans from country to country require software and sometimes even hardware adjustments to the Company's products. As a result, the Company makes available to its customers a broad variety of product configurations.

CFM is marketed as a safe and economical digital microwave radio link system, which operates in 7/8, 13, 15, 18, 23, 26 and 38 GHz frequency band, and which provides wireless point-to-point channels for digitized voice and data communications between sites up to 60 km apart, in both metropolitan and rural areas.

Typical applications include PABX trunk connectivity, private combined data and voice networks, cellular networks and medium-speed access to backbone networks of providers of data services. CFM is available with 4, 8, 16 or 34 Mbps Full Duplex traffic capacity. The Company advertises CFM microwave radio as capable of providing the highest standard data channel quality, equal to good quality copper or optical fiber cable channels.

SAF also offers a management system which allows complete configuration, control and monitoring of the equipment in operation both locally and remotely. The CFM management system is based on TCP/IP protocol and utilises Web, SNMP and Telnet/Terminal interfaces.

In 2003, the Company added a new line of products to its product mix by launching the CFM full outdoor unit. The full outdoor unit is targeted at mobile operators and other users that have no need for equipment located indoors. The full outdoor unit has an E1 interface and features ultra compact design.

The product mix is expected to continue to expand in the future, as the Company introduces products operating in new frequency bands as well as products offering higher data transmission capacities. For further details about the Company's plans to enter the high-capacity segment, see "— Recent Developments."

Geographic markets

The Company sells its products internationally. In the six months ended December 31, 2003, the Company had sales in 18 countries. In the course of its history, the Company's sales have spanned 25 countries. In the six months ended December 31, 2003, the Company's most significant customers were three Chinese telecommunications operators which purchased equipment via SAF's Chinese distributor: China Telecom, China Mobile and China Unicom. In the year ended June 30, 2003 and in the six months ended December 31, 2003, these customers together accounted for 44.7% and 69.3% of total revenues, respectively. The Company believes that its customer base in other significant markets, namely Latvia, Lithuania, Poland, Russia and Sweden is reasonably diversified. For a discussion of the Company's dependence on its most significant customers, see "Risk Factors."

The following table sets forth the geographic breakdown of the Company's total revenues for the periods indicated:

	Year ended June 30,					
	2001		**2002**		**2003**	
	(LVL)	**(%)**	**(LVL)**	**(%)**	**(LVL)**	**(%)**
Central and Eastern Europe	886,679	93.5	1,405,241	88.8	1,850,594	37.9
Western Europe	61,606	6.5	118,593	7.5	253,894	5.2
Asia	0	0	0	0	2,186,317	44.8
Central and South America	0	0	0	0	0	0
CIS	0	0	59,043	3.7	590,486	12.1
Total	948,285	100	1,582,877	100	4,881,291	100
Out of which new products	684,673	72.2	225,505	14.2	2,820,458	57.7

Source: SAF

	Six months ended December 31,			
	2002		**2003**	
	(LVL)	**(%)**	**(LVL)**	**(%)**
Central and Eastern Europe	856,611	53.97	1,665,220	21.3
Western Europe	135,041	8.51	390,161	5.0
Asia	302,933	19.09	5,415,378	69.3
Central and South America	0	0	17,332	0.2
CIS	292,527	18.43	325,445	4.2
Total	1,587,112	100	7,813,536	100
Out of which new products	476,400	30	1,445,685	18.5

Source: SAF

Asia and Central and Eastern Europe were the primary sources of revenue growth in the year ended June 30, 2003. In the year ended June 30, 2003, revenue was generated for the first time from sales to such countries as China, Russia, France and Bulgaria.

In the six months ended December 31, 2003, LVL 5,415,378, or 69% of revenues were received from Asia (China in particular). Sales to the Asian market began only in the year ended June 30, 2003. The rapid development of this segment has been made possible by SAF's cooperation with a well-established local distributor. The second largest geographical market is Central and Eastern Europe, which in the six months ended December 31, 2003 generated 21% of all revenues. This segment has grown as a result of greater demand from Poland and Lithuania. Key markets in Western Europe for SAF are the United Kingdom and Sweden where sales grew significantly in the six months ended December 31, 2003.

Certification and standards

In order to be able to market its products internationally the Company is required to follow the standards issued by the European Telecommunications Standards Institute ("ETSI"), an independent, non-profit organization, whose mission is to develop telecommunications standards, and to comply with the EU Radio and Telecommunications Terminal Equipment Directive ("Directive"), which applies to all radio equipment and all equipment intended to be connected to public telecommunications networks. The Directive establishes a regulatory framework for bringing products to the market, product movement and operation. The Company's products are CE marked and made in accordance with ETSI standards and the Directive. In addition, the Company must customize its products to comply with local regulations in the individual countries in which it markets its products.

As of January 30, 2004, the Company had certified its CFM product line in 31 countries and developed approximately 130 products with different frequency, transmission speed and user interface. Following Latvia's accession to the European Union on May 1, 2004, the Company's products will soon become certified in all new EU member countries.

Products in development

The Company's strategy is to respond to identified customer needs rather than create new demand by developing new technologies ahead of the market. Hence, initiatives for new product development are triggered by customer requests.

SAF plans to launch several new products in 2004:

(a) *Products with a new frequency band*. The Company has recently finalized the development of two new digital microwave radios, in the 26 Ghz and 38 Ghz frequency bands, in order to extend its coverage to 95% of worldwide radio frequency bands used commercially. These new products were launched in the spring of 2004.

(b) *Full outdoor products.* To answer growing demand, the Company plans to extend its line of full outdoor units by developing the following six new products: 2E1, 4E1 and four capacity Ethernet (+2E1) models, which operate at 4 Mbps, 8 Mbps, 16 Mbps and 34 Mbps data transfer capacities. The Company plans to release the first new full outdoor units in May 2004.

(c) *New indoor unit.* SAF is also developing a new indoor unit with the following features:

- Improved modularity
- Equipment capacity configuration through software
- Increased compatibility with other vendor telecommunication equipment
- Extended management functionality.

The following types of interface modules will be available as part of the new indoor unit, allowing the customer to create various interface combinations:

- from 4E1 ports to 16E1 ports
- from 2 Ethernet ports up to 8 Ethernet ports
- any combination of E1, Ethernet and V.35 ports.

SAF plans to make available the new indoor units in June or July 2004.

(d) *New management system application.* SAF is also working on replacing the existing management system toolset with a standalone PC-based management platform application, which will allow the end user to configure, monitor and control radio systems from a PC. The new system can be used either by itself or in combination with other software platforms to manage the network. The Company plans to launch the new management system application in the fall of 2004.

Finally, in 2004 the Company plans to introduce a digital microwave radio complying with the American National Standards Institute ("ANSI") standards and targeted at the North American market.

Product pricing

The Company maintains an aggressive pricing policy and SAF believes that it offers the lowest prices in the market for products of comparable quality. Management believes that SAF's products are 5% to 40% less expensive than its competitors' equivalent products, depending on the specific product configuration. The Company provides its distributors with recommended end-user prices and distributors mostly adhere with such pricing guidelines. They also retain the flexibility to offer additional discounts. Prices also vary with the region where the products are sold. Prices tend to be lower than average in more price-competitive regions such as Asia-Pacific.

Support and warranty

Customer support is primarily provided by the Company's distributors. The Company provides the necessary training to support staff and intervenes only in those instances where the distributor lacks the required technical competence to address a customer issue.

All of the Company's products are covered by a standard one-year warranty, which is exceptionally extended to 18 to 24 months for certain customers. Under its warranty policy, the Company must repair or replace a defective product within 14 days of receiving notice of the defect from the customer or distributor.

Sales and Marketing

As a general rule, the Company's strategy of rapid geographical expansion is implemented by entering into distribution agreements with local companies rather than creating SAF's own sales force in each market. However, before entering a new market the Company employs a locally based sales manager with knowledge of the country and the language, to oversee sales in a specific region. As of March 1, 2004, the Company employed sales managers fluent in Latvian, Russian, English, German, French, Spanish and Chinese.

Distribution system

As of March 1, 2004, the Company had 12 employees in the sales and marketing department, principally in charge of generating new sales, developing existing customer contacts and providing support to the local distributors.

SAF primarily relies on local distributors for the sale of its products outside Latvia, in order to limit its own labour costs. The Company's local distributors are either original equipment manufacturers or, in most cases, companies that specialize in the sale and support of data transmission equipment, IT and system integration. The distributors are responsible for sales origination, product installation and customer support. In most instances the Company uses only one distributor for any given region or country. However, as a general rule, the Company's distribution relationships are not exclusive, with the exception of the agreement with SAF’s original equipment manufacturer in Asia, DG Telecom. SAF has granted distribution exclusivity to DG Telecom provided that DG Telecom meets certain minimum order requirements. The distribution agreements are generally concluded for a period of one year and are renewable for additional one-year terms, except for the agreement with DG Telecom which has a term of three years. For additional information on the agreement with DG Telecom, see “Risk Factors.”

Product promotion

The Company relies on both direct and indirect marketing techniques to develop new customer relationships. Direct contacts are primarily established at industry fairs such as CeBIT and ITY Telecom World, to which the Company actively participates. Direct marketing efforts are also carried out by the Company’s distributors, through the organization of seminars and customer visits. SAF also offers free product trials usually for up to 60 days.

Customers

The Company markets its products globally to existing and potential users of microwave radio technology. SAF’s customers can be divided into the following categories:

- mobile operators
- fixed line telephone operators
- internet service providers
- utility companies
- government networks
- corporate networks.

The main customers for the Company’s products are mobile telephone service providers, who use them to connect their base stations. Consequently, the highest demand is generated by customers in countries which are currently rolling out their mobile telephone networks, such as China, Poland and Russia. Because mobile telephone providers are the source of highest growth, SAF focuses its marketing efforts on these customers. SAF also sells to other customer segments such as internet service providers and corporate networks. As a general rule, the Company’s contracts with its customers are concluded on a project basis for a term of less than one year, and quarterly sales per customer may fluctuate significantly.

Mobile and fixed line telephone operators. As a general rule, mobile and fixed line telephone operators are conservative and reluctant to try out new products from smaller vendors previously unknown to them. They are also demanding customers with respect to product quality, advanced product features, vendor brand and support services. Significant commercial efforts are required from the Company to gain new customers in this segment. However, as telephone operators develop a familiarity with the Company and its products, they become regular customers of SAF.

Internet service providers. The Company believes that internet service providers (“ISPs”) are more open towards new products and attach less importance to vendor brand recognition. ISPs are also more price-sensitive and readily accept less sophisticated products at a lower price, as long as they fulfil basic functionalities.

Utility companies. Utility companies require specifically tailored, turnkey solutions in connection with particular projects and generate little repeat sales. The Company has sold products to two electricity and one oil and gas utility companies in the past.

Government and corporate networks. Government and privately-owned corporations represent a growing customer segment. They require more and more secure communications networks, and they are attracted by the potential cost savings which can be achieved by developing and operating their proprietary network rather than leasing it from telecommunications companies.

The table below sets forth selected end users of SAF's products in each sector:

Sector	Company	Country
Mobile operators	Tele2	Latvia
	Bite GSM	Lithuania
	Omnitel	Lithuania
	K-Mobill	Kazakhstan
	K'Cell	Kazakhstan
	Corbina	Russia
	OREN SOT	Russia
	China Unicom	China
	China Mobile	China
State power utilities	Latvenergo	Latvia
	Lietuvos Energia	Lithuania
Oil and gas companies	MOL Rt.	Hungary
ISPs	Telia Latvia	Latvia
	Delfi Latvia	Latvia
	Latnet	Latvia
	GTS Internet Partners	Poland
	GTS Romania	Romania
	Astral Telecom	Romania
	Arrownet	Denmark
	IDILIS	Romania
Fixed line telecoms	Lattelekom	Latvia
	China Telecom	China
Satellite and data operators	NURSAT	Kazakhstan
	ASTEL	Kazakhstan
	Golden Telecom	Kazakhstan
Commercial banks	Unibanka	Latvia
	Telbank BPT	Poland
Corporates	TETRA network	Iceland
	Pilicka Telefonia Sp.zo.o	Poland
Municipal	Riga City Council	Latvia
Healthcare	Hospital PN	United Kingdom

Source: SAF

Manufacturing operations and suppliers

The Company relies on subcontractors for the production and sub-assembly of most of the components of its products, whose final assembly and testing is carried out internally. The Company's subcontractors are located in Latvia, Lithuania, Belgium, Taiwan and Sweden. They operate independently from the Company and do not exclusively rely on the Company's orders. Reciprocally, while some of the components of the Company's products are custom-made, the Company believes that its dependence on its subcontractors is very limited and that it could easily replace any of them if necessary. For more details on the suppliers of the Company, see "Risk Factors."

The final assembly of the Company's products is carried out at SAF's premises in Riga, Latvia. In 2003, the utilization rate of the Company's production capacity varied between 60% and 100%. The Company plans to double its production capacity by December 31, 2004 compared to December 31, 2003.

The Company carefully monitors quality at each stage of the production process, ranging from the selection of components and sub-assembly suppliers, warehouse procedures, the pre-production testing of critical components, product assembly to final testing, packaging and shipping. SAF is ISO 9001 certified and therefore gives preference to contract manufacturers and suppliers that are ISO certified.

As the Company's production volumes increase, SAF plans to manufacture some of the components internally in order to better control production costs. The Company has purchased chip bonding equipment which will be installed in the first six months of 2004, in order to reduce costs and increase the flexibility of 38 GHz radio production.

Competition

The market in which the Company operates is subject to competition on a global scale, due to the universal nature of the products. The production of wireless data transmission equipment is a sub-segment of the wireless telecommunications market and is extremely competitive, with approximately 30 players. The Company's main competitors include both established and emerging companies, such as Alcatel, Ceragon Networks, Ericsson, Harris Corporation, NEC, Nera Telecommunications, Nokia, P-COM, Sagem, SIAE, and Siemens, as well as several private companies currently in the start-up stage. The largest competitors such as Ericsson, Nokia and Alcatel sell wireless data transmission equipment as part of a bundle of products and thus have a competitive advantage in the situations where the end client requires turn key solutions. However, the Company believes that its sole focus on microwave radio products allows it to be more flexible and efficient than most of the larger and more diversified competitors.

SAF is a relatively new entrant into the global market and can still be viewed as a minor player. However the Company's competitive advantages have allowed it to rapidly expand its market share while remaining consistently profitable. According to the CIBC Research, in 2001, the Company was the 14th largest producer with 770 units sold and had a market share of approximately 0.2% in the worldwide low and medium capacity digital radio market. In 2003, the Company sold 6,897 units. Considering that, in the Company's view, the total market size remained the same or decreased in 2003 compared to 2001, the Company believes that its market share has substantially increased.

The following table sets forth worldwide low and medium capacity digital radio shipments in 2001.

Rank	Name	Number of units sold	Market share (%)
1	Ericsson Microwave Systems AB	95,000	29.4
2	Nokia Networks	44,400	13.7
3	Alcatel Wireless Transmission	36,720	11.4
4	Siemens Information and Communications Networks SpA	35,000	10.8
5	Stratex Networks (DMC)	30,884	9.6
6	NEC Microwave	24,690	7.6
7	Harris Microwave Communications	23,373	7.2
8	SIAE Microelettronica SpA	12,450	3.9
9	Microwave Networks (Tadiran)	4,900	1.5
10	Sagem SA	4,420	1.4
11	P-Com	4,011	1.2
12	Nera Networks ASA	3,600	1.1
13	Allgon Microwave AB	1,031	0.3
14	**SAF**	**770**	**0.2**
15	Witcom Wireless Telecommunications	630	0.2
16	Marconi Corporation plc	599	0.2
17	Nortel Networks	300	0.1
18	Centerpoint Broadband Technologies	250	0.1
19	Codan	219	0.1
20	Forem	50	<0.1
	Total	323,297	100

Source: CIBC Research

For further details on competition aspects of the Company's business, see "Risk Factors."

Research and development

The Company's R&D strategy emphasizes the development of low-cost solutions while keeping up with new products in the industry. The Company's R&D department can react very rapidly and efficiently to new product developments in the industry, and it usually takes from six to ten months to bring a new product from conception to distribution.

As part of its R&D strategy, the Company strives to increase its participation in international standards committees in order to be informed about any developments in products standards and to influence the standard setting process. SAF is an active member of the European Telecommunications Standards Institute.

Research and development is critical to the Company's success and significant personnel and financial resources are dedicated to this activity. The Company's R&D department comprises 19 employees and utilizes equipment consistent with the highest industry standards. R&D activities are carried out entirely in-house.

The Company's R&D budget has steadily increased in the past few years. In the six months ended December 31, 2003, the Company's R&D expenditure was LVL 180,000, which represented a 143% increase compared to the six months ended December 31, 2002. In the year ended June 30, 2003, the R&D expenditure increased by LVL 77,000, or 69.4%, to LVL 188,000 from LVL 111,000 in the year ended June 30, 2002.

In the years ended June 30, 2002 and 2003, the Company launched 16 and 43 new products or product versions, respectively. In the six months ended December 31, 2003, the Company launched 35 new products or products versions.

New products generated total revenues of LVL 1,445,600 in the six months ended December 31, 2004, LVL 2,820,500 in the year ended June 30, 2003 and LVL 225,500 in the year ended June 30, 2002, which represents 12%, 36% and 8% of total revenues for each period, respectively.

The Company's approach to R&D is flexible and R&D investment in any given period is a function of customer needs as represented by the sales force based on market demand, rather than financial indicators.

Intellectual property rights

SAF relies on a combination of trademarks, patent rights and know-how, confidentiality agreements and other contractual arrangements with its customers, distributors, consultants and employees to protect its technology.

The Company's know-how consists in its ability to select the best combination of components in order to allow the device to function optimally in accordance with certain predefined parameters.

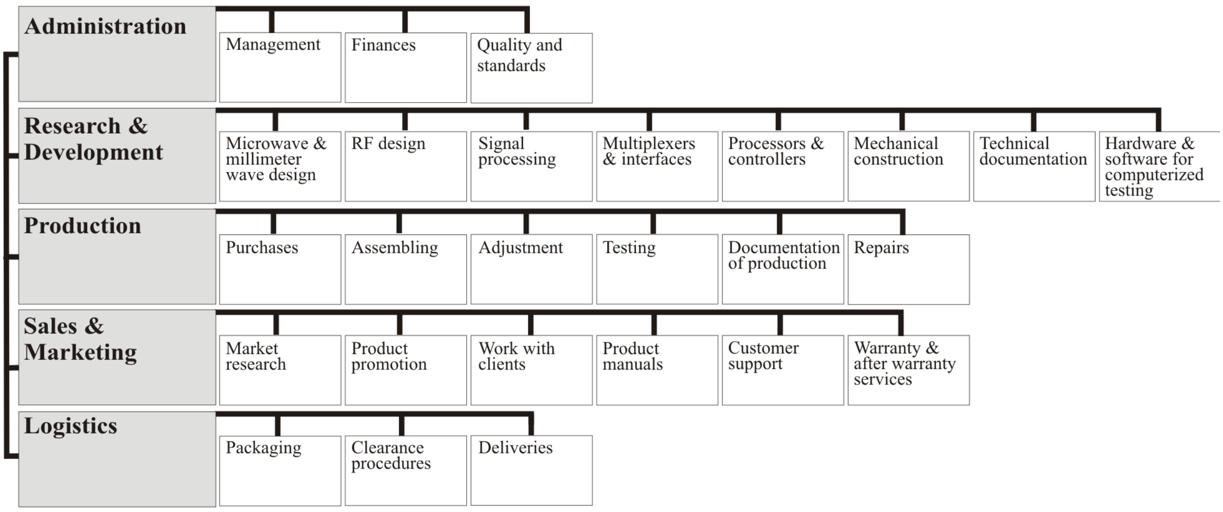
On July 20, 2003, the Company registered "SAF" (white letters on red background) as a trademark in Latvia, in relation to electronic communications devices. The trademark registration is valid until April 14, 2013 and can be renewed after such date. On July 24, 2003, the Company filed an application for an international trademark. As of March 1, 2004, the application was under the review by the International Bureau of the World Intellectual Property Organisation (WIPO).

The Company filed an application for a patent with the Patent Board of the Latvian Republic on November 7, 2003, in relation to "communications system base frequency band filter system and technique for synthesis of this filter.” As of March 1, 2004, the application was under review by the Patent Board.

The Company’s standard employment agreements contain certain confidentiality obligations on the employees to preserve the Company’s commercial, technological or other business secrets. In addition, the employees are required not to disclose any information not in the public domain and which, if disseminated, could be harmful to the Company’s interests. As of March 31, 2004 all of the Company’s contracts with its employees contained confidentiality obligations of a similar nature.

The Company’s standard agreements with its distributors provide that SAF retains the right to register its trademarks, patents and designs in the distributor’s territory and in any other jurisdiction. Distributors are prohibited from registering or using the Company’s trademark. Distributors are prohibited from altering the display of the Company’s trademark on the labels or packaging of the products without the consent of the Company. Distributors are required to notify SAF of any improper use of SAF’s trademark in the distributor’s territory of which they are aware.

Corporate and organizational structure



The following chart sets forth the Company’s main corporate functions:

Personnel

The number of employees of the Company has rapidly increased in the course of the past three years. The following table sets forth the breakdown of the Company’s employees by function for each of the periods indicated:

	Year ended December 31,		
	2001	2002	2003
Administration	3	3	12
Sales and marketing	4	7	11
R&D	6	11	19
Production	11	24	50
Total	24	45	92

As of December 31, 2003, the Company employed 92 persons, of which 53% had university degrees. The following table sets forth the breakdown of employees by degree:

	Number of employees	Percentage of total number of employees
Bachelor's degree	34	37
Master's degree	13	14
Doctorate	2	2
Total	49	53

As of March 1, 2004, the Company had not granted any stock options to any employees and had no option plan in place. The Company believes that it offers exceptionally good terms and conditions of employment.

The Company has established performance bonus and incentive schemes in order to attract and retain top talent at the Company.

As of March 1, 2004, none of the SAF's employees was a member of any trade unions. The Company has not granted loans to its employees.

Property, plants and equipment

The Company's principal executive offices are located in an industrial park at Ganību Dambis 24a, Riga, Latvia. They comprise a total area of 3,441 square meters, of which 75%, or 2,585 square meters, are dedicated to production facilities and 25%, or 856 square meters, are used for administrative, sales and research and development functions. All of the Company's premises are leased pursuant to a lease agreement. The Company completed the renovation of the leased space in the year ended June 30, 2003 for a total cost of approximately LVL 43,000. The Company does not own any properties. The Company believes that it has the use of sufficient office premises and floor space to enable its principal business activities to be carried out effectively and on favourable terms without substantial capital expenditures.

The following table sets out a summary of SAF's lease obligations through December 31, 2007:

	Year Ended December 31,			
	2004	2005	2006	2007
	(LVL)	(LVL)	(LVL)	(LVL)
Total lease obligations	111,389	77,063	70,198	70,198

The lease agreement for the Company's headquarters can be terminated at any time by the landlord with three months' notice. The Company does not believe that it is likely that the lease would be terminated. For further details about the Company's properties, see "Risk Factors."

Legal proceedings

The Company has not been involved in any court or arbitration proceedings in the past three years. The Company is not aware of any current pending or threatened litigation or disputed claims, arbitration or regulatory agency action against it or any of its subsidiaries that would reasonably be expected to materially and adversely affect its operations or assets. The Company is also not aware of any circumstances which might give rise to any such proceedings.

For a discussion of regulatory matters affecting the Company's operations in Latvia and other countries, see "Risk Factors."

