Annual Report

2003/04

SAF Tehnika

is a telecommunication company engaged in development, production and distribution of digital microwave radio equipment. The functionality of SAF products includes digital voice and data transmission. They are used mainly by telecommunication network operators as an alternative for cable communication networks. The company currently offers more than 130 different products, including solutions for mobile network operators, data service providers (such as internet access service providers), as well as state and private companies.

Company	SAF Tehnika AS
Legal address	24a, Ganibu dambis, Riga, LV-1005, Latvia
Telephone	+371 7046840
Fax	+371 7020009
Commercial Registry No	LV40003474109
Financial year	July 1, 2003 - June 30, 2004
Auditor	PricewaterhouseCoopers SIA
Legal address	Kr. Valdemara iela 19, Riga LV-1010, Latvia
Telephone	+371 709 4400
Fax	+371 783 0055

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