Recent developments

In the nine months of the year ended March 31, 2004 the Company's revenue has grown by 236% and its net profit by 414% compared to the same period in the previous year. As a result the liquidity of the

Company has significantly improved. Cash and cash equivalents represent a relatively small part of the Company's total current asset position. As of March 31, 2004, the Company had a short-term deposit of LVL 809,275 available to withdraw on short notice.

	Nine months ended March 31,	
	2003	**2004**
	(LVL)	**(LVL)**
Revenue	2,829,320	9,510,083
Operating profit	790,580	4,059,428
Net profit	601,623	3,092,369
Total assets	2,477,201	6,286,795
Total long-term assets	468,245	922,757
Cash and equivalents	49,403	71,899
Total current assets	2,008,956	5,364,038
Total shareholders' equity	1,394,250	4,888,481
Long-term liabilities	113,070	99,378
Short-term liabilities	969,881	1,298,936

On April 6, 2004, the Company entered into an asset purchase agreement with Viking Microwave in Sweden for the acquisition of Viking Microwave's business assets, including its goodwill, intellectual property rights and inventories, and the transfer of all its employees. The transaction is expected to close on June 1, 2004.

Viking Microwave is a producer of microwave radio and access products used in telecommunications networks. Viking Microwave develops and markets a high-capacity microwave radio product range called Link155. Viking Microwave's product portfolio comprises a full range of high-capacity SDH and IP radio links and a series of Multiplexers and modular ADMs. The maximum data transmission capacity attained by Viking Microwave's top-of-the-line products is 140 Mpbs.

Viking Microwave is a wholly-owned subsidiary of Viking Telecom AB and as of March 31, 2004 it had 14 employees, a majority of whom held a Masters degree in electronics and had previous work experience with such companies as Ericsson, Allgon and Waves.

Reasons for the acquisition

The main reason for the transaction is the acquisition of Viking Microwave's know-how in the development of SDH products. The SDH technology is used in the production of high-capacity digital microwave radios, a market segment in which the Company does not yet have any product offering. The Company believes that the acquisition of Viking Microwave will provide it with the necessary know-how to design and produce high-capacity microwave radios by the end of 2004.

Terms of the acquisition

Under the Viking Purchase Agreement, the Company will pay a total consideration of EUR 1.3 million to Viking Microwave in three instalments:

- EUR 500,000 payable in cash at the closing
- a number of Offer Shares equal to EUR 600,000 divided by the Offer Price
- EUR 200,000 payable in cash no later than June 30, 2004, conditionally upon the successful development of a 7/11 MHz high-capacity microwave radio prototype.

In order to take over the assets and employees of Viking Microwave, the Company intends to incorporate a wholly-owned subsidiary in Sweden, which will be operating out of the current premises of Viking Microwave in Gothenburg, Sweden.

For further details about the Viking Microwave transaction, see “The Combined Offering” and “Risk Factors.”

Pending tax audit

The Latvian tax authorities are currently conducting a general tax audit in the Company in respect of calculation, declaration and payment of (i) the Value-Added Tax (VAT) for the period from January 1, 2001 until December 31, 2002, and (ii) Corporate Income Tax (CIT) for the period from July 1, 2001 until June 30, 2002. The audit was commenced on April 7, 2004 and it is expected to completed by June 1, 2004. The management expects to receive the initial findings of the tax authorities on or around May 20, 2004. For further information, see "Risks Factors."

SELECTED FINANCIAL DATA

The following tables set forth selected financial data as at and for each of the three financial years ended June 30, 2001, 2002 and 2003 and for each of the six months ended December 31, 2002 and 2003. Results for interim periods are not necessarily indicative of results for the full financial year. The financial information has been derived from SAF's audited (years ended June 30, 2001, 2002 and 2003 and six months ended December 31, 2003) and unaudited (six months ended December 31, 2002) financial statements which have been prepared in accordance with Latvian GAAP. Latvian GAAP differs in certain areas from IFRS. For a discussion of certain of these differences, see "Annex A — Summary of Significant Differences Between Latvian GAAP and IFRS". Several balance sheet positions have been reclassified by Suprema in order to facilitate the comparison between the financial statements for the various periods. The selected financial data set forth below should be read in conjunction with "Management's Discussion and Analysis of the Company's Financial Condition and Results of Operations" and the financial statements including Notes thereto included elsewhere in this Offering Circular.

	Year ended June 30,			Six months ended December 31,	
	2001	**2002**	**2003**	**2002**	**2003**
	(EUR)	**(EUR)**	**(EUR)**	**(EUR)**	**(EUR)**
Financial summary					
LVL/EUR	0.550	0.596	0.652	0.610	0.674
Revenue	1,723,904	2,655,834	7,486,643	2,601,823	11,592,783
Operating profit	134,982	152,307	1,765,880	691,259	5,356,279
Net profit	83,213	70,641	1,245,071	442,243	4,134,973
Total assets	1,661,782	1,630,450	5,162,110	2,701,920	8,469,552
Total long-term assets	232,264	361,733	954,014	598,254	1,238,091
Cash and equivalents	14,807	85,763	2,362	26,910	119,368
Total current assets	1,429,518	1,268,716	4,208,097	2,103,666	7,231,461
Total shareholders' equity	415,478	742,391	2,460,756	1,167,595	6,292,856
Long-term liabilities	—	40,797	122,910	159,833	146,932
Short-term liabilities	1,211,326	801,520	2,471,702	1,268,987	1,935,349

	Year ended June 30,			Six months ended December 31,	
	2001	**2002**	**2003**	**2002**	**2003**
	(LVL)	**(LVL)**	**(LVL)**	**(LVL)**	**(LVL)**
Profit or loss account data					
Revenue	**948,285**	**1,582,877**	**4,881,291**	**1,587,112**	**7,813,536**
Cost of goods sold	(674,304)	(999,539)	(3,032,357)	(906,076)	(3,503,713)
Gross profit	**273,981**	**583,338**	**1,848,934**	**681,036**	**4,309,823**
Sales and distribution expenses	(149,655)	(418,744)	(492,072)	(196,618)	(541,639)
General and administrative expenses	(50,075)	(73,881)	(205,598)	(62,750)	(158,052)
Other operating income	—	62	90	—	—
Operating profit	**74,251**	**90,775**	**1,151,354**	**421,668**	**3,610,132**
Other interest income and similar income	—	—	12	—	—
Interest payments and similar expenses	(19,959)	(38,749)	(90,314)	(27,267)	(181,695)
Profit before tax	**54,292**	**52,026**	**1,061,052**	**394,401**	**3,428,437**
Corporate income tax	(8,518)	(9,924)	(249,266)	(124,633)	(641,465)
Net profit	**45,774**	**42,102**	**811,786**	**269,768**	**2,786,972**
Dividends	—	—	150,000	—	—

	Year ended June 30,		Six months ended December 31,		
	2001	2002	2003	2002	2003
	(LVL)	(LVL)	(LVL)	(LVL)	(LVL)
Balance sheet data					
Intangible assets	35,141	28,429	82,069	54,281	145,196
Fixed assets	92,623	187,164	508,294	310,654	657,623
Long-term financial investments	—	—	31,654	—	31,654
Total long-term assets	127,764	215,593	622,017	364,935	834,473
Inventories	597,526	465,050	1,964,455	864,170	2,163,915
Accounts receivable	180,678	239,990	777,684	402,651	2,629,636
Cash and equivalents	8,145	51,115	1,540	16,415	80,454
Total current assets	786,349	756,155	2,743,679	1,283,236	4,874,005
Total assets	**914,113**	**971,748**	**3,365,696**	**1,648,171**	**5,708,478**
Share equity	200,103	200,103	200,303	200,103	200,303
Share premium	—	171,717	521,679	171,717	521,679
Reserves	—	45,774	70,645	70,645	732,431
Undistributed profit:	28,453	24,871	811,786	269,768	2,786,972
a) previous years' undistributed profit	(17,231)	(17,231)	—	—	—
b) current year's undistributed profit	45,774	42,102	811,786	269,768	2,786,972
Total shareholders' equity	228,546	442,465	1,604,413	712,233	4,241,385
Provisions	19,241	27,262	69,596	64,358	63,636
Long-term liabilities	—	24,315	80,137	97,498	99,032
Short-term liabilities	666,326	477,706	1,611,550	774,082	1,304,425
Total liabilities and shareholders' equity	**914,113**	**971,748**	**3,365,696**	**1,648,171**	**5,708,478**

	Year ended June 30,			Six months ended December 31,	
	2001	2002	2003	2002	2003
	(LVL)	(LVL)	(LVL)	(LVL)	(LVL)
Cash flow data					
Profit before tax	54,292	52,026	1,061,052	394,401	3,428,437
Net cash flow from operating activities	(313,071)	242,513	(721,849)	144,923	1,235,618
Net cash flow from investing activities	(106,796)	(20,607)	(383,290)	(100,907)	(276,452)
Net cash flow from financing activities	384,414	(178,936)	1,055,564	(78,716)	(880,252)
incl. dividends					(36,750)
Net increase/decrease in cash	**(35,453)**	**42,970**	**(49,575)**	**(34,700)**	**78,914**
Cash at the beginning of the period	43,598	8,145	51,115	51,115	1,540
Cash at the end of the period	**8,145**	**51,115**	**1,540**	**16,415**	**80,454**

Key figures

	Year ended June 30,			Six months ended December 31,	
	2001	2002	2003	2002	2003
Per Share Data					
Earnings per share (LVL)	0.31	0.21	4.05	1.35	13.91
Shareholders' equity per share (LVL)	1.14	2.21	8.01	3.56	21.17
Dividend per share (LVL)	0.00	0.00	0.75	0.00	0.00
Dividend pay-out-ratio (%)	0%	0%	18%	0%	0%
Adjusted average number of shares during the period	150,002	200,053	200,203	200,203	200,303
Adjusted average number of shares at the end of the period	200,003	200,103	200,303	200,303	200,303

Recalculated per Share data based on number of Shares after the Combined Offering

	Year ended June 30,			Six months ended December 31,	
	2001	2002	2003	2002	2003
Earnings per share (LVL)	0.05	0.04	0.82	0.27	2.81
Shareholders' equity per share (LVL)	0.23	0.45	1.62	0.72	4.28
Dividend per share (LVL)	0.00	0.00	0.15	0.00	0.00
Dividend pay-out-ratio (%)	0%	0%	18%	0%	0%
Number of shares after IPO	990,060	990,060	990,060	990,060	990,060

	Year ended June 30,			Six months ended December 31,	
	2001	2002	2003	2002	2003
Financial ratios					
Revenue (LVL)	948,285	1,582,877	4,881,291	1,587,112	7,813,536
Assets - non-interest bearing debt (LVL)	472,127	519,120	2,621,480	987,415	4,518,520
Net interest-bearing debt (LVL)	224,340	49,393	947,471	133,501	213,499
Operating profit (LVL)	74,251	90,775	1,151,354	421,668	3,610,132
Operating profit (percentage of revenue)	8%	6%	24%	27%	46%
Profit before tax, (LVL)	54,292	52,026	1,061,052	394,401	3,428,437
Profit before tax (percentage of revenue)	6%	3%	22%	25%	44%
Net profit (LVL)	45,774	42,102	811,786	269,768	2,786,972
Net profit (percentage of revenue)	5%	3%	17%	17%	36%
Return on equity (%)	29%	13%	79%	47%	95%
Return on investment (%)	11%	10%	40%	40%	76%
Gearing (%)	95%	-0.4%	59%	16%	3%
Equity-to-assets ratio (%)	25%	46%	48%	43%	74%
Gross investments in fixed assets and shares (LVL)	107,465	140,118	576,116	206,736	341,278
Gross investments in fixed assets and shares (percentage of revenue)	11%	9%	12%	13%	4%
Research and development expenditure (LVL)	89,929	111,361	188,479	77,421	179,959
Research and development expenditure (percentage of revenue)	9%	7%	4%	5%	2%
Number of employees (average over the period)	18	25	51	36	83
Number of employees (at period end)	23	27	74	45	92

Calculation of financial ratios

$$\text{Return on equity \% (ROE)} = \frac{\text{Profit before tax and extraordinary items} - \text{taxes}}{\text{Shareholders' equity} + \text{minority interest (average for the year)}} \times 100$$

$$\text{Return on investment \% (ROI)} = \frac{\text{Profit before tax and extraordinary items} + \text{interest and other financial expenses}}{\text{Total assets} - \text{non-interest bearing debt (average for the year)}} \times 100$$

$$\text{Equity-to-assets ratio \%} = \frac{\text{Shareholders' equity} + \text{minority interest}}{\text{Total assets} - \text{advances received}} \times 100$$

$$\text{Earnings per share (EPS)} = \frac{\text{Profit before tax and extraordinary items} - \text{taxes} +/- \text{minority interest}}{\text{Adjusted average number of shares during the financial period}}$$

$$\text{Dividend per share} = \frac{\text{Dividend}}{\text{Adjusted number of shares at the end of the financial period}}$$

$$\text{Dividend pay-out ratio} = \frac{\text{Dividend per share}}{\text{Earnings per share (EPS)}} \times 100$$

$$\text{Shareholders' equity per share} = \frac{\text{Shareholders' equity}}{\text{Adjusted number of shares at the end of the financial period}}$$

$$\text{Gearing \%} = \frac{\text{Interest-bearing debt} - \text{cash and cash equivalents} - \text{Interest– bearing receivables}}{\text{Shareholders' equity} - \text{minority interest}} \times 100$$

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE COMPANY'S FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the financial statements of the Company, including the notes thereto, and the interim report of the Company presented elsewhere in this Offering Circular (see the Company's financial statements beginning on page F-1). SAF's financial statements and the other information presented herein has been prepared in accordance with Latvian GAAP, which differs in certain respects from IFRS. For a discussion of significant differences between Latvian GAAP and IFRS, in relation to the Company, see "Annex A — Summary of Significant Differences Between Latvian GAAP and IFRS".

Overview

Set forth below is a discussion of the important drivers of SAF's revenues and operating expenses, together with information regarding the influence of currency exchange rate fluctuations on its financial results.

Revenue

The following table sets forth certain income and expense items as a percentage of total revenues for the periods indicated:

	Year ended June 30,			Six months ended December 31,	
	2001	**2002**	**2003**	**2002**	**2003**
	(LVL)	**(LVL)**	**(LVL)**	**(LVL)**	**(LVL)**
Revenue	**948,285**	**1,582,877**	**4,881,291**	**1,587,112**	**7,813,536**
Cost of goods sold	-71%	-63%	-62%	-57%	-45%
Gross profit	**29%**	**37%**	**38%**	**43%**	**55%**
Sales and distribution expenses	-16%	-26%	-10%	-12%	-7%
General and administrative expenses	-5%	-5%	-4%	-4%	-2%
Other operating income/expenses	—	0%	0%	—	—
Operating profit/loss	**8%**	**6%**	**24%**	**27%**	**46%**
Other interest income and similar income	—	—	0%	—	—
Interest payments and similar expenses	-2%	-2%	-2%	-2%	-2%
Profit before tax	**6%**	**3%**	**22%**	**25%**	**44%**
Corporate income taxes	-1%	-1%	-5%	-8%	-8%
Net profit	**5%**	**3%**	**17%**	**17%**	**36%**

The total revenue of the Company increased by 13 times (1,315%) between the years ended June 30, 2000 and 2001, by 66% between the years ended June 30, 2001 and 2002, and approximately doubled (208%) between the years ended June 30, 2002 and 2003. Operating revenue is primarily a function of the Company's ability to generate sales on the basis of its commercial efforts and the competitive pricing of its products. Sales origination in most of the markets is at least partially left to local distributors, with the exception of large orders for which SAF's sales managers are usually directly involved. Since most of the telecommunications networks are developed on a project basis, the order flow within each country or even region fluctuates. As a result, there is inherent instability in revenue generation. For example, a widespread change in equipment in connection with the rollout of 3G mobile services might generate very high demand for the Company's products in all markets, followed by a substantial drop after completion of the rollout. In addition, the sales originate from a relatively small number of customers. Management believes that this instability will diminish as the Company's operations and customer base increase. For a discussion of the factors affecting sales, see "Business."

Revenue recognition

Revenue includes the value of goods sold and services rendered during the period, net of value-added tax and discounts directly related to the sales. Revenue is recognized upon transfer of all major risks related to ownership of goods. Revenue is recognized on an accrual basis. Product prices are known before shipment and are not subject to change after delivery. Product returns are accepted, but complete returns happen rarely since most of the products are serviced or repaired under warranty.

Cost of goods sold

The cost of goods sold includes primarily costs related to materials, parts assembled by sub-contractors, personnel and depreciation. Some of the components for final goods are assembled by SAF's sub-contractors, however final assembly and testing is done internally. The largest share of all depreciation is included in the cost of goods sold.

Sales and distribution expenses

Sales and distribution expenses consist mostly of costs related to advertising and marketing, personnel, business travel expenses and depreciation. Advertising and marketing expenses include commissions paid to distributors for originating or assisting in sales and generally represent the largest share of sales and distribution expenses.

General and administrative expenses

General and administrative expenses primarily consist of costs related to provisions for doubtful trade debtors, personnel, depreciation, consultancy fees and bank commissions. Bank commissions include only fees paid for transactions.

Interest payments and similar expenses

Interest payments and similar expenses consist primarily of expenses related to interest payments and loss from currency exchange rate fluctuations. Commissions on letters of credit, which are used as a means of payment for most of the sales, are treated as bank interest payments.

Corporate income tax

Corporate income tax is calculated by applying the appropriate income tax rate to the taxable profit gained in that period. The rate of corporate income tax has decreased in Latvia to 15% in 2004 from 25% in 2001. Further reductions in corporate income tax are not anticipated. Because the financial year of the Company ends June 30, the profit for the financial year is taxed at the rate applicable at the start of the financial year.

Under the Latvian tax laws, losses can be rolled over and set off against net profit in the following five financial years for corporate income tax calculation purposes. Losses in the amount of LVL 17,231 for the year ended June 30, 2000 were set off against profit before tax for the years ended June 30, 2001 and 2002, thus reducing income tax payments.

The following tables sets forth the corporate income tax rates which were applied to SAF's net profit for the periods indicated:

	Year ended June 30,			
	2001	**2002**	**2003**	**2004**
Corporate income tax rate	25%	25%	22%	19%

Year ended June 30, 2003 compared to the year ended June 30, 2002

Revenue

In the year ended June 30, 2003, SAF's revenue increased twofold (208%) by LVL 3,298,414 to LVL 4,881,291 compared to LVL 1,582,877 in the previous financial year. The increase is primarily due to entry into new markets, which was made possible by the completion of the certification process and the establishment of relationships with local distributors.

In the year ended June 30, 2003, revenue generated from new products increased more than tenfold (1,151%, or LVL 2,594,954), from LVL 225,504 in the previous financial year to LVL 2,820,458. It represented 58% of total revenues in the year ended June 30, 2003, compared to 14% of total revenues in the previous financial year. In the year ended June 30, 2003 new products were mainly sold to customers in China and Russia.

Cost of goods sold

In the year ended June 30, 2003, the cost of goods sold increased by LVL 2,032,818, or 203%, to LVL 3,032,357 from LVL 999,539 in the previous financial year. A surge in demand for the Company's products resulted in an increase in expenses on components and labor which were required to produce them. The cost of goods sold as a percentage of total revenues decreased to 62% of total revenues in the year ended June 30, 2003, compared to 63% in the previous financial year. Efficiency gains were mainly derived from improvements in the organization of work and a more consistent order flow, as a result of increased revenue.

Labor costs as a percentage of total revenues decreased to 6% in the year ended June 30, 2003 from 9%, in the previous financial year. The costs of components and other supply materials represented LVL 2,456,853 or 50% of total revenues in the year ended June 30, 2003, compared to LVL 723,729 or 46% of total revenues in the previous financial year. In the year ended June 30, 2003, the depreciation of assets included in the cost of goods sold increased by LVL 95,251, or 209%, to LVL 140,890 or 3% of total revenues, compared to LVL 45,639 or 3% of total revenues for the previous financial year. The increase in depreciation expense was proportional to revenue increase and occurred due to the acquisition of fixed assets which were used in the production process.

Sales and distribution expenses

In the year ended June 30, 2003, sales and distribution expenses increased by LVL 73,328, or 18%, to LVL 492,072 from LVL 418,744 in the previous financial year. This increase is mainly attributable to sales and marketing personnel expenses which increased by LVL 36,829, or 113%, to LVL 69,329 from LVL 32,500 in the previous financial year. This rise occurred as a result of the hiring of four new sales managers and increased bonus payments to existing employees following increased sales.

In the year ended June 30, 2003, advertising and marketing expenses increased by LVL 10,870, or 3%, to LVL 370,068 from LVL 359,198 in the previous financial year. Most of the advertising and marketing expenses in the year ended June 30, 2002 were payments to Microlink for management services and sales support in the Baltics. However, in the year ended June 30, 2003, almost all of the advertising and distribution expenses were payments to distributors other than Microlink. The importance of sales and distribution expenses as a percentage of revenue decreased from 26% in the year ended June 30, 2002 to 10% in the year ended June 30, 2003, which reflects an improvement in the efficiency of the Company's sales efforts.

General and administrative expenses

General and administrative expenses increased by LVL 131,717, or 178%, to LVL 205,598 in the year ended June 30, 2003 from LVL 73,881 in the year ended June 30, 2002, primarily as a result of an increase in provisions for doubtful trade debtors and the hiring of new employees. General and administrative expenses as a percentage of revenue have decreased from 4.7% in the year ended June 30, 2002 to 4.2% in the year ended June 30, 2003.

Interest payments and similar expenses

In the year ended June 30, 2003, interest payments and similar expenses increased by LVL 51,565, or 133%, to LVL 90,314 from LVL 38,749 in the previous financial year. The expenses increased due to larger losses from currency exchange rate differences, which amounted to LVL 52,203, and other financial expenses, which amounted to LVL 38,111. Both of these increases occurred as a result of a rise in revenue which increased exposure to foreign currency. Most of the other financial costs were incurred as a result of the premature exercise of letters of credit.

Corporate income tax

In the year ended June 30, 2003, the corporate income tax increased to LVL 249,266 from LVL 9,924 in the previous financial year.

The corporate income tax represented 23% of profit before taxes in the year ended June 30, 2003, compared to 19% in the previous financial year. The share of the corporate income tax in profit before tax was lower in the year ended June 30, 2002 than in the year ended June 30, 2003 due to the roll-over and set-off of losses from previous years as permitted by the Latvian tax laws.

Net profit

In the year ended June 30, 2003, net profit increased by 18 times (1,828% or LVL 769,684) to LVL 811,786 from LVL 42,102 in the previous financial year. The increase was due to higher revenues and improved efficiency as a result of a better use of assets. Most of the gains in cost structure were achieved in sales and distribution expenses and general and administrative expenses, which resulted in an increase of the Company's operating profit margin to 24% in the year ended June 30, 2003.

Year ended June 30, 2002 compared to year ended June 30, 2001

Revenue

In the year ended June 30, 2002, SAF's revenue increased by LVL 634,592, or 67%, to LVL 1,582,877 from LVL 948,285 in the previous financial year. The increase was achieved by entry into new markets and larger sales on already established markets such as the Baltics.

Cost of goods sold

In the year ended June 30, 2002, the cost of goods sold increased by LVL 325,235, or 48%, to LVL 999,539 from LVL 674,304 in the previous financial year. The rise was due to increased demand and the necessity to augment production. The cost of goods sold as a percentage of total revenues decreased to 63% of total revenues in the year ended June 30, 2002, compared to 71% in the previous financial year. The decrease resulted from a better use of existing assets such as office and production space, and increased efficiency of labor due to a more consistent workflow as a result of increased revenue.

Sales and distribution expenses

In the year ended June 30, 2002, sales and marketing expenses increased by 1.8 times (180% or LVL 269,089) to LVL 418,744 from LVL 149,655 in the previous financial year. This rise occurred mainly as a result of higher management and service fees and larger bonus payments to sales personnel. The majority of the management service fees were paid to MicroLink or its affiliates in the year ended June 30, 2002 for the provision of management consulting and other services including sales support in Estonia. Spending on sales and marketing personnel grew by LVL 12,294, or 61%, to LVL 32,500 from LVL 20,206 in the previous financial year.

General and administrative expenses

In the year ended June 30, 2002, general and administrative expenses increased by LVL 23,806, or 48%, to LVL 73,881 from LVL 50,075 in the previous financial year, due to higher consultation fees which were partially offset by smaller other overhead expenses. General and administrative expenses as a percentage of revenues decreased from 5.3% in the year ended June 30, 2001 to 4.7% in the following financial year.

Interest payments and similar expenses

In the year ended June 30, 2002, interest and similar expenses increased by LVL 18,790, or 94%, from LVL 19,959 in the previous financial year. The expenses increased as a result of higher sales abroad, which increased exposure to and losses from foreign currencies.

Corporate income tax

In the year ended June 30, 2002, corporate income tax payments increased by LVL 1,406, or 17%, to LVL 9,924 from LVL 8,518 in the previous financial year.

The corporate income tax represented 19% of profit before tax in the year ended June 30, 2002, compared to 16% in the previous financial year. The share of corporate income tax in profit before tax was lower in the year ended June 30, 2001 than in the year ended June 30, 2002 due to the roll-over and set-off of losses from previous years.

Net profit

In the year ended June 30, 2002, SAF's net profit decreased by LVL 3,672, or 8%, to LVL 42,102 from LVL 45,774 in the previous financial year. The decrease resulted from a substantial rise in sales and administrative expenses, which reduced SAF's operating profit margin to 6% of revenue in the year ended June 30, 2002 from 8% of revenue in the previous financial year.

Six months ended December 31, 2003 compared to six months ended December 31, 2002

Revenue

In the six months ended December 31, 2003, SAF's revenue increased by almost 4 times (392% or LVL 6,226,424), to LVL 7,813,536 from LVL 1,587,112 in the six months ended December 31, 2002. In the six months ended December 31, 2003, sales were LVL 7,813,536, which represents a 60% increase over total revenue in the year ended June 30, 2003. The rise was due to SAF's entry into new markets and larger sales on already established markets such as the Baltics.

Cost of goods sold

In the six months ended December 31, 2003, the cost of goods sold increased by almost 3 times (287%, or LVL 2,597,637) from LVL 906,076 in the six months ended December 31, 2002. The rise occurred due to increased sales and the resulting increased materials and labor costs to step up production. The cost of goods sold as a percentage of total revenue decreased to 45% in the six months ended December 31, 2003 compared to 57% for the six months ended December 31, 2002. In the cost of goods sold, total expenditure on materials, parts and labor as a share of total revenue decreased from 50% in the six months ended December 31, 2002 to 42% in the six months ended December 31, 2003.

Sales and distribution expenses

In the six months ended 31 December, 2003, sales and marketing expenses almost doubled (175%, or LVL 345,021) to LVL 541,639 from LVL 196,618 in the six months ended December 31, 2002. The increase was primarily caused by additional commission payments to distributors and sales personnel.

General and administrative expenses

In the six months ended December 31, 2003, general and administrative expenses increased by 1.5 times (152% or LVL 95,302), to LVL 158,052 from LVL 62,750 in the six months ended December 31, 2002. The increase resulted from hiring additional personnel and larger bank commissions as a result of larger number of transactions.

Interest payments and similar expenses

In the six months ended December 2003, interest and similar expenses increased by 5.6 times (566% or LVL 154,428), to LVL 181,695 from LVL 27,267 in the six months ended December 31, 2002. The expenses increased due to higher sales abroad which increased exposure to and losses from foreign currencies.

Corporate income tax

In the six months ended December 31, 2003, total corporate income tax payments increased by 4 times (414% or LVL 516,832), to LVL 641,465 or 19% of profit before income tax from LVL 124,633 or 32% of profit before tax for the six months ended December 31, 2002. The corporate income tax payment in the six months ended December 31, 2003 increased as a result of increasing sales and profit. The high income tax payment for the six months ended December 31, 2002 is due to the method of calculation. Corporate income tax for this period was calculated by dividing by two the corporate income tax paid during the year ended June 30, 2003, whereas most of the profit for the financial year was achieved in the six months ended June 30, 2003.

Net profit

In the six months ended December 31, 2003 SAF's net profit increased by 9.3 times (933% or LVL 2,517,204), to LVL 2,786,972 for the six months ended December 31, 2003 from LVL 269,768 in the six months ended December 31, 2002. The increase resulted from improved management of all cost positions of SAF, which improved gross, operating and net margins.

Liquidity and capital resources

Historically the Company's working capital needs were generally met out of cash flow from operating activities, equity financing and, to a lesser extent, borrowing. Since its inception in 1999, the Company has financed its operations primarily from the following:

	Year ended June 30,				Six months ended December 31,	
	2000	**2001**	**2002**	**2003**	**2002**	**2003**
	(LVL)	**(LVL)**	**(LVL)**	**(LVL)**	**(LVL)**	**(LVL)**
Equity	100,000	100,003	171,817	350,162	—	—

Loan	102,120	109,616	—	—	—	—

Besides these sources of funds, the Company's operations have been financed by cash from operations and an overdraft credit facility from A/S Hansabanka. As of March 31, 2004, the overdraft credit facility from A/S Hansabanka has been closed because substantial amounts of cash from operations are available to the Company.

As of June 30, 2003, the Company had no long-term loans and its sole long-term liabilities were financial leasing obligations.

As of June 30, 2003, the Company had short-term liabilities of LVL 1,611,550, of which the largest items were: LVL 776,194, or 48%, overdrafts from credit institutions, LVL 395,375, or 25%, trade creditors, and LVL 256,213, or 16%, provisions for tax payments.

In the year ended June 30, 2003, short-term liabilities increased by 2.4 times (237% or LVL 1,133,844), from LVL 477,706 in the previous financial year, primarily due to an increase in use of the bank overdraft, trade creditors and tax liabilities. In the year ended June 30, 2003, accounts payable to affiliated companies have decreased by LVL 294,487, or 88%, as a result of a decrease in dealings with Microlink and its affiliates. As of December 31, 2003, short-term liabilities decreased by LVL 307,125, or 19%, to LVL 1,304,425 from LVL 1,611,550 as of June 30, 2003. This decrease primarily reflected the fact that SAF received payments under material customer contracts and was able to repay its bank overdraft.

As of June 30, 2003, working capital[1] had increased by 3 times (306% or LVL 853,680), to LVL 1,132,129 from LVL 278,449 as of June 30, 2002. In the six months ended December 31, 2003, working capital further increased by 2.2 times (215% or LVL 2,437,451), to LVL 3,569,580. This increase is attributable to the development of operations and the overall growth of the Company. As of June 30, 2003, the current ratio[2] increased to 1.70 from 1.58 as of June 30, 2002. As of December 31, 2003, the current ratio increased to 3.74 from 1.70 as of June 30, 2003. The increase was primarily driven by a large increase in accounts receivable (by 2.4 times (238%), or LVL 1,851,952). A substantial part of the Company's current assets is held in inventories. The average turnover period of inventory increased to 147 days in the year ended June 30, 2003 from 107 days in the year ended June 30, 2002.

Historically SAF has been able to finance part of its operations with the help of suppliers that provided credit days longer than SAF offered its clients. However, in the first six months of the year ending June 30, 2004 this trend has been reversed. As of June 30, 2003, the average receivable days were 36 while the average payable days equalled 48 days, but as of December 31, 2003 the average receivable days were 113 while the average payable days were 40 days. Under the Company's policy, customers are granted a 30-day late payment allowance. The Company plans to increase this period to 90 days, primarily to diminish late payments and reduce provisions for bad debts. Payment default are rare because customers need SAF for product warranty and maintenance. As a result, the Company expects that an increase in payment terms will ease the payable burden for customers and decrease the need for provisions for bad debts. The Company intends to negotiate a comparable increase in payment terms from its suppliers, although there can be no guarantee that such an increase will be obtained.

In the year ended June 30, 2003, the Company's cash flow fluctuated significantly primarily due to the rapid investment by the Company of cash resources. As of June 30, 2003, the cash balance had decreased by LVL 49,575, or 97%, to LVL 1,540, from LVL 51,115 in the previous financial year. In the six months ended December 31, 2003, the cash balance increased by LVL 78,914, or 5124%, to LVL 80,454. As of June 30, 2003, 96% of total cash was held in U.S. dollars, compared to 86% as of

[1] Working capital is calculated as current assets minus current liabilities.
[2] Current ratio is calculated as total current assets divided by total current liabilities.

December 31, 2003. The currency in which cash is otherwise held depends on the currency in which payments are expected to be made by the Company.

In the year ended June 30, 2003, the Company incurred a net cash outflow of LVL 721,849 from operating activities, compared to a net cash inflow of LVL 242,513 in the previous financial year. In the six months ended December 31, 2003, the cash flow from operating activities was positive at LVL 1,235,618, as a result of a high profit before tax and positive changes in working capital.

SAF had a net cash outflow from investment activities of LVL 383,290 in the year ended June 30, 2003 and of LVL 20,607 in the year ended June 30, 2002. In the years ended June 30, 2001, 2002 and 2003, most of the Company's investments were made in operating assets including transportation vehicles, test equipment and the renovations of office space and operating facilities. In the six months ended December 31, 2003, the cash outflow from investment activities was LVL 276,452.

In the year ended June 30, 2003, the net cash inflow derived from financing activities was LVL 1,055,564 compared to a net cash outflow from financing activities of LVL 178,936 in the previous financial year. Proceeds from the issue of new shares amounted to LVL 350,162 in the year ended June 30, 2003 and LVL 171,817 in the previous financial year. In the year ended June 30, 2003, the overdraft from credit institutions provided a cash inflow of LVL 771,321 and the repayment of a short-term loan generated a cash outflow of LVL 314,353 in the previous financial year. The repayment of financial leasing commitments resulted in net cash outflows of LVL 65,919 and LVL 36,400 in the years ended June 30, 2003 and 2002, respectively. In the six months ended December 31, 2003, the net cash outflow from financing activities reached LVL 880,252, primarily as a result of the termination of the Company's overdraft facility.

The Company has not made any commitments with regard to capital expenditures and all capital investments have been made taking into account need and available resources. The Company anticipates that in the future it will continue to finance its working capital needs and capital expenditure principally from cash flows from operations. Taking into account the current cash position of the Company and the proceeds to be raised in the Combined Offering, the liquidity position of the Company is sufficient to address its anticipated needs. See "Business – Recent Developments" for further information on the Company's liquidity position.

Off-balance sheet arrangements

On November 27, 2003, the Company issued a guarantee to a material customer, Nepal Telecommunications, in support of the Company's bid for the supply and delivery of PDH microwave radio relay systems, for a total value of U.S.$ 85,000 and expiring on April 27, 2004. The guarantee has been counter-insured by A/S Hansabanka on November 13, 2003.

As of December 31, 2003, there were no other off-balance sheet arrangements.

Leasing

The Company has relied on financial leasing in order to better manage its liquidity position and to finance the acquisition of operating assets such as transportation vehicles and test equipment. As of June 30, 2003, leasing obligations had increased by 2.8 times (285% or LVL 126,757), to LVL 171,277 from LVL 44,520 as of June 30, 2002. As of December 31, 2003, financial leasing liabilities had increased by 24% or LVL 41,526), to LVL 212,803 from LVL 171,277 as of June 30, 2003. In the future, if the Company's cash flow position continues to be at a high level, the Company may decide to purchase rather than lease its operating assets. On balance, such a change would increase the Company's capital expenditures and decrease its operating expenses. All material lease agreements are capital leases.

The following table sets forth the Company's financial leasing future commitments as of June 30, 2003:

	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
	(LVL)	(LVL)	(LVL)	(LVL)	(LVL)
Leasing	171,277	91,140	76,088	4,049	0

Inflationary impact

Inflation has a limited impact on SAF's financial results. In the year ended June 30, 2003, 81% of all cash received was in U.S. dollars, 18% in Latvian lats and less than 1% in euros. Therefore total revenue was not directly affected by inflation in the countries of residence of customers. The Company's expenditure is more exposed to different currencies with 56% of the total cash payments made in Latvian lats during the year ended June 30, 2003. Payments made in US dollars and euros represented 27% and 11% of total cash payments in the year ended June 30, 2003, respectively. The average annual inflation rate in Latvia in the years 1999 to 2003 was 2.64%.

Currency fluctuation impact

Because most of the Company's revenues are received and a large part of its expenditures is incurred in foreign currencies, currency fluctuations have a material impact on total revenues. In the six months ended December 31, 2004, the recorded losses due to exchange rate fluctuations were LVL 95,045. As a result, the Company began to actively manage its foreign currency position in early 2004. The Company intends to hedge most of its currency positions with forward contracts and perhaps swap agreements later in 2004. In addition, the Company will attempt to match revenue and expenditure currencies to reduce the need for hedging. Most of the leasing obligations are denominated in US dollars. As of December 31, 2004, there were no other material investments denominated in currencies other than Latvian lats.

Research and development

SAF makes sustained investments expenditure in the research and development of new products. Most of the R&D expenditure is accounted for in the financial year in which it was made and is not separated from other operating costs. Investments in fixed assets such as testing equipment are depreciated according to standard accounting requirements. R&D expenditure consists primarily of labor costs and the depreciation of fixed assets used for R&D. For a detailed discussion of research and development, see "Business."

The following table sets forth the Company's R&D expenditure for each of the periods indicated:

	Year ended June 30,			Six months ended December 31,	
	2001	2002	2003	2002	2003
	(LVL)	(LVL)	(LVL)	(LVL)	(LVL)
Research and development expenditure	89,929	111,361	188,479	77,421	179,959

MANAGEMENT

Pursuant to the provisions of the Latvian Commercial Code and the Company's Articles of Association, the control and management of the Company is divided between the Supervisory Council and the Board of Directors. The members of the Board of Directors and the operative management of the Company are set forth below.

Supervisory Council

The Company's Articles of Association state that the Supervisory Council has five members elected by the Shareholders Meeting for a period of three years. The Supervisory Council is a supervisory institution of the Company, which represents the interests of shareholders and supervises the activities of the Board of Directors within the scope specified in the applicable law and the Company's Articles of Association.

As of March 31, 2004, the Supervisory Council of SAF included the following individuals:

Name	Year of birth	Year joined	Position	Identification number
Kristjan Kalda	1971	2004	Chairman of Supervisory Council	800000-60509
Hanno Haamer	1962	2004	Deputy Chairman of Supervisory Council	800001-90303
Allan Martinson	1966	2004	Member of the Supervisory Council	800000-60402
Juris Ziema	1964	2004	Member of the Supervisory Council,	020464-12713
Vents Lācars...........	1968	2004	Member of the Supervisory Council	020968-11560

Kristjan Kalda. Kristjan Kalda, born in 1971, is the chairman of the Supervisory Council of SAF. From 1999 to 2003 he was a partner of the private equity fund management company Baltcap Management Oy based in Finland and active in the Baltic States. From 1997 to 1999 Mr. Kalda worked for Suprema Securities AS (Estonia), where he successively held the positions of project manager in the corporate finance department and manager of the regional mergers and acquisition practice. Prior to that, Mr. Kalda spent four years at Eke Ariko AS, an Estonian management consulting company, where throughout his career he served as a Consultant and a Senior Consultant.

Since 2003 Mr. Kalda has advised the Center for Strategic Initiatives in Estonia on policies and the development of the Estonian innovation system and venture capital environment. Mr. Kalda has lectured on financial and production management at several leading training institutions in Estonia. Mr. Kalda currently serves as the Chairman of the supervisory council of MicroLink, the leading IT company in the Baltics, and of Vipex AS, a distributor of building materials and home supplies. He is also a member of the supervisory council of AS Teede REV, the biggest Estonian road construction company, and of Standard AS, one of the largest furniture producers in the Baltic States.

Hanno Haamer. Hanno Haamer, born in 1962, is the Deputy Chairman of the Supervisory Council of SAF. From 1989 to 1992, Mr. Haamer worked at JV Kungla Dialoog where he successively held the positions of sales manager and managing director. Since 1993, he has been working at MicroLink where he has held the positions of sales manager and chairman of the board and currently is a member of the supervisory council. Mr. Haamer graduated from Tallinn Technical University with a Master of Science degree in electronics in 1986.

Allan Martinson. Allan Martinson, born in 1966, is a Member of the Supervisory Council of SAF. Since 1998 Mr. Martinson has served as the Chief Executive Officer of MicroLink. From 1990 to 1998 he served as the Chief Executive Officer of the Baltic News Service, the biggest news agency in the Baltic States. Mr. Martinson graduated from Moscow State University with a Master of Science degree in Computer Science in 1991.

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

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

Board of Directors

The Board of Directors of the Company is comprised of three members elected by the Supervisory Council for a period of three years. The Board of Directors is the managing and representing body of the Company responsible for establishing strategic and organizational guidelines, appropriate organization of operations, control over operating performance and compliance with applicable laws and regulations.

As of March 31, 2004, the following persons were members of the Board of Directors of SAF:

Name	Year of birth	Year joined	Position	Identification number
Normunds Bergs	1963	2000	Chairman of the Board	100263-13080
Didzis Liepkalns	1962	2000	Member of the Board	180462-13518
Ramona Bušmane	1973	2000	Member of the Board	211173-11826

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

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

Ramona Bušmane. Ramona Bušmane, born in 1973, joined the Company in 2000 and is a Member of the Board of Directors and Chief Accountant. In 1999, she became Chief Accountant in SIA "Baltijas Datoru Akadēmija" (Baltic Computer Academy), where she worked until 2001. From 1995 to 2000, Mrs. Bušmane worked with SIA Fortech as an accountant. Mrs. Bušmane graduated from the University of Latvia with a Masters degree in accounting in 1998. In 1996, she received a Bachelor degree in finance from the same university.

Executive management team

Name	Year of birth	Year joined	Position	Identification number
Normunds Bergs..................	1963	2000	Chief Executive Officer	100263-13080
Didzis Liepkalns.................	1962	2000	Technical Director	180462-13518

Aleksis Orlovs	1974	2004	Chief Financial Officer	281274-11005
Andrejs Grišāns	1957	2000	Production Department Manager	020657-11014
Juris Ziema	1964	2000	Head of Production Department	020464-12713
Vents Lācars	1968	2000	Sales and Marketing Director	020968-11560

Normunds Bergs: See "Board of Directors."

Didzis Liepkalns: See "Board of Directors."

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

Andrejs Grišāns. Andrejs Grišāns, born in 1957, is Production Department Manager of SAF. Mr. Grišāns has 20 years of experience in the engineering industry and is one of the founders of SAF. Prior to joining the Company, he owned and managed a private company specializing in electronic equipment engineering, production and distribution. From 1992 to 1996, Mr. Grišāns was involved in entrepreneurial activities in the field of radio engineering. He served as engineer-constructor at the Institute of Polymer Mechanics from 1989 to 1990 and in SIA Orbita from 1980 to 1984. Mr. Grišāns graduated from the Riga Technical University with a degree in radio engineering in 1980.

Juris Ziema. See "Supervisory Council."

Vents Lācars. See "Supervisory Council."

Unless otherwise notified, the business address of all of the above persons is:

SAF Tehnika A/S
Ganibu Dambis 24a
Riga, LV-1005
Latvia

Compensation

In the year ended June 30, 2003, remuneration paid by the Company to the members of the Board of Directors totalled approximately LVL 41,516, including salaries of LVL 33,458, bonuses of LVL 3,128 and fringe benefits of LVL 4,931.

In the year ended June 30, 2003, remuneration paid by the Company to the key employees of the Company (including the Chief Executive Officer and the Technical Director, who are also members of the Board of Directors) totalled approximately LVL 87,705, including salaries of LVL 68,250, bonuses of LVL 6,354 and fringe benefits of LVL 13,101.

Members of the Supervisory Council do not receive any compensation for their services in this capacity.

Pension benefits

The Company does not have any specific pension plans other than those required by the applicable Latvian legislation.

Loan agreements

As of the date of this Offering Circular, the Company had not issued or received material loans from any member of the executive management or from other employees of the Company.

Employment agreements

The Company has entered into employment agreement with members of executive management and certain other executive officers. Employment agreements of SAF's management team contain customary terms and conditions concerning matters such as salary, bonuses, benefits, termination, severance pay, etc. In accordance with these agreements, members of the Company's management are paid a basic salary including benefits and are entitled to receive bonuses based on results of operations. Fringe benefits include company cars, car fuel and repair expenses' reimbursement, mobile phones expenses' reimbursement and health insurance. All employment agreements contain a clause on the preservation of the Company's commercial, technical, technological and other business secrets for an indefinite term. Under Latvian labor law, employment contracts can be terminated by giving one month's notice to the employee.

Share ownership

Prior to the Combined Offering the members of the Company's Board of Directors and the Supervisory Council held directly or through their companies in the aggregate approximately 45% of the Company's Shares and voting rights attached to the Shares. Should the Combined Offering be fully subscribed, in the aggregate the members of the Company's Board of Directors will hold approximately 26% and members of the Supervisory council approximately 15% of the Company's Shares and votes that can be cast in the General Meeting of Shareholders.

SHARES, SHARE CAPITAL AND OWNERSHIP STRUCTURE

General information on the Company

Name of the Company

The name of the Company is SAF Tehnika A/S. The Company was registered in the Latvian Register of Enterprises of the Republic of Latvia on December 27, 1999 under trade register number 000347410. In 2004, the Company was reorganized into a joint-stock company.

Registered office

The Company's registered office is in Riga, Latvia. The Company is governed by the laws of Latvia.

Object of the Company

Pursuant to Article 1 of the Company's Articles of Association, the object of the Company is the manufacture of television and radio transmitters and apparatus for telephone and telegraphy communication, manufacture of television and radio receivers, sound or video recording or reproducing apparatus and associated goods, telecommunications, research work, manufacture of instruments and appliances for measuring, checking, testing, navigating and other purposes, computer and related activities, reproduction of computer media, manufacture of computers and other information processing equipment, wholesale trade and commission trade, except of motor vehicles and motorcycles, retail trade, except of motor vehicles and motorcycles, repair of personal and household goods, market research and public opinion investigation, business and management consultant activities, technical testing, measuring and analysis and other activities in compliance with legislation of the Republic of Latvia.

Financial year

The financial year of the Company runs from July 1 to June 30.

Subsidiary

As of March 31, 2004, the Company had one wholly-owned subsidiary, SAF International AS, based in Estonia with its registered office at Pärnu mnt. 158, Tallinn 11317. The share capital of SAF International AS consists of 5,400 shares of nominal value 100 Estonian kroon each. SAF International AS does not currently carry out any business activities.

Information on the Shares

As of the date of this Offering Circular, the Company's registered share capital amounts to LVL 955,060, consisting of 955,060 fully paid Shares with a par value of LVL 1.00 each. Each Share entitles its holder to one vote at the Company's Shareholders Meeting. The Company has only one class of shares.

After the completion of the Combined Offering, the share capital of the Company will be up to LVL 990,060 assuming the exercise of the Over-Allotment Option in full.

In connection with the Combined Offering, the Company will apply for listing of the Shares, including the existing Offer Shares and the new Offer Shares, on the Riga Stock Exchange. The listing is expected to commence on or about May 26, 2004.

The Shares were entered into the Latvian Book-Entry Securities System under the identification number (ISIN code) LV0000101129.

The Shares are fully paid up and are not encumbered.

Free transferability of the Shares has not been restricted in the Company's Articles of Association, nor are the Shares subject to any transfer restrictions other than those described in this Offering Circular regarding particular shareholders. See "Shareholders' Agreements".

Shareholders of the Company and the Selling Shareholders

As of May 5, 2004, the Company had six shareholders, as follows:

Name	Number of Shares	Percentage of ownership
MicroLink A/S	419,049	43.88%
Didzis Liepkalns	173,820	18.20%
Juris Ziema	91,254	9.55%
Andrejs Grišāns	104,296	10.92%
Vents Lācars	65,182	6.82%
Normunds Bergs	101,459	10.62%

Shareholding in the Company prior to and after the Combined Offering

The following table presents the holdings of the Selling Shareholders prior to and immediately after the Combined Offering and assuming that all Shares offered in the Combined Offering are subscribed or purchased and that the Over-Allotment Option is subscribed in full.

The shareholding information given in the table below is calculated on the basis of shareholdings as at the date of this Offering Circular, assuming that the Selling Shareholders will not subscribe Shares in the Combined Offering.

	Shares prior to the Combined Offering		Shares after the Combined Offering without Over-Allotment Option		Shares after the Combined Offering assuming exercise of the Over-Allotment Option in full	
MicroLink A/S	419,049	43.88%	60,000	6.06%	—	—
Didzis Liepkalns	173,820	18.20%	168,820	17.05%	168,820	17.05%
Juris Ziema	91,254	9.55%	86,254	8.71%	86,254	8.71%
Andrejs Grišāns	104,296	10.92%	99,296	10.03%	99,296	10.03%
Vents Lācars	65,182	6.82%	60,182	6.08%	60,182	6.08%
Normunds Bergs	101,459	10.62%	96,459	9.74%	96,459	9.74%
Other existing share owners	—	—	384,049	38.79%	444,049	44.85%
Other new share owners	—	—	35,000	3.54%	35,000	3.54%
Total	955,060	100%	990,060	100%	990,060	100%

Changes in the Share capital

The amount of share capital and the number of shares have changed as follows:

	Par value (LVL)	Change in the number of Shares	Cumulative number of Shares	Change in share capital (LVL)	New share capital (LVL)	Registered[1)]
Incorporation	20.00	—	100	—	2,000	December 27, 1999
Increase of share capital (new issue)...	1.00	48,000	50,000	48,000	50,000	February 24, 2000
Increase of share capital (new issue)...	1.00	50,000	100,000	50,000	100,000	June 30, 2000
Increase of share capital (new issue)...	1.00	100,003	200,003	100,003	200,003	August 31, 2001
Increase of share capital (new issue)...	1.00	51	200,054	51	200,054	September 28, 2001
Increase of share capital						
Increase of share capital (new issue)...	1.00	49	200,103	49	200,103	October 10, 2001
Increase of share capital						
Increase of share capital (new issue)...	1.00	102	200,205	102	200,205	December 5, 2002
Increase of share capital (new issue)...	1.00	98	200,303	98	200,303	December 13, 2002
Increase of share capital (new issue)...	1.00	51	200,354	51	200,354	March 10, 2004
Increase of share capital (new issue)...	1.00	32,587	232,941	32,587	232,941	April 19, 2004
Increase of share capital (new issue)...	1.00	722,119	955,060	722,119	955,060	April 29, 2004

1) Date refers to date of registration in the Latvian Register of Enterprises.

Controlling shareholder

Until the Combined Offering, MicroLink, an Estonian company registered with the Estonian Commercial Registry under registration number 10169013, with registered address at Pärnu mnt 158, Tallinn, Estonia, will control 51% of the votes that can be cast in the meeting of the shareholders of the Company. Immediately following the Combined Offering, MicroLink is not expected to control any Shares of the Company except for all or any of 60,000 Shares reserved for the Over-allotment Option.

Shareholders' agreements

Mr. Normunds Bergs, the Chief Executive Officer of the Company, has entered into an agreement with MicroLink under which he agreed to (i) use the voting rights attaching to his Shares as directed by MicroLink until the trading of the Shares commences at the Riga Stock Exchange and (ii) invest part of the proceeds of the Combined Offering in shares issued by MicroLink. Under the same agreement, Mr. Bergs has agreed to pledge his remaining Shares which are not proposed to be sold in the Combined Offering to guarantee the fulfillment of his contractual commitments. Mr. Bergs is using his voting rights as directed by MicroLink until May 10, 2004.

As of the date of this Offering Circular, the Company is not aware of any other agreements or arrangements relating to shareholdings and use of voting rights in the Company.

In connection with the Combined Offering, certain restrictions on sale and transfer of Shares have been agreed between the relevant parties. See "Underwriting — General."

Shareholder rights

General meetings of shareholders

Under the Latvian Commercial Code, shareholders exercise their power to decide on corporate matters at General Meetings of Shareholders. The Company's Articles of Association require that a General Meeting of Shareholders be held annually as determined by the Board of Directors, to consider, among other matters, the financial statements and the auditors' report, and to elect members of the Board of Directors and the auditors. An Extraordinary General Meeting of Shareholders will be held in respect of specific matters when considered necessary by the Board of Directors, or when requested in writing by an auditor of the Company or by shareholders representing at least one-twentieth of all the issued shares of the Company.

Under the Company's Articles of Association, a statement announcing a General Meetings of Shareholders must be published no later than 30 days prior to the meeting. The shareholders are entitled to receive free of charge copies of the draft motions proposed to be placed before the General Meeting of Shareholders no later than 14 days prior to the meeting.

Only the shareholders that are included on the company's official list of shareholders are entitled to participate and vote in the General Meeting of Shareholders. The list of shareholders is open for inspection by the shareholders. Any changes or corrections to the list of shareholders must be notified to the Board of Directors no later than four days before the meeting.

Pre-emptive rights

Under the Latvian Commercial Code, existing shareholders of Latvian joint-stock companies have preferential rights to subscribe, in proportion to their shareholding, for new shares of such companies as well as for issues of debt instruments convertible into shares. Preferential rights cannot be waived or restricted by a decision of the Company.

U.S. holders of shares may not be able to exercise any pre-emptive rights any preferential rights in respect of their shares unless a registration statement under the Securities Act is effective with respect to such rights or an exemption from the registration requirements thereunder is available. The Company intends to evaluate, at the time of any rights offering, the costs and potential liabilities associated with any such registration statement, as well as the indirect benefits to it of enabling the exercise by the holders of Shares of the preemptive rights and preferential rights of their Shares and any other factors that the Company considers appropriate at the time. No assurance can be given that the Company will elect to file such a registration statement.

Voting rights

A shareholder may attend and vote at a General Meeting of Shareholders in person or through an authorised representative. The authorization must be presented before the meeting is opened. Each paid-up Share, including the Offer Shares, is entitled to one vote. Articles of Association may provide that a prescribed number of shares entitles to one vote, but such a restriction cannot be imposed on the existing shares. At a General Meeting of Shareholders, at least half of the share capital has to be represented and resolutions generally require the approval of a majority of the votes cast. However, certain resolutions, such as a resolution to amend the Articles of Association, changes in the share capital, issuance of debt instruments convertible into shares and, in certain cases, a resolution regarding a reorganization, merger or liquidation of the company, require a majority of three-quarters of the votes cast and of the shares represented at the General Meeting of Shareholders.

Blocking of Shares prior to Shareholders Meeting

The Company must announce a General Meeting of Shareholders meeting no later than 30 days prior to the meeting.

Under Latvian law, shareholders wishing to participate in the meeting of shareholders cannot trade in their shares during a period of time before the meeting. The Company must make arrangements with the LCD regarding the blocking of the shares of those shareholders that have notified the Company of their intention to attend the meeting. The securities accounts will be blocked no later than 10 days prior to the meeting and released as soon as the Company notifies the LCD of the closure of the meeting. The announcement of the meeting must outline the procedure for the blocking of securities accounts.

Whilst the securities accounts are blocked, the LCD compiles the official list of shareholders no later than four days before the meeting. Shareholders should contact their nominee Account Managers to obtain further information on the blocking procedure and unblocking of securities accounts.

Shares held by those shareholders who do not intend to attend the meeting of shareholders will continue trading normally.

Dividends and other distributions

Under Latvian law, a company may only distribute profits or assets to its shareholders by means of (i) paying dividends; (ii) reducing share capital and (iii) through liquidation of the company. A company may also make payments to shareholders pursuant to *bona fide* transactions that are not related to the shareholder's ownership of the shares.

All other payments to the shareholders are considered illegal. Transactions between the company and its shareholders at terms different from those that would apply between parties at arm's length are also illegal, such as allowing shareholders to use the company's services or assets for a discounted consideration, or purchasing services or assets from a shareholder for an inflated consideration.

Dividends and other distributions are paid to shareholders or their nominees entered in the register of shareholders on the relevant record date. All Shares of the Company, including the Offer Shares, rank *pari passu* with regard to dividends and other distributions of the Company (including distribution of the Company's assets in the event of dissolution).

An Annual General Meeting of Shareholders is convened by the Board of Directors for approval of the annual report, distribution of net profit and election of the auditor. Dividends are paid to the shareholders in proportion to the aggregate sum of the par value of the Shares held by the shareholder. Dividends can be declared once a year and can be paid in cash only. Dividends are calculated and paid for the paid-up Shares only. Dividends cannot be declared or paid if according to the annual report the equity of the Company is less than the total amount of paid-up share capital. There is no other limitation on the amount that can be distributed to shareholders as dividends.

The Offer Shares offered in the Combined Offering entitle to dividends as described in "The Combined Offering." The right to dividend becomes statute-barred ten years after the date on which it would have been payable, at which point the unpaid dividend reverts to the Company, unless the period of limitation has been amended or suspended by law.

Taxation of Dividends

See "Latvian Taxation."

LATVIAN SECURITIES MARKET

The Latvian book-entry securities system

General

Since September 1995, when the Law on Securities entered into force (now substituted by the new Financial Instruments Market Law in force as of January 1, 2004) Latvia has introduced a book-entry securities system. Use of the book-entry securities system is mandatory for the securities subject to public trading.

Most activities relating to the book-entry securities system are centralised at the LCD, which provides national custody and clearance services for securities. LCD maintains a central book-entry securities system for both equity and debt securities, as well as for all kinds of derivatives subject to public trading. Organized public trading is provided by the Riga Stock Exchange. General supervision over the securities market is provided by the Finance Commission.

LCD registers the issued securities and opens security accounts for the licensed investment broker companies and banks ("Account Managers"). LCD controls correspondence of the total amount of the issued securities and the securities booked on the accounts of the Account Managers. The expenses incurred by the LCD in connection with maintaining the central book-entry securities system are borne by the issuers participating in the book-entry securities system and the Account Managers. Accounts of individual security holders are opened and managed by the Account Managers, which usually also offer a full range of asset management services and other services.

Book-Entry Securities Accounts

In order to effect transactions with securities registered in the book-entry securities system, an investor must open a book-entry account with an Account Manager. All transactions in securities registered with the book-entry securities system are executed as computerized book-entry transfers. The holders of securities are entitled to receive notifications from their Account Managers confirming the book-entry transfers as well as periodical or *on-the-date* statements of their total or separate holdings.

Each book-entry account is required to contain specified information about the account holder or the custodial nominee administering the assets of beneficiaries. A custodial nominee account is identified as such on the entry. The information about the account holder must be sufficient to clearly identify him or her. In respect of the book-entry securities registered in the account the type and number as well as the restrictions pertaining to the account to the securities must be indicated.

The LCD and the Account Managers are required to observe strict confidentiality. Information about the account holders and the securities held by them are required to be revealed in exceptional cases, mostly to the court or prosecution institutions. The issuer of equity shares may obtain information about its shareholders.

Each Account Manager is strictly liable for errors and omissions on the registers maintained by it and for any unauthorized disclosure of information. If the Account Manager is unable to fulfill its obligations, an account holder who has suffered a loss as a result of a faulty registration or an amendment to, or deletion of, rights in respect of registered securities, is entitled to receive compensation. To cover this contingency, the law provides for minimum capital requirements in respect to the Account Managers.

Trading and settlement

The trading system of the Riga Stock Exchange, the Automatic Trading System (ATS), is a centralised and fully automated order-driven system. Trading is conducted on the basis of trading lots, which are fixed separately for each share series. Direct transactions through the Riga Stock Exchange as well as transfer of securities outside the trading system of the Riga Stock Exchange are also possible. Offers may be placed only by licensed brokers, representatives of Members of the Riga Stock Exchange (banks and broker companies). In practice, all Account managers are also Members of the Riga Stock Exchange. All trading and clearing in securities are in Latvian lats. Use of insider information and market manipulations are prohibited under threat of criminal prosecution. The issuers are required to maintain the list of insiders where at minimum the Board Members, the Supervisory Council Members and the auditors must be included.

Official trading sessions are conducted every business day. From 10:00 a.m. to 02:00 p.m. offers may be placed on the Central Market continuous trading at variable prices. The single price fixing at Central Market is made between 02:10 and 02:20 p.m. Orders for continuous market at fixed prices are admitted between 02:20 and 02:30 p.m. From 02:30 to 03:30 p.m. the results of the session are summarized; clearing and settlement messages are prepared. Final results of the trading session are released at 04:30 p.m. The orders placed during one trading session are not transferred to the next session. The usual admissible price fluctuation limit within one trading session is 15% from the average price weighted of the previous session. Orders for direct transactions with settlement period T+0 are accepted from 09:00 a.m. to 01:00 p.m. Orders for direct transactions with settlement period T+1 to 40 are accepted from 07:45 a.m. to 02:30 p.m. for the current session and from 04:00 to 08:00 p.m. for the next trading session.

The transactions are cleared in the LCD automated clearing and settlement system Delivery Versus Payment (DVP) usually within three banking days after trade session (T+3). However, settlement on real time basis (T+0) may be provided. The Account Managers may also instruct the LCD to provide settlement in a longer period up to T+360.

In order to ensure the settlement of transactions conducted within the sessions of the Riga Stock Exchange, a Guaranty Fund is maintained by the Riga Stock Exchange. The Guaranty Fund is composed of payments of the Account Managers consisting of the fixed payment (acceptance fee) and the variable payment, which for every Account Manager must not be less than 10% of the gross value of the transactions conducted by the relevant Member during each trade session. The Guaranty Fund may be used for payment of the trade transactions if the Account Manager has not enough funds in its accounts.

Pledging of securities is registered by the Account Managers. Pledging of securities owned by the Account Managers is registered in LCD.

Custody of the Shares and nominees

An investor may appoint a nominee registration custodian on its behalf. Account Managers may be acting as nominee custodians. In such case, in the agreement for nominee custodian services the beneficiary must be identified. Any other person may act as a nominee custodian only if the laws of its jurisdiction provide for client identification requirements not less strict than the laws of Latvia. There are no requirements in the Latvian law to disclose the identity of the beneficiary.

A nominee shareholder is entitled to receive dividends and to exercise all share subscription rights and other financial rights attaching to the shares held in its name. It may not, however, exercise any administrative rights attaching to such shares, such as the right to attend and vote at general meetings of shareholders of a company. A beneficial owner wishing to exercise such rights must instruct the nominee to disclose its identity to the Account Manager.

Shareholders wishing to hold their shares in the book-entry securities system in their name and who do not maintain a book-entry account in Latvia are required to open a book-entry account with an Account Manager and a Latvian lats account in Latvia. Upon the receipt of details regarding the account to be opened, the relevant Account Manager opens an individual book-entry account for the shareholder.

Dividends

The issuer determines the calculation date of the dividends (“Calculation Date”). The shareholders in accounts of which the relevant shares are registered at 08:00 a.m. on the Calculation Date are entitled to the dividends. The issuer shall transfer the dividends to LCD, which shall distribute them among the Account Managers according to the number of shares held by them on the Calculation Date. The Account Managers distribute the dividends among the account holders.

Voting rights

Not earlier than 30 days before the shareholders meeting the issuer must submit to the LCD a request for disclosure of the shareholders list for the shareholders meeting. The request must be submitted at least seven days before the day the issuer wishes to receive the list. LCD and the issuer agree on the date of blocking the shares for participation in the shareholders meeting. The request is sent by LCD to all Account Managers which further inform the shareholders. If a shareholder is willing to participate in the shareholders’ meeting it must block its shares with his Account Manager not later than the last day of blocking. The shares are unblocked after the shareholders meeting. Blocked shares may not be transferred.

TAXATION

The following summary is based on the tax laws of Latvia and the United States as in effect on the date of this Offering Circular and is subject to changes in Latvia or the United States law, including changes that could have a retroactive effect. The following summary does not take into account or discuss the tax laws of any country other than Latvia or the United States. The summary is not exhaustive and prospective purchasers in all jurisdictions are advised to consult their own tax advisors as to the Latvian, U.S. or other tax consequences of the purchase or subscription, ownership and disposition of Offer Shares.

LATVIAN TAXATION

General

The following is a summary of certain Latvian tax consequences of ownership and disposition of Shares for a resident or non-resident individual or entity that holds such Shares.

As used in the preceding sentence a “resident individual” is a Latvian or foreign national who is treated as being resident for personal income tax purposes in Latvia, or an individual who is a partner in a Latvian registered partnership. A “non-resident individual” is a foreign national who is present in Latvia for less than 183 day in any 12-month period commencing or ending in the tax year concerned.

A “resident entity” is a legal entity, being either a limited company or branch, which is registered in Latvia, or was required to be established or registered in Latvia according to Latvian law. A “non-resident entity” is a legal entity, which has not been and was not required to be established or registered according to Latvian law.

The summary does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of Shares. The summary is based on the tax laws of Latvia in effect on the date hereof.

Prospective purchasers of Shares are advised to consult their own tax advisers concerning the overall Latvian tax consequences of the ownership of Shares.

Taxation of dividends

As a general rule, dividends paid in cash by a Latvian company to its shareholder who is a resident individual or resident entity are not subject to further taxation. However, dividends paid in cash on the Shares to a non-Latvian holder are subject to withholding tax at a rate of 10% of the amount of the payment made, but can be reduced in the following situations.

If the shareholder is a company resident in a country with which Latvia has an effective double taxation agreement, the rate of withholding tax can be reduced to 5%, or in the case of Lithuania, 0%, under the right set of circumstances.

For a shareholder that is a company resident in an EU Member State, there will be no withholding tax provided the shareholder has held at least 25% of the share capital and voting rights for at least two years prior to the payment of the dividend in question. There is a requirement for the paying company to supply the State Revenue Service with a bank guarantee amounting to 10% of the dividend payment if the two-year ownership requirement has not as yet been met.

Taxation on sale or disposition of Shares

Income accruing to a Holder who is a resident individual from the sale of Shares is not subject to personal income tax if the Shares are considered to be that individual’s personal assets. However, if a resident individual frequently buys and sells shares as a personal business, the individual will be subject to tax on the profits generated from the sale of the Shares at 25%.

A gain arising to a Holder who is a resident entity from the sale of Shares is subject to corporate income tax at the current corporate tax rate of 15%.

Income accruing to a non-Latvian holder from the sale of Shares in Latvia is not currently subject to further Latvian taxation. Other sales or dispositions of Shares will not currently be subject to any Latvian income or capital gains tax with respect to a non-Latvian holder.

Registration and stamp duty

Transfers of Shares will not be subject to any registration or stamp duty under the legislation existing as of the date of this Offering Circular.

Double tax treaties

The Republic of Latvia has signed and ratified double taxation treaties with 33 countries. In addition, a further eight treaties are under preparation.

U.S. FEDERAL INCOME TAXATION

General

The following is a summary of certain U.S. federal income tax consequences that may be relevant with respect to the acquisition, ownership and disposition of Shares. This summary addresses only the U.S. federal income tax considerations of holders that are initial purchasers of Shares and that will hold Shares as capital assets. This summary does not address tax considerations applicable to holders that may be subject to special tax rules, such as banks, insurance companies, traders or dealers in securities or currencies, tax-exempt entities, persons that will hold Shares as a position in a “straddle” or as part of a “hedging” or “conversion” transaction for U.S. federal income tax purposes, persons that have a functional currency other than the U.S. dollar or holders of 10%. or more by voting power of the stock of the Company. This summary is based on the tax laws of the United States, U.S. Treasury Department regulations and judicial and administrative interpretations thereof, and relevant U.S. tax treaties, each as in effect as of the date of this Offering Circular. The foregoing authorities are subject to change, which change could apply retroactively and could affect the tax consequences described below.

For the purposes of this discussion, a “United States Holder” is a beneficial owner of Shares that is, for U.S. federal income tax purposes, (i) a citizen or resident of the United States, (ii) a corporation, or other entity treated as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the United States or any state thereof (including the District of Columbia), (iii) an estate, the income of which is subject to U.S. federal income taxation regardless of its source, or (iv) a trust, the administration of which is subject to the primary supervision of a court in the United States and for which one or more U.S. persons have the authority to control all substantial decisions. Notwithstanding the preceding sentence, certain trusts in existence on August 20, 1996, and treated as U.S. persons prior to such date, that elect to continue to be treated as U.S. persons also will be United States Holders. If a partnership holds Shares, the U.S. federal income tax treatment of a partner generally will depend upon the status of the partner and the activities of the partnership. Partners of partnerships holding Shares should consult their tax advisors. A “Non-United States Holder” is a beneficial owner of Shares other than a United States Holder.

Each prospective purchaser of Shares should consult its own tax advisor with respect to the U.S. federal, state, local and foreign tax consequences of acquiring, owning and disposing of Shares.

Dividends

Under Article 10(1) of the Income Tax Treaty Between Latvia and the United States (the Treaty), dividends paid by the Company to a United States Holder may be taxed in the United States. Accordingly, subject to the discussion headed “PFIC Considerations” below, distributions of cash or property (other than Shares, if any, distributed pro rata to all shareholders of the Company) with respect to the Shares will be included in income by a United States Holder as foreign source dividend income at the time of receipt, to the extent such distributions are made from the current or accumulated earnings and profits of the Company as determined under U.S. federal income tax principles. Such dividends will not be eligible for the dividends received deduction generally allowed to corporate shareholders. To the extent, if any, that the amount of any distribution by the Company exceeds the Company’s current and accumulated earnings and profits as determined under U.S. federal income tax principles, it will be treated first as a tax-free return of the United States Holder’s tax basis in the Shares and thereafter as a capital gain. Notwithstanding the foregoing, the Company does not intend to maintain calculations of its earnings and profits as determined under U.S. federal income tax principles.

Any dividend paid in Latvian lats or euros will be included in the gross income of a United States Holder in an amount equal to the U.S. dollar value of the lats or euros (including the amount of any Latvian withholding tax thereon), calculated by reference to the exchange rate in effect on the date of receipt by the United States Holder. United States Holders should consult their tax advisors regarding the U.S. federal income tax treatment of any foreign currency exchange gain or loss recognized on a subsequent conversion of Latvian Lats or Euros received as dividends into U.S. dollars.

Under Article 10(2) of the Treaty, dividends paid by the Company to a United States Holder may also be subject to a withholding tax in Latvia. This withholding tax cannot exceed 15% of the gross amount of the dividend (and cannot exceed 5% of the gross amount of the dividend if the United States Holder owns 10% or more of the voting shares of the Company). See the discussion under the heading "Latvian Taxation" for details regarding Latvian tax law and the implications as to withholding taxes. United States Holders should consult their tax advisor regarding the Latvian withholding taxes that would apply to dividend payments from the Company to them in their specific situation.

In the event that a United States Holder receives dividends from the Company related to the Shares, the United States Holder may be entitled to certain credits against United States income taxes otherwise due. To the extent Latvian withholding tax is payable in respect of a distribution or payment to a United States Holder, the United States Holder may be eligible for a foreign tax credit or deduction. Dividends received related to the Shares generally will be treated as foreign source income. Foreign source income has an effect on a United States Holder's ability to absorb foreign tax credits. The rules relating to United States foreign tax credits are complex. United States Holders should consult their tax advisors regarding the application of the United States foreign tax credit rules to their particular situations.

Taxation on sale or disposition of the Shares

Under Article 13(6) of the Treaty, gain from sale or disposition of the Shares by a United States Holder will be taxed only in the United States. Subject to the discussion headed "PFIC Considerations" below, upon a sale or other disposition of Shares, a United States Holder generally will recognize gain or loss for U.S. federal income tax purposes in an amount equal to the difference between the U.S. dollar value of the amount realized and the United States Holder's tax basis (determined in U.S. dollars) in the Shares (generally, the amount paid by the United States Holder for the shares). Generally, such gain or loss will be a capital gain or loss. Prior to 2009, capital gains realized by a United States Holder that is an individual, estate or trust are generally subject to U.S. federal income tax at a maximum rate of 15% if the United States Holder's holding period for the Shares exceeds one year. Limitations apply to the deductibility of capital losses by corporate and non-corporate United States Holders. Any gain or loss recognized by a United States Holder on the sale or other disposition of the Shares generally will be treated as U.S. source income or loss.

PFIC considerations

A corporation organized outside the United States generally will be classified as a "passive foreign investment company" (a "PFIC") for U.S. federal income tax purposes in any taxable year in which either (i) at least 75% of its gross income is "passive income" or (ii) on average at least 50% of the gross value of its assets are attributable to assets that produce "passive income" or are held for the production of passive income. In arriving at this calculation, the Company must also include a pro rata portion of the income and assets of each corporation in which it owns, directly or indirectly, at least a 25% interest. Passive income for this purpose generally includes dividends, interest, royalties, rents and gains from commodities and securities transactions.

Based upon an analysis of the current assets and income, the Company believes that it is not currently a PFIC and does not anticipate that it will become a PFIC in the future. However, the Company's status as a PFIC is a factual determination that must be evaluated annually, and thus is subject to change. The determination whether the Company will be a PFIC in future taxable years will be based upon the composition of its assets and income (including the proceeds of the Combined Offering) from time to time. Although the Company intends to operate its business and expend the proceeds of the Combined Offering so that it will not be considered a PFIC in the long term, the Company cannot assure United States Holders of its Shares that such Shares will not be treated as stock in a PFIC in the current or future taxable years.

If the Company is treated as a PFIC, United States Holders of the Shares will be subject to the PFIC provisions of the United States tax law. The PFIC provisions impose interest charges on gains from the sale of, and "excess distributions" with respect to, shares of a PFIC owned directly (or deemed to be owned directly or indirectly under certain attribution rules) by a United States Holder. In general, an excess distribution is any distribution to the United States Holder that is greater than 125% of the average annual distributions received by the United States Holder (including return of capital distributions) during the three preceding taxable years or if shorter, the United States Holder's holding period for the shares and gains on the disposition of shares.

Under these rules (i) the gain or excess distribution would be allocated ratably over the United States Holder's holding period for the shares, (ii) the amount allocated to the taxable year in which the gain or excess distribution was realized would be taxable as ordinary income, (iii) the amount allocated to each prior year, with certain exceptions, would be subject to tax at the highest rate in effect for that year, and (iv) the interest charge generally applicable to underpayments of tax would be imposed in respect of the tax attributable to each such year.

United States Holders can avoid the interest charge by making a "mark to market" election in respect to the Shares, provided that the Shares are "marketable" within the meaning of U.S. Treasury Regulations during each calendar quarter. Such election cannot be revoked without the consent of the U.S. Internal Revenue Service unless the Shares cease to be marketable. A United States Holder that makes a mark to market election generally would, subject to certain limitations, be required to take into account the difference, if any, between the fair market value and the adjusted tax basis of the Shares, at the end of a taxable year, as ordinary income (or, subject to certain limitations, ordinary loss) in calculating its income for such year. In the case of a mark to market election, gains from an actual sale or other disposition of the Shares will be treated as an ordinary income. Any losses incurred on a sale or other disposition of the Shares will be treated as an ordinary loss to the extent of any net mark to market gains for prior years.

If the Company were to agree to provide the necessary information, United States Holders could also avoid the interest charge imposed by the PFIC rules by making a qualified electing fund election (a "QEF election"), in which case the United States Holder generally would be required to include in income on a current basis its pro rata share of the ordinary income and net capital gains of the Company. The Company does not, however, expect to provide United States Holders the information regarding this income that would be necessary in order for a United States Holder to make a QEF election with respect to the Shares.

Information reporting and backup withholding tax

United States information reporting requirements will generally apply to payments of dividends on, and to proceeds from the sale or redemption of, the Shares by a payor to a holder of the Shares (other than an "exempt recipient", which includes a corporation, a Non-United States Holder that provides an appropriate certification and certain other persons). Dividends or payments from sources outside the United States that are actually paid outside the United States by a non-United States payor are not subject to the information reporting requirements. Information reporting is also not required in connection with payments (including proceeds from a sale of the Shares) that a payor can, prior to the payment, associate with documentation upon which it can rely to treat as made to a foreign beneficial owner or as made to a foreign payee. Similarly, information reporting is not required for payments (including proceeds from a sale of the Shares) of amounts from outside the United States made by a non-United States payor that are made outside the United States.

Unless a United States Holder provides its taxpayer identification number and certifies under penalties of perjury that it is exempt from backup withholding requirements, or otherwise establishes an exemption, backup withholding will apply to payments of dividends on, and proceeds from the sale of, Shares within the United States. In the case of a payment to a foreign partnership (other than one that qualifies as a "withholding foreign partnership"), the partners of such partnership will be required to provide the information and certification discussed above in order to establish an exemption from information reporting and backup withholding. Under United States tax regulations, a payor may rely on a certification only if it is received prior to the payment in question and the payor does not know or have reason to know that the certification is incorrect.

A payor within the United States will be required to withhold a 28% "backup withholding tax" on any payment of proceeds from the sale or redemption of Shares within the United States to a holder (other than an exempt recipient) if such holder fails to furnish its correct taxpayer identification number or otherwise fails to comply with applicable backup withholding requirements. Any amounts withheld under the backup withholding rules from a payment to a United States Holder generally will be refunded (or credited against such holder's U.S. federal income tax liability, if any), provided the required information is furnished to the U.S. Internal Revenue Service.

THE ABOVE SUMMARY IS NOT INTENDED TO CONSTITUTE A COMPLETE ANALYSIS OF ALL THE TAX CONSEQUENCES RELATING TO THE ACQUISITION, OWNERSHIP OR DISPOSITION OF SHARES. PROSPECTIVE INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISERS CONCERNING THE TAX CONSEQUENCES TO THEM IN LIGHT OF THEIR PARTICULAR SITUATIONS.

UNDERWRITING

General

The Company and the Selling Shareholders will sign an underwriting agreement (the "Underwriting Agreement") with the Managers, AS Suprema Securities and its Latvian subsidiary AS Suprema on or about May 24, 2004. According to the Underwriting Agreement, the Company agrees to issue and the Selling Shareholders agree to sell the Offer Shares to the Managers and, subject to the terms and conditions of the Underwriting Agreement, the Managers agree to purchase or procure purchasers for and in case of new Shares issued by the Company, subscribe or obtain subscribers for the Offer Shares at a price equal to the Offer Price less an underwriting commission.

Pursuant to an agreement between Auerbach Grayson & Company Incorporated ("Auerbach Grayson") and the Global Coordinator to be entered into on or about May 24, 2004, Auerbach Grayson will act as an agent and broker-dealer of the Global Coordinator in the United States in connection with the Institutional Offering.

Subject to the terms and conditions of the Underwriting Agreement, MicroLink has granted the Global Coordinator an Over-Allotment Option, exercisable for up to 30 days after the commencement of the listing of the Shares on the Official List of the Riga Stock Exchange, to offer up to an aggregate of 60,000 Additional Shares to institutional investors at the Offer Price, less an underwriting commission per Share equal to the underwriting commission per Offer Share described above. The Additional Shares are intended to cover possible over-allotments. If all Additional Shares are purchased, they will represent approximately 6.06% of all the Shares in the Company and votes that can be cast in the Company's General Meeting of Shareholders.

The Global Coordinator may engage in transactions with a view to stabilizing or maintaining the market price of the Offer Shares at levels other than those which might otherwise prevail in the open market, for a period not to exceed 30 days of the commencement of trading on the Official List of the Riga Stock Exchange.

The Offer Price has been determined by negotiation between the Company, the Selling Shareholders and the Global Coordinator and may vary from the market price of the Shares, including the Offer Shares, subsequent to the Combined Offering.

Offers and sales of the Offer Shares in the United States will be made only to qualified institutional buyers, as defined in, and in reliance on, Rule 144A under the Securities Act, and will be made by the Global Coordinator solely through securities brokers or dealers registered with the U.S. Securities and Exchange Commission under Section 15 of the Exchange Act.

The Selling Shareholders have agreed not to sell or otherwise transfer shares of the Company for 12 months subsequent to signing the Underwriting Agreement without the prior written consent of the Global Coordinator.

The Company and the Selling Shareholders have agreed in the Underwriting Agreement to indemnify the Managers against certain liabilities, including liabilities under the Latvian Financial Instruments Market Act. In addition, the Company has agreed to reimburse the Global Coordinator for certain expenses.

The obligations of the Managers under the Underwriting Agreement are subject to certain conditions precedent, including compliance by the Selling Shareholders and the Company with the representations and warranties set forth in the Underwriting Agreement and the non-occurrence of certain adverse changes as described in the Underwriting Agreement. The Global Coordinator may terminate the Underwriting Agreement at any time before the commencement of the listing of the Shares on the Official List of the Riga Stock Exchange, if in its opinion, there shall have been a change in national or international financial, political, economic or market conditions or currency exchange rates or exchange controls, as would in its view, be likely to prejudice materially the success of the Combined Offering and distribution of, or dealings in, the Offer Shares in the secondary market.

The Company has agreed not to issue or sell shares of the Company or securities convertible on to shares of the Company for 12 months subsequent to signing the Underwriting Agreement without the prior written consent of the Global Coordinator.

Selling Restrictions

Purchasers are advised to consult legal counsel prior to making any resale, pledge or transfer of the Offer Shares.

General

Other than in connection with the Combined Offering in Latvia, no action has been taken or will be taken in any jurisdiction by the Managers or the Company that would permit a public offering of the Offer Shares, or the possession or distribution of any documents relating to the Combined Offering, or any amendment or supplement thereto, in any country or jurisdiction where specific action for that purpose is required. The Managers will comply with all applicable laws and regulations in each jurisdiction concerning acquiring, offering or selling of Shares or possession or distribution of any offering documents or any amendment or supplement thereto.

Each purchaser of Offer Shares will be deemed to have acknowledged, by its purchase of Offer Shares, that the Company, the Selling Shareholders, the Managers, their respective affiliates, and other persons will rely upon the truth and accuracy of the acknowledgements, representations and agreements set forth below.

Buyers of Offer Shares sold by the Managers may be required to pay stamp taxes and other charges in accordance with the laws and practice of the country of purchase in addition to the Offer Price.

No action has been taken in any jurisdiction by the Company, the Selling Shareholders or the Managers that would permit a public offering of the Offer Shares offered hereby, other than in Latvia. No offer or sale of Offer Shares may be made in any jurisdiction except under circumstances that will result in compliance with the applicable laws of such jurisdiction. Persons receiving a copy of this Offering Circular are required by the Company, the Selling Shareholders and the Managers to inform themselves about and to observe any restrictions as to the offering of Offer Shares and the distribution of this Offering Circular.

United States

The Offer Shares have not been and will not be registered under the Securities Act or with any securities regulatory authority of any State of the United States and may not be offered or sold within the United States or to or for the account of U.S. persons, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Offer Shares will be offered and resold in the United States to QIBs in reliance on Rule 144A and outside the United States (including Latvia) in offshore transactions in reliance on Regulation S under the Securities Act.

Each Manager represents that it has offered the Offer Shares and agrees that it will offer and sell the Offer shares, (1) as part of its distribution at any time and (2) otherwise until 40 days after the later of the commencement of the Combined Offering and the final closing of the Combined Offering only in accordance with Rule 903 of Regulation S or Rule 144A. Neither it, its affiliates nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts with respect to the Offer Shares or in any form of general solicitation or general advertising (as those terms are used in Rule 502(c) under Securities Act), and it and they have complied and will comply with the offering restrictions requirement of Regulation S.

Until 40 days after the final closing of the Combined Offering, an offer or sale of the Offer Shares within the United States by a dealer may violate the registration requirements of the Securities Act (regardless whether it has participated in the Combined Offering or not) if such offer or sale is made otherwise than in accordance with Rule 144A or pursuant to another exemption from registration under the Securities Act.

Shares Offered and Sold Pursuant to Rule 144A

Each purchaser of Offer Shares offered and sold in the United States pursuant to Rule 144A will, by its purchase of such Offer Shares, be deemed to have represented and agreed as follows:

(i) it is: (a) a qualified institutional buyer as defined in Rule 144A under the Securities Act; (b) aware that the sale to it is being made in reliance on Rule 144A; and (c) acquiring such Offer Shares for its own account or for the account of a qualified institutional buyer; and

(ii) it understands that the Offer Shares are being offered only in a transaction not involving any public offering in the United States within the meaning of the Securities Act, and the Offer Shares have not been and will not be registered under the Securities Act and may not be re-offered, resold, pledged or otherwise transferred except: (a) to a person whom the purchaser and any person acting on its behalf reasonably believes is a qualified institutional buyer within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A; (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulations; (c) in accordance with Rule 144 under the Securities Act (if available), or (d) to the Company and in each case in accordance with any applicable securities laws of any state of the United States. Notwithstanding anything to the contrary in the foregoing, the Offer Shares may not be deposited into any unrestricted depository receipt facility in respect of Offer Shares established or maintained by a depository bank, unless and until such time as such Offer Shares are no longer restricted securities within the meaning of Rule 144(a)(3) under the Securities Act.

The foregoing restrictions apply to offers, sales, pledges and transfers made at any time, whether or not such Offer Shares have previously been offered, sold, pledged or transferred. Purchasers of Offer Shares that are offered in reliance on Rule 144A, are advised to consult legal counsel prior to making an offer, resale, pledge or other transfer of Offer Shares. No representation can be made as to the availability of the exemption provided by Rule 144 under the Securities Act for the resale of the Offer Shares.

Shares Offered and Sold Pursuant to Regulation S

Each purchaser of Offer Shares in offshore transactions in accordance with Regulation S will, by its purchase of such Offer Shares, be deemed to have represented and agreed as follows:

(i) it acknowledges (or if it is a broker-dealer, its customer has confirmed to it that such person acknowledges) that the Offer Shares have not been and will not be registered under the Securities Act; and

(ii) It certifies either: (a) upon purchasing the Offer Shares, it will be the beneficial owner of such Offer Shares and it is not a U.S. person (as defined in Regulation S) and it is located outside of the United States (within the meaning of Regulation S) and has acquired, or has agreed to acquire and will have acquired, such Offer Shares outside the United States (within the meaning of Regulation S), or (b) it is a broker-dealer acting on behalf of its customer, its customer has confirmed to it that, (i) upon purchasing the Offers Shares, such customer will be the beneficial owner of such Offer Shares, (ii) such custo4r is not a U.S. person (as defined in Regulation S) and is located outside the United States (within the meaning of Regulation S).

United Kingdom

Each Manager has represented and agreed that:

(i) it has not offered or sold, and will not offer or sell, prior to the expiry of a period of six months from the date of the Combined Offering, and will not offer or sell any Shares to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their business or otherwise in circumstances which have not constituted and will not constitute an offer to the public in the United Kingdom within the definition of the Public Offers of Securities Regulations 1995 (as amended);

(ii) it has complied with and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Offer Shares, in, from or otherwise involving or capable of having an effect in the United Kingdom; and

(iii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) in connection with the offering of the Offer Shares in circumstances in which section 21(1) of the FSMA does not or would not otherwise apply to the Company.

This document is directed only at persons who are (i) outside United Kingdom or (ii) have professional experience in matters relating to investments or (iii) are persons falling within Article 49(2) of the United Kingdom Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 (all such persons together being referred to as "relevant persons"). This document must not be acted on or relied by persons who are not relevant persons. Any investment or investment activity to which this document relates is available only to relevant persons and will be engaged only with relevant persons.

Finland

This document is being distributed to a limited number of pre-selected investors in circumstances where the Offer Shares in connection with this document does not constitute a public offer as defined in the Securities Markets Act of the Republic of Finland. The Offer Shares may not be offered or sold, directly or indirectly, to any resident of the Republic of Finland, or in the Republic of Finland, except pursuant to the applicable Finnish laws and regulations. Specifically, the Offer Shares may not be offered or sold, directly or indirectly, to the public in the Republic of Finland.

Sweden

This document is not a prospectus and has not been prepared in accordance with the prospectus requirements provided for in the Swedish Financial Instruments Trading Act (*lagen om handel med finansiella instrument*) nor any other Swedish enactment. Neither the Swedish Financial Supervisory Authority nor any other Swedish public body has examined, approved or registered this document.

Austria

The Combined Offering does not constitute an offer or an invitation to make an offer within the meaning of the Austrian Capital Markets Act (*Kapitalmarktgesetz*) for the acquisition of securities by investors in Austria nor are such securities available to investors in Austria unless an exemption from the Austrian Capital Markets Act and its public offering requirements applies. In particular, the Offer Shares may be offered to institutional investors according to Section 3 para 1 subpara 11 of the Austrian Capital Markets Act. Such institutional investors are persons whose ordinary business activities include the acquisition of the respective securities for the purpose of their business and who are interested in the securities not with the purpose of offering such securities to third parties in Austria.

Denmark

The Combined Offering is, with respect to Denmark, directed solely to professional investors as set out in section 2, paragraph 1 of the Danish Executive Order no. 1207 of 15 December 2000. Subscriptions or offers to purchase Offer Shares from any other Danish person or body corporate will be rejected.

Germany

Each Manager has represented and agreed that the Offer Shares have not been and will not be offered, sold or publicly promoted or advertised by it in the Federal Republic of Germany other than in compliance with the German Securities Selling Prospectus Act (*Wertpapierverkaufsprospektgesetz, "VerkProspG"*) of 13 December 1990, as amended, or any other laws applicable in the Federal Republic of Germany governing the issue, offering and sale of securities.

This document may not be distributed, and Offer Shares may not be offered or sold, in the Federal Republic of Germany other than to persons who, professionally or commercially, acquire or sell shares for their own account or for the account of others, as provided under section 2 no. 1 of the VerkProspG, as amended. Nothing in this document should be construed as investment advice to persons other than such permitted recipients or as otherwise constituting a public offering within the meaning of VerkProspG or any other laws applicable in the Federal Republic of Germany.

Lithuania

The Offer Shares are not being issued for public trading in the Republic of Lithuania, and the Combined Offering does not constitute a public offering of securities as defined in the Securities Market Act of the Republic of Lithuania. Accordingly, this document and the Offer Shares may, with respect to the Republic of Lithuania, be offered and distributed only to a limited number (not exceeding 100) of pre-selected investors. The Offer Shares may not and will not be offered, distributed, sold or otherwise transferred by communicating to the public or by communicating to more than 100 persons in the Republic of Lithuania. Each Manager has represented and agreed that:

(i) it has not offered, distributed, sold or otherwise transferred, and will not offer, distribute, sell or otherwise transfer, the Offer Shares to a total of more than 100 persons in the Republic of Lithuania;

(ii) it has not offered, distributed, sold or otherwise transferred, and will not offer, distribute, sell or otherwise transfer, the Offer Shares by communicating to the public;

(iii) it will not advertise or otherwise publicly inform of the Offer Shares or of the Combined Offering of and/or subscription for the Offer Shares in the Republic of Lithuania; and

(iv) it has complied and will comply with all offering restrictions requirements applicable under the Securities Market Act and other relevant regulations of the Republic of Lithuania.

Norway

The Combined Offering is, with respect to Norway, directed solely to registered professional investors according to the Norwegian Securities Trading Act section 5-2, 1. Subscriptions or offers to purchase Offer Shares from any other Norwegian person or body corporate will be rejected.

LEGAL MATTERS

In respect of Latvian law, certain legal matters will be passed upon for the Global Coordinator by Glimstedt, Jeruzalemes 1, Riga LV-1010, Latvia. In respect of English and U.S. law, certain legal matters will be passed upon for the Global Coordinator by Kilpatrick Stockton LLP, 39th Floor, One Canada Square, Canary Wharf, London E14 5NZ, United Kingdom.

INDEPENDENT AUDITORS

The financial statements of SAF Tehnika A/S for the financial year ended June 30, 2001 appearing in this Offering Circular have been audited by Arthur Andersen Ltd, 11.novembra krastmala 3, Riga, LV-1050, Latvia, independent auditors, as set forth in their report thereon appearing elsewhere herein, and are included in reliance upon such report.

The financial statements of SAF Tehnika A/S for the financial year ended June 30, 2002 appearing in this Offering Circular have been audited by Ernst & Young, 11.novembra krastmala 23, LV 1050 Riga, Latvia, independent auditors, license number 17, as set forth in their report thereon appearing elsewhere herein, and are included in reliance upon such report. The principal auditor responsible for the audit of SAF Tehnika A/S is Gundars Ruža, identification number 310375-10517, sworn auditor's certification number 137.

The financial statements of SAF Tehnika A/S for the financial year ended June 30, 2003 appearing in this Offering Circular have been audited by the Company's auditors, PricewaterhouseCoopers SIA, a company of certified auditors having its registered address at Kr. Valdemāra iela 19, Riga LV 1010, Latvia, and operating under a license number 5 granted on July 10, 2002 by the Latvian Association of certified auditors (*Latvijas Zvērinātu revidentu asociācija*) for an unlimited duration. The principal auditor responsible for the audit of SAF Tehnika A/S is Juris Lapše, identification number 250670-10408; sworn auditor's certification number 116.

INDEX TO FINANCIAL STATEMENTS

REPORT OF INDEPENDENT AUDITORS FOR THE FINANCIAL YEARS ENDED JUNE 30, 2001, 2002 AND 2003

PricewaterhouseCoopers SIA
Kr. Valdemāra iela 19
Rīga LV 1010
Latvija
Telephone +371 709 4400
Fascimile +371 783 0055

AUDITORS' REPORT

To the shareholders of SAF Tehnika a/s

We have audited the financial statements on pages 5 to 20 of SAF Tehnika a/s for the 12 months period ended 30 June 2003. The audited financial statements include the balance sheet as of 30 June 2003, related profit and loss account, statement of changes in equity and cash flow statement for the 12 months period ended 30 June 2003 and note disclosure. These financial statements are the responsibility of SAF Tehnika a/s management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements give a true and fair view of the financial position of SAF Tehnika a/s as of 30 June 2003, and of the results of its operations and its cash flows for the 12 months period ended 30 June 2003 in accordance with the requirements of the law On the Annual Accounts of the Companies of the Republic of Latvia.

PricewaterhouseCoopers SIA
Audit company licence No. 5

Juris Lapshe
Personal ID: 250670-10408
Certified auditor
Certificate No. 116

Member of the Board

23 September 2003

Ernst & Young
11.novembra krastmala 23
LV 1050 Riga
Latvia
Tel. 371 7 043-801
Fax 371 7 043-802
www.ey.com/latvia
Riga@lv.eyi.com

To the shareholders of
a/s SAF Tehnika

We have audited the financial statements (pages 2 to 18) of a/s SAF Tehnika (a joint stock company registered in the Republic of Latvia) for the period from 1 July 2001 to 30 June 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above give, in all material aspects, a true and fair view of the financial position of a/s SAF Tehnika as of 30 June 2002 and the result of its operations and cash flows for the year ended in accordance with the law of the Republic of Latvia On the Financial Statements of Companies and International Financial Reporting Standards, as published by the International Accounting Standards Board.

Ernst & Young

Per Møller Gundars Ruža
Personal ID code: 310375-10517
Latvian Sworn Auditor
Certificate no. 137

The audit was completed on 25 August 2002

Arthur Andersen Ltd

11.novembra krastmala 3
Riga, LV-1050
Latvia

Tel 371 732 1140
Fax 371 783 0484

www.arthurandersen.com

To the shareholders of
SIA SAF Tehnika

We have audited the accompanying balance sheets of SIA SAF Tehnika (a limited liability company registered in the Republic of Latvia) as at 30 June 2001 and 30 June 2000 and the related statements of income, changes in shareholder's equity and cash flows for the year ended 30 June 2001 and period from 27 December 1999 (date of registration) through 30 June 2000 (pages 1 to 15). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above are presented in accordance with the laws or Republic of Latvia on Financial Statements of Companies and International Accounting Standards and give, in all material respects, a true and fair view of the assets, liabilities and financial position of SIA SAF Tehnika as at 30 June 2001 and 30 June 2000 and the results of its operations and its cash flows for the year ended 30 June 2001 and period from 27 December 1999 (date of registration) through 30 June 2000.

With reference to article 64 of the law of the Republic of Latvia on Financial Statements we confirm that the historical accounting information disclosed in the management report is consistent with the financial statements of the Company for the year ended 30 June 2001, and that the authorized representatives of SIA SAF Tehnika have provided all information and explanations required by us during our audit.

ARTHUR ANDERSEN

By:
Per Møller Diāna Krišjāne
Certificate No. 124

The audit was completed on 15 August 2001.

PROFIT AND LOSS ACCOUNTS OF THE COMPANY FOR THE FINANCIAL YEARS ENDED JUNE 30, 2001, 2002 AND 2003 AND THE SIX MONTHS ENDED DECEMBER 31, 2002 AND 2003 (UNAUDITED)

Profit and loss account for the six months periods ended 31 December 2003 and 2002

	Six months ended December 31,	
	2003	**2002**
	(LVL)	**(LVL)**
Net sales	7,813,536	1,587,112
Cost of sales	(3,503,713)	(906,076)
Gross profit	**4,309,823**	**681,036**
Selling expenses	(541,639)	(196,618)
Administrative expenses	(158,052)	(62,750)
Other operating income	—	—
Interest expenses and similar expenses	(181,695)	(27,267)
Profit before taxes	**3,428,437**	**394,401**
Corporate income tax for the reporting period	(641,465)	(124,633)
Net profit for the reporting period	**2,786,972**	**269,768**

Profit and loss account for the years ended 30 June 2003 and 2002

	Note	Year ended June 30,	
		2003	**2002**
		(LVL)	**(LVL)**
Net sales	1	**4,881,291**	**1,582,877**
Cost of sales	2	(3,032,357)	(999,539)
Gross profit		**1,848,934**	**583,338**
Selling expenses	3	(492,072)	(418,744)
Administrative expenses	4	(205,598)	(73,881)
Other operating income		90	62
Other interest income and similar expenses		12	—
Interest payments and similar expenses	5	(90,314)	(38,749)
Profit before taxes		**1,061,052**	**52,026**
Corporate income tax for the reporting year	6	(249,266)	(9,924)
Financial year's profit		**811,786**	**42,102**

Profit and loss account for the years ended 30 June 2002 and 2001

	Year ended June 30,	
	2002	2001
	(LVL)	(LVL)
NET SALES	**1,582,877**	**948,285**
Cost of sales	(999,539)	(674,304)
GROSS PROFIT	**583,338**	**273,981**
Sales and distribution expense	(418,744)	(149,655)
General and administrative expense	(73,881)	(50,075)
Other operating income	62	—
PROFIT FROM OPERATIONS	**90,775**	**74,251**
Financial expense, net	(38,749)	(19,959)
PROFIT BEFORE TAXES	**52,026**	**54,292**
Corporate income tax	(9,924)	(8,518)
NET PROFIT FOR THE PERIOD	**42,102**	**45,774**

BALANCE SHEETS OF THE COMPANY AS AT JUNE 30, 2001, 2002 AND 2003 AND AS AT DECEMBER 31, 2002 AND 2003 (UNAUDITED)

Balance sheet as at 31 December 2003 and 30 June 2003 (1)

	Note	As at December 31 2003 (LVL)	As at June 30, 2003 (LVL)
Assets			
Long-term investments			
I. Intangible assets:			
1. Concessions, patents, licenses and similar rights		135,820	71,305
5. Advances for intangible assets		9,376	10,764
Total intangible assets:	7	**145,196**	**82,069**
II. Fixed assets:			
2. Leasehold improvements		110,470	37,456
3. Equipment and machinery		396,140	328,255
4. Other fixed assets		140,402	130,020
6. Advances for fixed assets		10,611	12,563
Total fixed assets:	7	**657,623**	**508,294**
III. Long-term financial investments:			
1. Investments in subsidiary undertakings		31,654	31,654
Total long-term financial investments:	8	**31,654**	**31,654**
Total long-term investments:		**834,473**	**622,017**
Current assets			
I. Inventories:			
1. Raw materials and consumables		911,489	895,154
2. Work-in-progress		1,142,681	943,281
3. Finished goods and goods for sale		91,613	42,263
5. Advances for goods receivable		18,132	83,757
Total inventories:		**2,163,915**	**1,964,455**
II. Debtors:			
1. Trade debtors	9	2,432,605	482,961
2. Receivables from affiliated companies	10	45,383	18,912
4. Other debtors	11	128,943	250,622
7. Deferred expenses	12	22,705	25,189
Total debtors:		**2,629,636**	**777,684**
IV. Cash and bank:		**80,454**	**1,540**
Total current assets:		**4,874,005**	**2,743,679**
Total assets		**5 708 478**	**3,365,696**

Balance sheet as at 31 December 2003 and 30 June 2003 (2)

	Note	As at December 31, 2003 (LVL)	As at June 30, 2003 (LVL)
Liabilities			
Shareholders' funds:			
1. Share capital	13	200,303	200,303
2. Share premium		521,679	521,679
4. Reserves			
c) statutory reserves		732,431	70,645
5. Retained earnings			
b) current period's profit		2,786,972	811,786
Total shareholders' funds:		**4,241,385**	**1,604,413**
Provisions:			
2. Provisions for taxes		17,115	19,298
3. Other provisions		46,521	50,298
Total provisions:	14	**63,636**	**69,596**
Creditors:			
Long-term creditors:			
4. Other borrowings		99,032	80,137
Total long-term creditors:	19	**99,032**	**80,137**
Short-term creditors:			
3. Loans from credit institutions	15	696	776,194
4. Other borrowings	19	113,771	91,140
6. Trade creditors		392,063	395,375
8. Accounts payable to affiliated companies	16	16,623	38,441
10. Taxes and social insurance	17	610,445	256,213
11. Other creditors	18	57,577	54,187
14. Prior period's unpaid dividends		113,250	—
Total short-term creditors:		**1,304,425**	**1,611,550**
Total liabilities and shareholders' funds		**5,708,478**	**3,365,696**

Balance sheet as at 30 June 2003 and 2002

	Note	As of December 31, 2003 (LVL)	As of June 30, 2002 (LVL)
Assets			
Long-term investments			
I. Intangible investments:			
1. Concessions, patents, licences, and similar rights		71,305	28,429
5. Advance payments for intangible investment		10,764	—
Total intangible investments:	7	**82,069**	**28,429**
II. Fixed assets:			
2. Long-term leasehold improvements		37,456	—
3. Equipment and machinery		328,255	158,305
4. Other fixed assets and inventory		130,020	25,812
6. Advances for fixed assets		12,563	3,047
Total fixed assets:	7	**508,294**	**187,164**
III. Long-term financial investments:			
1. Share in capital of affiliated companies		31,654	—
Total long-term financial investments:	8	**31,654**	—
Total long-term investments:		**622,017**	**215,593**
Current assets			
I. Stock:			
1. Raw materials and consumables		895,154	178,377
2. Work-in-progress		943,281	221,897
3. Finished goods and goods for sale		42,263	46,700
5. Advances for goods receivable		83,757	18,076
Total stock:		**1,964,455**	**465,050**
II. Debtors:			
1. Trade debtors	9	482,961	79,383
2. Receivables from affiliated companies	10	18,912	149,294
4. Other debtors	11	250,622	8,151
7. Deferred expenses	12	25,189	3,162
Debtors:		**777,684**	**239,990**
IV. Cash and bank:	13	**1,540**	**51,115**
Total current assets:		**2,743,679**	**756,155**
Total assets		**3,365,696**	**971,748**

Balance sheet as at 30 June 2003 and 2002

	Note	Year ended June 30, 2003 (LVL)	2002 (LVL)
Liabilities			
Shareholders' funds:			
1. Stock capital	14	200,303	200,103
2. Stock premium		521,679	171,717
3. Reserves		70,645	45,774
4. Retained earnings			
a) previous years' retained earnings		—	(17,231)
b) current year's profit		811,786	42,102
Total shareholders' funds:		**1,604,413**	**442,465**
Provisions:			
1. Provisions		34,998	12,337
2. Provisions for anticipated taxes		19,298	14,925
Total provisions:	15	**54,296**	**27,262**
Creditors:			
Long-term creditors:			
8. Long-term share of finance leases	20	80,137	24,315
Total long-term creditors:		**80,137**	**24,315**
Short-term creditors:			
3. Loans from credit institutions	16	776,194	4,873
4. Other borrowings		—	27,058
6. Trade creditors		395,375	71,821
8. Accounts payable to affiliated companies	17	38,441	332,928
10. Taxes and social insurance	18	256,213	11,372
11. Other creditors	19	69,487	9,449
8. Short-term share of finance leases	20	91,140	20,205
Total short-term creditors:		**1,626,850**	**477,706**
Total liabilities		**3,365,696**	**971,748**

Balance sheet as at 30 June 2002 and 2001

	Year ended June 30, 2002 (LVL)	Year ended June 30, 2001 (LVL)
LONG-TERM ASSETS		
Intangible fixed assets	**28,429**	**35,141**
Tangible fixed assets:		
EDP equipment	158,305	80,633
Other tangible fixed assets	25,812	10,388
Leasehold improvements	—	1,602
Total tangible fixed assets	**184,117**	**92,623**
Prepayments for fixed assets	**3,047**	**—**
Total long-term assets	**215,593**	**127,764**
CURRENT ASSETS		
Inventory:		
Raw materials	178,377	496,525
Work in progress	221,897	—
Goods for sale	46,700	80,511
Prepayments for goods	18,076	20,490
Total inventory	**465,050**	**597,526**
Accounts receivable:		
Trade accounts receivable, net	79,383	40,044
Accounts receivable from related parties	149,294	69,632
Other accounts receivable	8,151	67,312
Prepaid expense	3,162	3,690
Total accounts receivable	**239,990**	**180,678**
Cash	51,115	8,145
Total current assets	**756,155**	**786,349**
Total assets	**971,748**	**914,113**

Balance sheet as at 30 June 2002 and 2001

	Year ended June 30, 2002 (LVL)	Year ended June 30, 2001 (LVL)
SHAREHOLDERS' EQUITY		
Share capital	200,103	200,003
Share premium	171,717	—
Retained earnings/(deficit)	28,543	(17,231)
Current period unappropriated profit	42,102	45,774
Total shareholders' equity	**442,465**	**228,546**
PROVISIONS		
Deferred corporate income tax	14,925	8,518
LONG-TERM LIABILITIES		
Long-term finance lease liabilities	**24,315**	**—**
CURRENT LIABILITIES		
Short-term portion of finance lease liabilities	20,205	—
Short-term loans	27,058	341,411
Trade accounts payable	71,821	147,304
Accounts payable to related parties	332,928	159,225
Taxes and social security contributions	11,372	6,541
Other current liabilities	26,659	22,568
Total current liabilities	490,043	677,049
Total liabilities and shareholders' equity	**971,748**	**914,113**

CASH FLOW STATEMENTS OF THE COMPANY FOR THE FINANCIAL YEARS ENDED JUNE 30, 2001, 2002 AND 2003 AND THE SIX MONTHS ENDED DECEMBER 31, 2002 AND 2003 (UNAUDITED)

Cash flow statement for the 6 months period ended 31 December 2003

	Six months ended December 31,	
	2003	**2002**
	(LVL)	**(LVL)**
Cash flow from operating activities		
Profit before taxes	3 428 437	394 401
Adjustments for:		
– depreciation of fixed assets and intangibles	148 632	68 648
– loss on disposal of fixed assets	—	66
– provisions for bad and doubtful accounts receivable	(13 389)	15 607
– provisions for slow moving inventories	11 006	—
– provisions for annual leave	11 523	6 786
– provisions for trade commissions	(15 300)	30 310
Cash flow from operating activities before changes in working capital	**3 570 909**	**515 818**
Inventories increase	(210 466)	(399 120)
Trade debtors' increase	(1 821 855)	(157 558)
Trade creditors' (decrease)/increase	(79 508)	190 437
Cash flow from operating activities	**1 459 080**	**149 577**
Corporate income tax paid	(241 548)	(4 654)
Net cash flow from operating activities	**1 235 618**	**144 923**
Cash flow from investing activities		
Acquisition of fixed assets and intangible assets	(245 374)	(100 907)
Proceeds from sales of fixed assets	177	—
Investment in subsidiary	(31 255)	—
Net cash flow from investing activities	**(276 452)**	**(100 907)**
Cash flow from financing activities		
Dividends paid	(36 750)	—
Finance lease payments	(68 004)	(48 538)
Repayment of borrowings	(775 498)	(30 178)
Net cash flow from financing activities	**(880 252)**	**(78 716)**
Net increase/(decrease) in cash and cash equivalents	**78 914**	**(34 700)**
Cash and cash equivalents at the beginning of the reporting period.	1 540	51 115
Cash and cash equivalents at the end of reporting period*	**80 454**	**16 415**

* Comparative figures of the cash flow statement have been prepared for the 6 months period ended 31 December 2002, hereby the position "Cash and cash equivalents at the end of reporting period" does not match the position "Cash and bank" of the balance sheet as at 30 June 2003.

Cash flow statement for the years ended 30 June 2003 and 2002

	Note	Year ended June 30, 2002 (LVL)	Year ended June 30, 2003 (LVL)
Cash flow from operating activities			
Profit before taxes		1,061,052	52,026
Adjustments for:			
— depreciation of fixed assets		184,659	55,336
— profit from disposal of fixed assets		(372)	—
— provisions for annual leave		22,661	1,614
Cash flow from operating activities before changes in working capital		**1,268,000**	**108,324**
Stock (increase)/decrease		(1,499,405)	132,476
Trade debtors' decrease		(537,694)	(59,312)
Trade creditors' increase		48,218	60,373
Cash flow from operating activities		(720,881)	242,513
Corporate income tax paid		(968)	—
Net cash flow from operating activities		**(721,849)**	**242,513**
Cash flow from investing activities			
Acquisition of fixed assets		(388,975)	(20,607)
Proceeds from sales of fixed assets		5,685	—
Net cash flow from investing activities		**(383,290)**	**(20,6075)**
Cash flow from financing activities			
Increase of equity capital		350,162	171,817
Increase/(decrease) of loans		771,321	(314,353)
Financial leasing paid		(65,919)	(36,400)
Net cash flow from financing activities		**1,055,564**	**(178,936)**
Net increase/(decrease) in cash and cash equivalents		**(49,575)**	**42,970**
Cash and cash equivalents at the beginning of the reporting year		51,115	8,145
Cash and cash equivalents at the end of reporting year	13	1,540	51,115

Cash flow statement for the years ended 30 June 2002 and 2001

	Year ended June 30, 2002 (LVL)	Year ended June 30, 2001 (LVL)
Net profit for the period before taxes	**52,026**	**54,292**
Adjustments to reconcile net profit to net cash provided by operating activities:		
Amortisation and depreciation charge	55,336	21,831
Vacation reserve	1,614	7,837
Provision for doubtful debts	(652)	652
Decrease/(increase) in inventory	132,476	(482,591)
(Increase) in trade accounts receivable	(58,660)	(109,820)
Increase in trade accounts payable	102,011	194,728
Net cash from (to) operating activities	**284,151**	**(313,071)**
Cash flow from (to) investment activities:		
(Purchase) of intangible and tangible fixed assets	(98,645)	(106,796)
Net cash (to) investing activities	**(143,165)**	**(106,796)**
Cash flow from (to) financing activities:		
Paid-in share capital	100	100,003
Share premium	171,717	—
(Decrease)/increase in loans	(314,353)	284,411
Net cash from (to) financing activities	**(142,536)**	**384,414**
Net increase/ (decrease) in cash	**42,970**	**(35,453)**
Cash at the beginning of the period	**8,145**	**43,598**
Cash at the end of the period	**51,115**	**8,145**

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED JUNE 30, 2003

Notes
Accounting policies

(a) General principles

Annual accounts are prepared in accordance with the laws of the Republic of Latvia 'On Accounting' and 'On the Annual Accounts of Companies'.

The profit and loss account is prepared in accordance with the turnover model.

The cash flow statement has been prepared using indirect cash flow method.

The accounting policies and valuation methods used by the Company are consistent with those used in the previous accounting period, except for depreciation as indicated under clause (d) of the accounting policies.

(b) Net sales

Net sales represent the total of goods sold during the year net of value added tax.

(c) Foreign currency translation into Lats

SAF Tehnika A/S maintains its accounts in Latvian Lats. All transactions denominated in foreign currencies are converted to Lats at the exchange rate set by the Bank of Latvia prevailing on the day on which the transactions took place.

Assets and liabilities denominated in foreign currencies are translated into Lats in accordance with the official Bank of Latvia exchange rate for the last day of the reporting period. The resulting profit or loss is charged to the profit and loss account.

	As of June 30,	
	2003	**2002**
1 USD	0.569	0.605
1 EUR	0.652	0.596

(d) Fixed assets

Fixed assets are recorded at historic cost net of depreciation.
Depreciation is calculated on a straight-line basis during estimated useful life of relevant fixed assets to write the relevant fixed asset to its estimated residual value over its estimated useful life as follows:

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

Expenses of leasehold improvements and repair are written off according to straight-line method during the period of lease.

Useful life of fixed assets has been changed in the reporting year, by reconsidering and changing depreciation rates of individual fixed assets categories and types, in order the principles of depreciation of fixed assets of the Company would be compliance with the policy of the Parent company. The said change was made on 1 July 2002.

	Previous rate percentage per annum	New rate percentage per annum
Technological equipment	25	33.33
Software..	25	33.33
Other equipment and accessories..	20	25

Notes (continued)
Accounting policies (continued)

(e) Stock

Stock is recorded at the lower of cost and net realisable value. The stock cost has been determined using FIFO method. Where required, slow moving, obsolete or damaged stock has been written down.

(f) Accounts receivable

Accounts receivable are recorded in the balance sheet at their net value, being original invoice amount less provisions made to cover anticipated loss on bad and doubtful accounts receivable. Provisions for bad and doubtful accounts receivable are established when there is an objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The Company makes provisions on the basis of assessment of individual debtors' liabilities.

The amount of provisions for bad and doubtful accounts receivable is the difference between the original invoice amount and the recoverable amount.

(g) Finance leases

In cases when fixed assets have been acquired under financial lease, and the Company takes over the related risks and rewards, these fixed assets are accounted at present value. The interest element of lease payments is charged to the profit and loss account over the lease period.

(h) Investments in subsidiary undertakings and associated companies

Investments in subsidiary undertakings and associated companies are accounted for under the equity method. In accordance with this accounting method the investments in the subsidiary undertakings and associated companies are reflected in the balance sheet at an amount that represents the Company's share of the net assets of the subsidiary undertakings and associated companies and the carrying value of the goodwill arising on acquisition.

(i) Taxation

Corporate income tax for the reporting period is included in the financial statements based on the management's calculations prepared in accordance with Latvian Republic tax legislation.

Deferred tax is provided for using liability method on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The deferred tax is calculated based on currently enacted tax rates that are expected to apply when the temporary differences reverse. Temporary differences arise mainly from different fixed asset depreciation rates, as well as tax losses carried forward. Where an overall deferred taxation asset arises, it is only recognised in the financial statements where its recoverability is foreseen with reasonable certainty.

(j) Provisions for unused annual leave

Amount of provision for unused annual leave is determined by multiplying the average wage of employees in the reporting year per day by the amount of accrued but unused annual leave at the end of the reporting year.

Notes (continued)

(k) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances of current account with banks and bank overdrafts. Bank overdrafts are included within short-term 'loans from credit institutions' on the balance sheet.

(l) Comparative indices

During 2002, the classification of separate profit/loss calculation, balance sheet and cash flow items was altered by respective change of comparative indices.

(m) Consolidation principles

Subsidiary company of the concern has not been involved in consolidation, because information on the company is irrelevant.

(1) Net sales

	Year ended June 30,	
	2003	**2002**
	(LVL)	**(LVL)**
Income from sales of goods	4,869,248	1,572,097
Income from services provided	12,043	10,780
Total	**4,881,291**	**1,582,877**

(2) Cost of sales

Direct cost of production	2,456,853	723,729
Salary (incl. provisions for annual leave)	243,769	116,977
Depreciation of fixed assets and intangible investment	140,890	45,639
Social insurance (incl. provisions for annual leave)	59,635	29,921
Delivery expenses	36,454	19,749
Lease of premises	35,652	32,376
Low-value inventory	18,942	2,395
Public utilities costs	15,206	10,942
Transportation costs	10,731	9,136
Other production costs	14 225	8,675
Total	**3,032,357**	**999 539**

(3) Selling expenses

Advertising and marketing costs	370,068	359,198
Salary expenses (incl. provisions for annual leave)	55,696	25,843
Business trip expenses	20,555	10,789
Depreciation of fixed assets and intangible investment	14,546	2,280
Social insurance (incl. provisions for annual leave)	13,633	6,657
Other selling and distribution expenses	17,574	13,977
Total	**492,072**	**418,744**

Notes (continued)

(4) Administrative expenses

Provisions for doubtful trade debtors	39,750	(652)
Salary expenses (incl. provisions for annual leave)	31,510	6,646
Depreciation of fixed assets and intangible investment	29,224	7,417
Financial and management consultations	17,787	31,232
Bank commissions	13,745	2,976
Office expenses	9,679	1,001
IT services	9,240	2,502
Communication expenses	8,925	1,230
Social insurance (incl. provisions for annual leave)	7,477	1,733
Representation costs	6,346	3,291
Other administrative expenses	31,915	16,505
Total	**205,598**	**73,881**

(5) Interest payments and similar expenses

	Year ended June 30,	
	2003	**2002**
	(LVL)	(LVL)
Interest expenses	(38,111)	(15,253)
Net losses on foreign exchange	(52,203)	(23,496)
Total	**(90,314)**	**(38,749)**

(6) Corporate income tax for the reporting year

Deferred tax charge (see Note 15(a))	4,373	6,407
Corporate income tax charge for the current year	244,893	3,517
Total	**249,266**	**9,924**

Corporate income tax differs from the theoretically calculated tax amount that would arise applying the 22% rate stipulated by the law to profit/(loss) before taxation:

Profit before taxation	1,061,052	52,026
Theoretically calculated tax at a tax rate of 22 % (2001 – 25%)	233,431	13,007
Expenses not deductible for tax purposes	20,882	374
Tax discount for donations	(900)	(85)
Use of previous years' losses for corporate income tax purposes	—	(818)
Effect of various enacted tax rates on the amount of deferred tax	(4,147)	(2,554)
Tax charge	**249,266**	**9,924**

Deferred tax is calculated by using the current enacted tax rates.

Financial year	**Tax rate**
2002/2003	22%
2003/2004	19%
2004/2005 and thereafter	15%

Notes (continued)

Fixed assets and intangible investment

	Intangible investment (LVL)	Long-term leasehold improvements (LVL)	Equipment and machinery (LVL)	Other fixed assets and inventory (LVL)	Total (LVL)
Invoice value					
30.06.2002	41,868	—	212,174	32,369	286,411
Acquired	80,496	42,925	298,763	122,278	544,462
Depreciation	—	—	(2,902)	(7,096)	(9,998)
30.06.2003	122,364	42,925	508,035	147,551	820,875
Depreciation					
30.06.2002	13,439	—	53,869	6,557	73,865
Calculated	37,620	5,469	126,896	14,674	184,659
For depreciation	—	—	(985)	(3,700)	(4,685)
30.06.2003	51,059	5,469	179,780	17,531	253,839
Net book value 30.06.2002	28,429	—	158,305	25,812	212,546
Net book value 30.06.2003	71,305	37,456	328,255	130,020	567,036

Advance payments for intangible assets on 30 June 2003 is Ls 10,764 (on 30 June 2002: Ls 0). Advance payments for fixed assets on June 30 2003 is Ls 12,563 (on 30 June, 2002: Ls 3,047)

In the result of changes in rates for depreciation of fixed assets, calculated depreciation has increased by approximately Ls 50,000 in the reporting year.

Fixed assets of value Ls 175,767 were acquired during the reporting year (2001: Ls 78,038) on the basis capital lease regulations. Balance value of these fixed assets is Ls 150,420 as at 30 June 2003 (2001: Ls 40,456). Property right to these fixed assets will pass to the Company only after fulfilment of all leasing obligations.

Investments in intangible assets are licenses and similar rights, as well as computer software.

(7) Long-term financial investments

On 20 June 2003, the Company concluded a contract with Estonian joint stock company I-Vorgu Teenuste on purchase of 54,000 stocks (100%). Payment has not been made yet as on 30 June 2003. The Company uses the equity capital method for accounting of financial investments. In July 2003, the Company name was changed to SAF International.

(a) Information on affiliated undertaking

Name	Address	Equity as of June 30, 2003 (LVL)	Equity as of June 30, 2002 (LVL)	Profit for the year ended June 30, 2003 (LVL)	Profit for the year ended June 30, 2002 (LVL)
SAF International	Parnu 158, Tallinn 11317, Estonia	31,654	—	843	—

SAF International basic operations consist of manufacture and trade with telecommunication equipment.

Notes (continued)

(8) Trade debtors

	As of June 30,	
	2003	2002
	(LVL)	(LVL)
Accounting value of trade debtors	522,711	79,383
Provisions for bad and doubtful trade debtors	(39,750)	—
Total	482,961	79,383

(9) Debts of affiliated companies

	As of June 30,	
	2003	2002
	(LVL)	(LVL)
Microlink Latvija SIA	1,285	108,741
Fortek Informacines Technologijos	17,627	40,553
Total	18 912	149 294

(10) Other debtors

	As of June 30,	
	2003	2002
	(LVL)	(LVL)
VAT overpaid (see Note 18)	200,126	—
VAT accepted	41,208	7,755
Import VAT advances	977	21
Amounts paid to suppliers which shall be returned	7,931	—
Other debtors	380	375
Total	250,622	8,151

(11) Deferred expenses

	As of June 30,	
	2003	2002
	(LVL)	(LVL)
Prepayment for participation at exposition	17,429	—
Prepayment for insurance (employees and property)	3,706	—
Other deferred expenses	4,054	3,162
Total	25,189	3,162

(12) Cash and bank

	As of June 30,	
	2003	2002
	(LVL)	(LVL)
Cash in hand	—	395
Cash in bank	1,540	50,720
Total	1,540	51,115

Notes (continued)

(13) Equity capital

As at 30 June 2003 the equity capital consists of 200,300 ordinary registered stocks with the voting right, and 3 ordinary registered stock without the voting right. Nominal value of each stock is Ls 1. As at 30 June 2003 the equity capital is fully paid-up.

(14) Provisions

	Provisions for anticipated taxes	Provisions for unused annual leave	Total
	(LVL)	(LVL)	(LVL)
30 June 2002	14,925	12,337*	27,262
Increase	4,373	22,661	27,034
30 June 2003	**19,298**	**34,998**	**54,296**

* Provisions for unused annual leave were charged in 'Other creditors' in the previous annual account.

(a) Provisions for anticipated taxes

	As of June 30,	
	2003	2002
	(LVL)	(LVL)
Deferred tax liability at the beginning of the reporting year	14,925	8,518
Increase/decrease of deferred tax liability during the reporting year (see Note 6)	4,373	6,407
Deferred tax liability at the end of the reporting year	**19,298**	**14,925**

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

Temporary difference on fixed assets depreciation	28,855	18,009
Temporary difference on provisions for unused annual leave and bonuses	(6,650)	(3,084)
Provisions for trade commissions	(2,907)	—
Deferred tax liability	**19,298**	**14,925**

(15) Loans from credit institutions

Overdraft at Nordea bank	6	—
Overdraft Hansabanka	776,188	4,873*
Total	**776,194**	**4,873**

* Overdraft liability to Hansabanka was charged in 'Other creditors' in the previous annual account.

On 6 March 2001 „General agreement for allocation of the joint limit to the group" was signed by A/S Hansabanka from one side and AS MicroLink, SIA MicroLink Latvia, A/S SAF Tehnika, A/S Delfi, SIA Baltijas Datoru Akadēmija and SIA MicroLink Netcoms (all together „Group") from the other side. The agreement provides for allocation of overdraft limit to the Group for credits, guarantees and deals on currency market. The total overdraft limit is set at Ls 3,460,000 with fixed annual interest rate of 7.6%.

Notes (continued)

(16) Loans from credit institutions (continued)

Members of the Group are all jointly liable to Hansabanka for meeting all liabilities connected with this or related agreement in case any member of the Group defaults on its obligations towards the bank.

Company's parent company Microlink AS determines maximal overdraft limits to undertakings of the Group, incl. for SAF Tehnika AS. On 30 June 2003, the granted overdraft limit is USD 1,000,000 and Ls 481,495.

As a security for the overdraft in Hansabank, all Company assets have been pledged with maximal claim amount of Ls 2.4 million:

- Fixed assets and accessories, except for mechanical motor vehicles, pledge of what is not compulsory prohibited, as common property at the moment of pledge, as well as further shares of common property;

- Intangible investments, claim rights, long-term financial investments, interest in capitals, deposits and stock, pledging of what is not compulsory prohibited, as common property at the moment of pledge, as well as further shares of common property.

(16) Accounts payable to affiliated companies

	As of June 30,	
	2003	**2002**
	(LVL)	**(LVL)**
Microlink Data AS	31,654	—
Microlink AS	4,260	324,632
Microlink Latvija SIA	2,443	5,642
MicroLink ServIT A/S	84	2,654
Total	**38,441**	**332,928**

(17)Taxes and social insurance

	VAT	**Natural resource tax**	**Social insurance**	**Inhabitants' income tax**	**Corporate income tax**	**Entrepreneurship risk state duty**	**Total**
	(LVL)	**(LVL)**	**(LVL)**	**(LVL)**	**(LVL)**	**(LVL)**	**(LVL)**
Liabilities on June 30, 2002	**412**	—	**4,589**	**2,854**	**3,517**	—	**11,372**
Charge for 2002/2003	(672,987)	490	95,501	62,124	249,414	276	(265,182)
Penalties calculated for 2002/2003	102	—	—	—	—	—	102
Transferred to other taxes	126,750	(17)	(74,377)	(41,641)	(10,715)	—	—
Returned by the SRS	347,582	—	—	—	—	—	347,582
Paid in 2002/2003	(1,985)	(437)	(14,716)	(19,462)	(968)	(219)	(37,787)
Liability June 30, 2003		**36**	**10,997**	**3,875**	**241,248**	**57**	**256,213**
(Overpaid) June 30, 2003	**(200,126)**						**(200,126)**

Notes (continued)

(18) Other creditors

	Year ended June 30,	
	2003	2002
	(LVL)	(LVL)
Salaries	20,835	9,003
Calculated bonuses	33,294	—
Other creditors	15,358	446
Total	69,487	9,449

(19)Capital leasing

Capital lease liability – leasing payments:

	Year ended June 30,	
	2003	2002
	(LVL)	(LVL)
Short-term:		
Capital lease payments	97,788	23,197
Long-term:		
Capital lease payments during 1-5 years	83,436	32,004
Future financial payments for lease liability	(9,947)	(10,681)
True value of capital lease liability	171,277	44,520*

The terms of payments of true value of capital lease liability are the following:

	Year ended June 30,	
	2003	2002
	(LVL)	(LVL)
Short-term:		
Capital lease payments	91,140	20,205
Long-term:		
Capital lease payments during 1-5 years	80,137	24,315
Total	171,277	44,520*

* liabilities to leasing companies were shown excluding VAT in the previous annual account.

AS SAF Tehnika has concluded capital lease agreements for lease of cars and manufacturing facilities with redemption rights (see Note 7).

(20) Average number of employees

	Year ended June 30,	
	2003	2002
Average number of employees during the reporting year	48	25

Notes (continued)

(21) Management remuneration

	Year ended June 30, 2003 (LVL)	2002 (LVL)
Board members' remuneration:		
– salary expenses	36,586	23,352
– social insurance	9,003	5,681
Other management remuneration:		
– salary expenses	11,009	366
– social insurance	2,652	95
Total	59,250	29,494

(22) Rent and lease agreements

Lease Contract No. S-116/02, concluded on 10 December 2002
The contract is concluded with Dambis A/S to agree that the Lessor delivers and SAF Tehnika A/S accepts for use the premises of total area 1,978.5 sq.m in the building situated at Ganību dambis 24a, for charge. The contract has been concluded for 2 years.

(23) Related party transactions

At the end of the reporting year, affiliated company Microlink Latvija SIA owed to the Company Ls 1,285. The said debt consists of a debt for goods sold in the amount of Ls 1,126, and of performed equipment repair works in the amount of Ls 159.

On 30 June 2003, affiliated company Fortek Informacines Technologijos owed to the Company for products sold in the amount of Ls 17,627.

Company's debt to its parent company (Microlink A/S) equals to Ls 4,260 as at 30 June 2003. The said debt is for overdraft interest in June.

In June 2003, the Company concluded an agreement with Microlink Data AS (Estonia) on purchase of I-Vorgu Teenuste AS for Ls 31,654. As at 30.06.2003, the said amount has not been paid.

Total debt of the Company to affiliated company Microlink Latvija SIA equals to Ls 2,443 on 30 June 2003. The said debt includes payment for fixed assets purchased in the amount of Ls 1,563 and Ls 880 for services provided.

On 30 June 2003, the Company had debt to affiliated company Microlink ServIT for IT services in the amount of Ls 84.

(24) Subsequent events

There are no subsequent events since the last date of the reporting year, which would have a significant effect on the financial position of the Company as at 30 June 2003.

ANNEX A: SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN LATVIAN GAAP AND IFRS

The Company's financial statements have been prepared in accordance with the Law on the Annual Accounts of Companies of the Republic of Latvia and other legislation regulating accounting in Latvia (hereinafter together referred to as "Latvian GAAP") which differ in certain significant respects from International Financial Reporting Standards ("IFRS"). Such differences include methods for measuring the amounts shown in the financial statements, as well as additional disclosures required by IFRS.

Management has not quantified the effect of the differences between Latvian GAAP and IFRS on the net profit or shareholders' equity of the Issuer. Accordingly there can be no assurances that such net profit or shareholders' equity determined in accordance with Latvian GAAP would not be significantly different if they had been determined under IFRS.

This summary should not be taken as a complete list of all differences between Latvian GAAP and IFRS. No attempt has been made to identify all disclosures, presentations or classifications that would affect the manner in which transactions or events are presented in the financial statements or notes thereto.

Further, no attempt has been made to identify future differences between Latvian GAAP and IFRS as the result of prescribed changes in accounting standards. Regulatory bodies that promulgate Latvian GAAP and IFRS have significant ongoing projects that could affect future comparisons such as this one.

The management has identified the most significant differences between Latvian GAAP and IFRS that, in their opinion may be relevant to the statutory financial statements of the Company for the year ended 30 June 2003 and the six months period ended 31 December 2003.

General presentation and disclosure

Latvian statutory financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in jurisdictions other than Latvia. Accordingly, the statutory financial statements of the Company comprising the: profit and loss account, balance sheet, cashflow statement, statement of changes in equity and notes to the financial statements are in a format and use terminology required by the Latvian GAAP. This format and terminology and classification may differ from that which would normally expected in financial statements prepared under IFRS. In addition the presentation and disclosure requirements of IFRS are in general more extensive than those required by the Latvian GAAP.

Consolidation and presentation of investment in subsidiary

Latvian GAAP specifically allows subsidiaries not to be consolidated on the grounds of materiality.

Under Latvian GAAP the investment in subsidiary presented in the unconsolidated financial statements of the parent company is accounted under equity method, similar to the one prescribed by IFRS but there is no requirement to assess the fair value of the net assets of the subsidiary acquired at the date of acquisition.

IFRS generally requires that all subsidiaries are consolidated unless control is temporary, because the subsidiary is acquired and held exclusively with a view to its subsequent sale in the near future or where such subsidiary operates under severe long terms restrictions.

Subsidiaries that are excluded from consolidation (or presented in the unconsolidated financial statements of the parent company) are measured under equity method, cost or fair value. Where equity method is used an assessment of the fair value of the net assets of the acquired entity as at the date of acquisition is required to establish the difference between the costs of acquisition and the investor's share of the net assets acquired and for the measurement of share of investor's profits or losses. The use of equity method will be prohibited for the periods beginning on or after 1 January 2005.

Earnings per share

There are no requirements set by Latvian GAAP in respect of disclosure of earnings per share.

Enterprises whose ordinary shares or potential ordinary shares are publicly traded should disclose earnings per share under IFRS. This information should be disclosed also by enterprises whose shares are in the process of becoming publicly traded.

Segment reporting

There are no requirements set by Latvian GAAP in respect of segment reporting.

In accordance with IFRS segment reporting should be disclosed by enterprises whose ordinary shares or potential ordinary shares are publicly traded. This information should be disclosed also by enterprises whose shares are in the process of becoming publicly traded.

Related parties

Under Latvian GAAP the balances due from and to the immediate and ultimate parent company, direct and indirect subsidiaries and subsidiaries of the immediate or ultimate parent company should be disclosed in the financial statements. Also information on loans, pledges and guarantees issued to shareholders, members of the Board, and the management should be disclosed in the financial statements. Such information should include amounts outstanding at the balance sheet date and, where applicable, interest rate and principal terms and conditions. In accordance with Latvian GAAP the remuneration and social insurance paid to the members of the Board and the management should be disclosed in the financial statements.

The information on transactions with related parties disclosed in the statutory financial statements of the Issuer for the 6 months period ended 31 December 2003 extending beyond the above requirements was prepared on a voluntary basis.

IFRS defines related parties as parties where one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. In accordance with IFRS if there have been transactions with the related parties, the enterprise should disclose the nature of the related party relationships as well as the types of the transactions and the elements of the transactions necessary for an understanding of the financial statements.

Revenue recognition

Latvian GAAP does not include strict and explicit criteria for revenue recognition and requires revenue to be recognized on an accrual basis irrespective of the date of issuance of invoice or receipt of cash.

Under IFRS revenue from the sale of goods is recognized when all the following conditions have been satisfied:

(a) the enterprise has transferred to the buyer the significant risks and rewards of ownership of the goods;

(b) the enterprise retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

(c) the amount of revenue can be measured reliably;

(d) it is probable that the economic benefits associated with the transaction will flow to the enterprise;

(e) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Recognition of finance charges on finance leases

Latvian GAAP does not explicitly provide principles for recognition of finance charges on the finance lease contracts entered by an enterprise as a lessee. A general requirement to recognize expenses and charges on an accrual basis applies.

Under IFRS the finance charges on finance lease contracts are allocated by a lessee to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

ANNEX B: ARTICLES OF ASSOCIATION

1. General Provisions

1.1. The name of the company shall be as follows: joint – stock company “SAF TEHNIKA” (hereafter the "Company").

1.2. The types of business activity of the Company in accordance with NACE registry shall be as follows:

(a) - Manufacture of television and radio transmitters and apparatus for telephone and telegraphy communication(32.20);

(b) - Manufacture of television and radio receivers, sound or video recording or reproducing apparatus and associated goods (32.30);

(c) - Telecommunications (64.20);

(d) - research work (73);

(e) - Manufacture of instruments and appliances for measuring, checking, testing, navigating and other purposes (33.20);

(f) - computer and related activities (72);

(g) - Reproduction of computer media (22.33);

(h) - Manufacture of computers and other information processing equipment (30.02);

(i) - wholesale trade and commission trade, except of motor vehicles and motorcycles (51);

(j) - retail trade, except of motor vehicles and motor-cycles; repair of personal and household goods (52);

(k) - Market research and public opinion investigation (74.13);

(l) - Business and management consultant activities (74.14);

(m) - Technical testing, measuring and analysis (74.3);

(n) - other activities in compliance with legislation of the Republic of Latvia.

1.3. The Company is established for indefinite period of activity. The business of the Company may be terminated in the circumstances and under procedure provided by the applicable law.

1.4. The notices provided for in these Articles of Association to the management and controlling institutions of the Company shall be sent by registered mail or by electronic means (for example, by use of facsimile, email) to the addresses which members of management or control institutions have stated to the person authorized by the Board of Directors.

2. Equity and Securities

2.1. The share capital of the Company shall be LVL 955060.00 (Nine Hundred Fifty Five Thousand Sixty Latvian lats) which consists of 955060 (Nine Hundred Fifty Five Thousand Sixty) shares. All shares shall be issued as securities.

2.2. The par value of each share is LVL 1.00 (one Latvian lat). The share is indivisible.

2.3. All shares shall bear equal rights to receive dividend, liquidation proceeds and voting rights at the Shareholders Meeting.

2.4. All shares shall be title shares. The person entered into the share register of the Company shall enjoy the rights pertaining to such shares.

2.5. All shares issued by the Company shall be dematerialized.

2.6. Each shareholder shall have the right to freely dispose of his shares.

2.7. There shall be no preemptive right of other shareholders to acquire the transferred shares.

2.8. The shares shall be alienated by transfer to the acquirer's securities account.

2.9. The Company shall not subscribe for its own shares. The Company may acquire its own shares only in the circumstances provided by the law.

2.10. The Company may issue convertible bonds which the holder is entitled to exchange for shares of the Company in the specified term.

2.11. The share capital of the Company may be increased or reduced in the events stated in the law and in accordance with the procedure described therein.

2.12. In case of share capital increase the current shareholders shall have a preemptive right to acquire new shares in proportion to their existing aggregate par value of shareholding in the Company.

3. Shareholders Meeting

3.1. The Company shall be administered by the Shareholders Meeting, the Supervisory Council and the Board of Directors.

3.2. Only the Shareholders Meeting has the right to take decisions regarding:

(a) the annual accounts of the Company;

(b) the use of profit from the previous year of activities;

(c) the election, recall or removal of members of the Supervisory Council, the auditor and receiver;

(d) bringing of action against members of the Board of Directors, the Supervisory Council and the auditor or withdrawing actions against them, as well as regarding the appointment of a representative of the Company to maintain actions against members of the Supervisory Council;

(e) amending the Articles of Association of the Company;

(f) increasing or reducing the share capital;

(g) issuance and conversion of the Company's securities;

(h) specifying the remuneration for members of the Supervisory Council and the auditor; and

(i) termination of the activities of the Company or their continuation or regarding the reorganization of the Company.

3.3. The Shareholders Meeting shall take decisions regarding other issues only if it is provided for by law.

3.4. A notice regarding the convening of the Shareholders Meeting shall be announced not later than 30 days in advance.

3.5. The shareholders shall have the right to receive draft motions without charge at least 14 days prior to the Shareholders Meeting.

3.6. The Shareholders Meeting is entitled to take decisions if more than half of the voting share capital is represented at the meeting.

3.7. Each share with voting rights gives the right to one vote at the Shareholders Meeting. A shareholder has voting rights in conformity with the total par value of shares with voting rights.

3.8. Specific thresholds of voting rights may be specified by the applicable law. The voting rights of shareholders may be restricted only in the events provided by the applicable law.

3.9. The Shareholders Meeting shall take decisions by a majority of votes of the shareholders with voting rights present unless the law specifies a larger number of votes.

3.10. Decisions regarding amendments to the Articles of Association, changes in the share capital, issuance of convertible bonds, reorganization or winding up of the Company, or continuation of its activity, the Shareholders Meeting shall adopt by no less than 3/4 of the total voting share capital present at the meeting.

3.11. The time period for bringing of legal action to declare a decision of the Shareholders Meeting void shall be three months from the day of such meeting.

4. Supervisory Council

4.1. The Supervisory Council is a supervisory institution of the Company, which represents the interests of shareholders during the interim period between the Shareholders Meetings and supervises the activities of the Board of Directors within the scope specified in the applicable law and these Articles of Association.

4.2. The Supervisory Council shall consist of 5 members which are elected by the Shareholders Meeting for a period of 3 years. In addition to terms provided for by law, the post of a member of the Supervisory Council may not be held by a shareholder or executive of a competing business. Members of the Supervisory Council may not delegate their duties to any other person.

4.3. The Supervisory Council shall have the following authority:

(a) at any time to request that the Board of Directors report on the condition of the Company and to become acquainted with all of the activities of the Board of Directors.

(b) to examine the Company's registers and documents, as well as treasury and all properties of the Company.

(c) to convene a Shareholders Meeting or to request that the Board of Directors convenes the meeting if the interests of the Company so require.

4.4. The Supervisory Council shall not have the right to decide on the issues which are within the authority of the Board of Directors.

4.5. The Board of Directors shall obtain prior consent of the Supervisory Council to decide on the following issues:

(a) acquiring participation in other companies and increasing or decreasing such participation;

(b) acquisition or alienation of undertakings;

(c) acquisition of immovable property, alienation or encumbering rights pertaining to property;

(d) opening or closing of branches and representative offices;

(e) concluding of such transactions that exceed EUR 1000000 or other amount specified by decisions of the Supervisory Council;

(f) issuing of such loans as are not related to the usual commercial activities of the Company;

(g) issuing loans to employees of the Company;

(h) starting new types of activities or ceasing existing activities; and

(i) determining the general principles of Company's business.

4.6. Decisions of the Supervisory Council shall be adopted by simple majority of votes.

5. Board of Directors

5.1. The Board of Directors shall be the executive institution of the Company which manages and represents the Company.

5.2. The Board of Directors shall be responsible for the commercial activities of the Company, as well as for proper accounting in compliance with the law.

5.3. The Board of Directors consists of 3 members to be elected by the Supervisory Council for a period of 3 years. The Chairman shall be appointed by the Supervisory Council.

5.4. In addition to terms provided for by law, the post of a member of the Board of Directors may not be held by a shareholder or executive of a competing business.

5.5. All members of the Board of Directors shall have equal rights to represent the Company. The board members each having right to represent the company individually.

5.6. In addition to the restrictions stated in these Articles of Association and applicable law, the Shareholders Meeting may restrict members of the Board of Directors to be employed or provide managerial functions with other companies, organizations or entities.

5.7. The Board of Directors shall adopt decisions by a simple majority of votes.

6. Economic and Financial Activities of the Company

6.1. The Company shall operate on the basis of cost-accounting and self-financing basis; it shall plan and carry out business activities according to its goals and lines of activities.

6.2. Financial year of the Company shall begin from the 1st of July of every calendar year and shall finish on the 30th of June of the next year.

7. Control of Activities

7.1. Economic activities of the Company shall be controlled by the Auditor elected simultaneously with approval of the annual accounts of the company on annual basis by the current Members' Meeting to act during the next accounting year.

7.2. The Auditor shall act in compliance with the applicable laws.

7.3. The Auditor may engage experts or assistants in the control of activities, subject to approval of the executive body.

7.4. The Auditor shall promptly report to the executive body and to the Members' Meeting on the established shortcomings and trespasses.

8. **Reorganization or Termination of Activities**

8.1. The Company may be reorganized in accordance with the applicable laws.

8.2. Activities of the Company shall be terminated by liquidation in accordance with the applicable laws of the Republic of Latvia in the cases and according to procedure set forth in the law.

8.3. The Company shall settle all the other matters not expressly covered herein in accordance with procedure set forth in the "Commercial Law".

ANNEX C: THE REPUBLIC OF LATVIA

Area and population

Latvia is situated in the northern part of Eastern Europe on the coast of the Baltic Sea. The country has a total of 1,368 km of land boundaries and 494 km of coastline. Latvia borders with Estonia in the North, Lithuania in the South, the Russian Republic in the East and Byelorussia in the South-East. The total land area is 64,589 sq. km. of which forests and woodland make up approximately 46% and arable land 27%. The capital, Riga, is the largest city in terms of both size of its territory and amount of population, is located in the centre of Latvia on the bank of the Riga Bay.

As of 2003 the total population of Latvia was 2.3 million of which 58.5% are Latvians, followed by Russians (29.0%) and Byelorussians (3.9%). The major religions are Lutheran and Roman Catholic followed by Russian Orthodox.

History

The first settlements of Latvian ancestors dates back to 2500 BC when they drove out the local tribes. In the 11th century German crusaders started Latvia's conquest and in 1201 Riga was founded by the German bishop Albert. Since then Riga served as the administrative centre and support point for the conquest of the whole of Latvia's territory. The Germans retained their power over Latvia for 400 years until 1629 when Riga and Northern Latvia was occupied by Sweden. The Swedish occupation lasted until 1710 when Russia conquered the territories and gained control over the whole territory of Latvia.

In 1918 Latvia declared independence from Russia and by 1921 the majority of world countries had recognised Latvia's independence. Latvia then underwent vast reforms and the economy improved through these favourable policies.

In 1940, following an ultimatum from the Soviet Union, Soviet troops entered Latvia and effectively annexed the country under the excuse that it was protecting Latvia from a German invasion. Massive deportations followed and most of the middle class was wiped out. Germany did invade Latvia in 1941 and occupied the country until 1944.

In the late 1980s, rapid political changes in Eastern Europe and the Soviet Union acted as a catalyst for political developments in Latvia. The Higher Council proclaimed the restoration of independence on 4 May 1990. On 6 September 1991, following an unsuccessful coup in Moscow the previous month, the independence of the Baltic republics of Lithuania, Estonia, and Latvia was recognised by Moscow. On 17 September 1991, all three Baltic republics were admitted to the United Nations as independent members.

The first new parliament was elected through free elections on 6 June 1993.

Constitution, government and political parties

The Constitutional Law was renewed in 1991. The Constitution established the Republic of Latvia with a president as the head of state and the Saeima (the parliament) as the highest legislative authority. The Constitution provides for the separation of the executive, legislative and judicial powers. The first Saeima under the renewed Constitution was elected on 6 June 1993. The Saeima is a unicameral body composed of 100 members elected on four-year terms.

Parliamentary elections are organised in five districts with each district receiving a limited number of potential seats in the parliament based on the number of inhabitants in each district. All the seats are allocated on a proportional representation basis to every party which receives 5% or more of the total vote. The last elections took place on October 5, 2002. Out of a total of 20 political parties registered for the last election, only 6 overcame 5% barrier and qualified for seats in Saeima.

The last elections were won by Jaunais Laiks ("JL") or "New Time", which received 26 seats followed by Par cilveka tiesibam vienota Latvija ("PCTVL") or "For human rights in united Latvia" with 25 seats and Tautas Partija ("TP") or "People's Party" with 20 seats with three additional parties dividing the remaining seats. Both JL and TP are centre-oriented right wing parties, while PCTVL is left wing party. During 2003 PCTVL was divided into three parties, thereby forming in Saeima two new parties, which as of February 19, 2004 were represented by 14 deputies with 6 staying in PCTVL and 5 leaving for the other parties. In February 2004 the previous right wing coalition collapsed, which lead to redistribution of number of representatives among the parties, therefore since February 2004 the leading parties in Saeima are JL (27 seats), TP (20) and Latvijas Pirma partija or Latvia's First party with 14 seats. The next elections are expected to be held during October 2006.

The President of Latvia is the head of state. The President is elected by Saeima for a term of 4 years by simple majority vote and is not allowed to serve more than two terms. The President has responsibility for the conduct of foreign policy, the dissolution of the parliament and the calling of elections. The President is also required to approve all laws passed by the parliament and has the right to propose a new law to parliament on which it would vote. The President also acts as a commander-in-chief of the armed forces. The current President is Mrs. Vaira Vike-Freiberga, a Latvian-Canadian, who was re-elected for the second term on June 20, 2003.

The Government of Latvia is led by the Prime Minister, elected by the Saeima, and 16 ministers, each of whom is nominated by the Prime Minister. The cabinet of ministers formulates the Government programme for approval by the Saeima. After the collapse of governing coalition in February 2004, current Prime Minister Mr. Indulis Emsis of Zalo un Zemnieku Savieniba (ZZS) or "Green and Agricultural Party" is now leading the minority government (represented by three political parties, having 46 seats in Saeima), which was approved on March 9, 2004. Most of the legislation is proposed by the Government in accordance with its policies and is subject to approval by a simple majority of the parliament and to the approval of the President.

Local Government powers and functions are exercised through municipalities with local officials elected every four years. The last local election, held on 11 March 2001, saw the leading opposition party Latvijas Socialdemokratu Stradnieku Partija ("LSDP") or Latvian Social democrat worker party, take a large number of seats in some of the election regions and cities including Riga. The success of LSDP was followed by another opposition party, PCTVL, that formed a coalition with LSDP gaining them a strong position in Riga and some other municipalities.

Judicial authority is vested in the Supreme Court, five district courts and 34 local courts. The Constitutional Court, although part of judicial system, is primarily concerned with compliance with the basic principles of the Constitution. All judges are approved by parliament based on recommendations of Ministry of Justice, except members of the Supreme Court who are nominated by the Chairman of the Supreme Court.

International relations

Latvia has established diplomatic relations with 138 countries. In September 1991, it became a member of United Nations and the Council for Security and Co-operation in Europe ("CSCE"). In August 1992, Latvia was admitted to the International Bank for Reconstruction and Development (the "World Bank") and in May 1992 to the International Monetary Fund ("IMF"). Latvia also participates in the Bank for International Settlements and the European Bank for Reconstruction and Development ("EBRD"). Although the relationship with IMF has been rather successful last year's visit was more strained as the government refused to place the restraints on the budget that the IMF was demanding. There are also ongoing consultations with the World Bank on various projects.

Not only has Latvia applied for membership to NATO but it has also taken active part in various NATO- led operations including KFOR and SFOR. On February 26, 2004 Saeima passed law on an agreement for joining NATO. Latvia has now become a member of NATO.

Together with other nine Central and Eastern European countries Latvia has joined the European Union ("EU") on May 1, 2004. After national referendum on September 20, 2003, where 66.97% of Latvia's citizens supported joining EU, Saeima ratified agreement with EU on October 30, 2003.

Latvia began membership talks with the World Trade Organization in 1992. They were successfully completed in October 1998 making Latvia the first Baltic country to enter WTO.

Latvia has close ties with its neighbouring states through its membership of the Baltic Council, the Baltic Assembly and the Council of Baltic Ministers. Joint efforts in the military arena such as BALTBAT and BALTNET and increased economic co-operation such as through the Baltic area free trade agreement, have also contributed to these closer ties.

Economic information

Gross domestic product

Until the end of 1993, Latvia experienced steep downturn in GDP due to the degradation in manufacturing and the loss of former markets provided by the Soviet Union. Although a weak recovery started in 1994, when GDP grew 0.6%, the growth in the following year was damaged by a banking crisis, which resulted in negative GDP growth of 0.8%.

During the period of 1996-1999, the Latvian economy experienced rapid development and growth and average annual GDP growth was 5.3%. In 1999, the agriculture, manufacturing and fishing industries were hit by a Russian economic crisis resulting in GDP growth falling to 2.8%. The overall effect of the decline of the Russian market turned out to be negligible for the Latvia economy as a whole and in 2000 the GDP grew 6.8% and all sectors, except utilities, expanded their production.

In 2002 GDP growth equaled to 6.1% with subsequent increase in development speed and reaching 7.5% in 2003.

Industry

To date, few major industries have been able to establish themselves in Latvia and the industry that is established is heavily dependent upon the labour force.

Retail and wholesale trades have been recently generating the largest value added which amounted to 20.4% of the total in 2003, followed by manufacturing at 14.9% and telecommunications and transport at 14.5%

Consumer and producer prices

Latvian monetary policy has been relatively conservative since the beginning of the 1990s, resulting in a rapid decrease in inflation down from 900% in 1993 to 1.9% in 2002. This change has been successful due to the pegging of the Lat to the SDR currency basket. Inflation in the early 1990s occurred mainly due to the price adjustments from the former Soviet system to the world level, primarily due to fuel and other Russia sourced resource price adjustments.

In December 2003, the consumer price index ("CPI") was 3.6% higher compared to December 2002 with an average annual CPI of 2.9% for 2003. Most of the rise of CPI in 2003 occurred due to an upsurge in utility prices, since 9% VAT was applied to most utilities at the end of 2003. Services prices increased at a slower pace (+2.1%) than for products (+3.2%) mainly due to drop in telecommunications costs. In the first quarter of 2004, the CPI grew by an additional 2.3%.

The Producer Price Index ("PPI") rose 3.2% in 2003 after a 1% increase in 2002. Most of the increase in 2003 was due to price changes in wearing apparel and dressing (+14.8%) and metallic products (+9.6%) manufacturing industries. In the first quarter of 2004, the PPI rose by 2.9%.

Registered unemployment

Unemployment levels reached 6% during 1995 and steadily increased until the middle of 1999. The increase of unemployment during the 1995-1999 period was due to a banking crisis in 1995 reinforced by Russia's financial crisis in 1998. However, as local enterprises managed to continue to switch their market focus from Russia to the EU, the economy improved. At the end of 2002 the official unemployment rate was 8.5%, slightly increasing to 8.6% by the end of 2003. At the end of March 2004 the unemployment was 9.2% mainly due to more people officially registering as unemployed to obtain social benefits.

Privatization

On 17 February 1994 a law on the privatisation of state and municipality property was passed. In 1994 a non-profit governmental organisation, the Privatisation Agency was established to co-ordinate the privatisation efforts. Most of the state owned property was transferred for active management until privatisation to the Privatisation Agency. The Privatisation Agency has been successful at transferring ownership into the private sector and now state's ownership remains high only in a few industries such as electricity production, central heating, education, and healthcare.

The privatisation process is based on a company sale to strategic investors for privatisation vouchers and money. The bidding process is normally organised either as a competition among several interested parties or as a public offering.

Balance of payments

The Bank of Latvia is responsible for drawing up the country's balance of payments.

The current account deficit increased from LVL 396 million in 2002 to LVL 543 million in 2003, representing 9.1% of GDP for 2003 (7.1% of GDP in 2002) which was an increase of LVL 147 million or 35% over 2002 annual current account deficit. In the first two months of 2004, the account deficit has increased to LVL 63 million, which represents a 122% increase compared to the same period in 2003.

The balance of goods has been negative since 1994 and the 2003 goods account was LVL 1,135 million in deficit. The deficit historically has been partially covered by the surplus of services account which in 2003 reached LVL 334 million. The remainder of the difference is covered by foreign investment either through direct, portfolio or other investment channels. Thus in 2003 the capital and financial account surplus was LVL 479 million leading to an increase in the foreign reserves of the Bank of Latvia.

At the end of 2003 the Bank of Latvia had net foreign assets amounting to LVL 824 million covering issued currency by 121%. Net foreign assets had increased by LVL 46.2 million in 2003 compared to LVL 18.6 million increase during 2002.

Errors and omissions in the balance of payments of 2003 reached LVL 55 million compared to LVL -35 million in 2002.

International trade

Since independence, Latvia has followed a liberal free trade policy. Prior to the collapse of the USSR, Latvia conducted the majority of its trade with Russia but by 2002 the CIS countries accounted for only 10% of exports and 13.1% of imports whereas EU countries accounted for 60.4% and 53% respectively.

Total exports for 2003 reached LVL 1,651 million or 28% of GDP. 35.2% of total exports constitute timber and related articles, textile being up 12.6% and base metals and articles taking up 12.6%. for the first two months of 2004, exports amounted to LVL 288 million, a 22% increase from the same period in 2003.

Imports in 2003 amounted to LVL 2,989 million or 51% of GDP, substantially exceeding exports. Approximately 21.1% of imports are equipment and other machinery with another 10.5% being transport vehicles and another 10.1% being chemical products. In the first two months of 2004, imports were LVL 473 million, a 19% increase compared to the same period in 2003.

Foreign investment

As at the end of 2002, total cumulative foreign direct investment was LVL 1,634 million (constituting 4.6% of GDP), which increased to LVL 1,749 during the first half of 2003. Most of the investments at the end of 2002 have been made in the real estate (22%), manufacturing (21%) and transport (17%) sectors. The main countries investing by way of direct foreign investment were Sweden, Germany, Norway, Denmark and United States.

Portfolio investment was LVL 282.1 million at the end of 2002. Most of the portfolio investments were made in the Government debt securities as the equity market is illiquid.

Indebtedness

In 2003 the Government's total debt amounted to LVL 846.3 million (compared to LVL 756.1 million at the end of 2002), which was split between LVL 426.7 million (291.6 million at the end of 2002) internal debt and LVL 419.6 million (464.5 million in 2002) external debt. In 2003 Government debt equalled to approximately 14.4% of GDP. All domestic debt is denominated in Lats with a medium-term maturity of 1 to 5 years. Foreign debt is mainly denominated in Euros and U.S. dollar, with a medium- to long-term maturity profile.

Monetary and financial system

Monetary policy

In May 1992 the central Bank of Latvia was given full independence in policy design and implementation. The national currency, the lat, was introduced in 1993 and since February 1994 it has tracked the Central Bank's Council decision to the SDR (Special Drawing Right) basket of currencies at the rate of 1 SDR = 0.7997 Lat. See "Exchange Rates."

Tax structure

The corporate tax rate is set at 15% with a transition period from 2002 to 1st of January, 2004. Prior to 2002, the rate had been 25% for a number of years. Social security contributions account for 33.09% of wages with corporations paying 24.09% and employees 9%. There is a withholding tax of 10% on payments of interest made by corporate entities from Latvia to non-residents only in the case when the local entity is fully or partially owned by the non-resident. There is also a 10% tax on dividend payments. In case where non-residents are registered in or represented by companies registered in tax havens, the taxes normally applicable to a Latvian resident are applied. Thus the tax rate of 15% is applicable to the sale of shares not publicly listed, and interest income. Various tax conventions specify individual tax rates for some country residents.

Value-added tax is charged at 18% on almost all products (0% for exports).

ANNEX D: GLOSSARY

3G .... The third generation of mobile communications technology, i.e. wideband mobile services and applications.

Compare with 2G: digital cell phones and 1G: analog cell phones.

Access channel.......... The network elements used to connect a subscriber to the nearest switch or concentrator. An access channel generally takes the form of a closed circuit and consists of a pair of copper wires, but may also employ fibre optic cable, microwave links or other technologies.

ADM.......................... Add-Drop Multiplexing / Multiplexer. US term for a drop-and-insert multiplexing. Terminology for the removal (drop) or insertion (add) of traffic at some intermediate point on an end-to-end transmission path.

Analog .... A transmission mode in which the initial signal (i.e. voice) is converted into and transmitted as an electrical signal. Signals are conveyed by continuously varying, for example, the frequency, amplitude or phase of the transmission.

ANSI.......................... American National Standards Institute.

ATS............................ Automatic Trading System.

Base station............... Fixed transceiver (combined transmitter and receiver) equipment in each cell of a mobile telecommunications network that communicates by radio signal with mobile handsets in that cell.

CDMA....................... Code Division Multiple Access, a digital cellular spread-spectrum modulation technique used mainly with personal communications devices.

CFM .... The wireless system that is SAF's main product line.

Concentrator .... A communications device that subdivides a channel into a larger number of channels by connecting a number of circuits that are not all used at once to a smaller group of circuits for more economical transmission.

DC power source...... Direct Current power source. Direct Current is the type of power produced by photovoltaic panels and storage batteries. The current flows in one direction and polarity is fixed, defined as positive (+) and negative (-).

Digital........................ A method of storing, processing and transmitting information through the use of distinct electronic or optical pulses that represent the binary digits 0 and 1. Digital transmission and switching technologies employ a continuously variable analogue signal. Compared to analogue networks, digital networks allow for greater capacity, lower interference, protection against eavesdropping and automatic error correction. Signals are encoded into digits for transmission.

DS3 .... A dedicated phone connection supporting data transmission rates of about 43 Mbps.

E1............................... European framing specification for transmission of 32 DS0 (64 Kbps) data streams.

E3............................... European framing specification for transmission of 34.368 Mbps data streams.

Ethernet .... Networking technology for local area networks (10 Mbps).

ETSI .... European Telecommunications Standards Institute.

Exchange................... See "Switch."

Frequency band........ A specified range of frequencies. Frequency refers to the number of times per second that a wave (e.g. electronic wave) oscillates or swing back and forth in a complete cycle from its starting point to its end point.

Full duplex	Transmission of data in two directions simultaneously.
IDU	Indoor unit.
GHz	Gigahertz. A measure of frequency. One GHz equals 1,000,000,000 cycles per second.
IFRS	International Financial Reporting Standards A set of standards developed by the International Accounting Standards Board that provides guidance for financial accounts preparers to deal with the recognition, measurement presentation and disclosure requirements for transactions and events. Once an entity adopts IFRS, it must comply with all of the standards and interpretations of IFRS, despite any differences that may exist between an entity's local GAAP and IFRS.
IP	Internet Protocol. Protocol used in the internet for communicating among multiple networks.
ISDN..........................	Integrated Service Digital Network. A transmission system with the capacity to transmit two streams of information (voice, text, data or graphic) simultaneously on a single access channel based upon end-to-end digitalization and standardized out-of-band signalling.
ISP	Internet Service Provider A company providing access to internet and other computer-based information networks through its servers.
IT	Information Technology. The broad subject concerned with all aspects of managing and processing information, especially within a large organization or company.
ITU-T	International Telecommunications Union-Telecommunications (network, standards body).
Kbps	Kilobits per second. A data transmission rate. One Kbps equals 2(10) bps.
LAN	Local Area Network. See "access channel".
Mbps	Megabits per second. A data transmission rate. One Mbps equals 2(20) bps.
MHz...........................	Megahertz. A measure of frequency. One MHz equals 1,000,000 cycles per second.
Multiplexer	A networking local device where multiple streams of information are combined so they can share a common physical medium. A similar device at the other end of the link then separates them.
OC	Optical Carrier, used to specify the speed of fibre optic networks conforming to the SONET standard (Synchronous Optical Network, a standard for connecting fibre-optic transmission systems).
ODU...........................	Outdoor unit.
PABX	Private Automatic Branch eXchange. See "PBX".
PBX	Private Branch eXchange. A telephone exchange operated within an organization that is used for switching calls between internal lines and between internal and PSTN lines.
PC	Personal Computer.

A small digital computer based on a microprocessor or designed to be used by one person at a time.

PDH .... Pleisiochronous Digital Hierarchy.

A digital hierarchy developed 40 years ago by Bell Labs to carry digitized voice over twisted wire more efficiently. A PDH evolved into the North American Digital Hierarchy, which is known more commonly by its signal names DS0 through DS3. The term "T1" is also used colloquially to refer to the DS1 signal and "T3" to refer to the DS3 signal.

Point-to-point........... A link from one user or network to another using a phone line.

PSTN .... Public Switched Telephone Network.

The international telephone system based on copper wires carrying analogue voice data. This is in contrast to newer telephone networks based on digital technologies, such as ISDN.

SDH .... Synchronous Digital Hierarchy.

International form (ITU-T) of SONET that designates signal interfaces for very high-speed digital transmission over optical fibre links.

SNMP .... Simple Network Management Protocol, the Internet standard protocol.

SONET .... Synchronous Optical Network.

An international suite of standards for transmitting digital information over optical interfaces.

Switch .... A device used to set up and route telephone calls either to the number called or to the next switch along the path. They may also record information for billing and control purposes.

T1 .... A dedicated phone connection supporting data rates of 1.544 Mbits per second. Term often used interchangeably with DS-1.

TCP .... Transmission Control Protocol.

A protocol enabling two hosts to establish a connection and exchange streams of data.

Telnet........................ Internet standard protocol for remote login.

US GAAP .... Generally Accepted Accounting Principles in the United States.

V.35........................... Standard for data transmission at 48 Kbps over 60-108 KHz group band circuits.

W-CDMA.................. Wideband CDMA, a high-speed 3G mobile wireless technology with the capacity to offer higher data speeds than CDMA.

ISSUER

SAF Tehnika A/S
Ganibu dambis, 24a,
Riga, LV-1005
Latvia

SELLING SHAREHOLDER

AS MicroLink
Pärnu mnt. 158
Tallinn 11317
Estonia

GLOBAL CO-ORDINATOR, BOOKRUNNER AND FINANCIAL ADVISER

Internationally

AS Suprema Securities
Pärnu mnt. 10
Tallinn 10148
Estonia

In Latvia

A/S Suprema
Vaļņu 1
Riga, LV-1050
Latvia

LEGAL ADVISERS TO THE MANAGERS

As to United States Law

Kilpatrick Stockton LLP
One Canada Square
London EC14 5NZ
United Kingdom

As to Latvian Law

Glimstedt and Partners
Jeruzalemes 1
Riga LV-1010
Latvia

INDEPENDENT AUDITORS

PricewaterhouseCoopers
K. Valdemāra 19
Riga, LV-1010
Latvia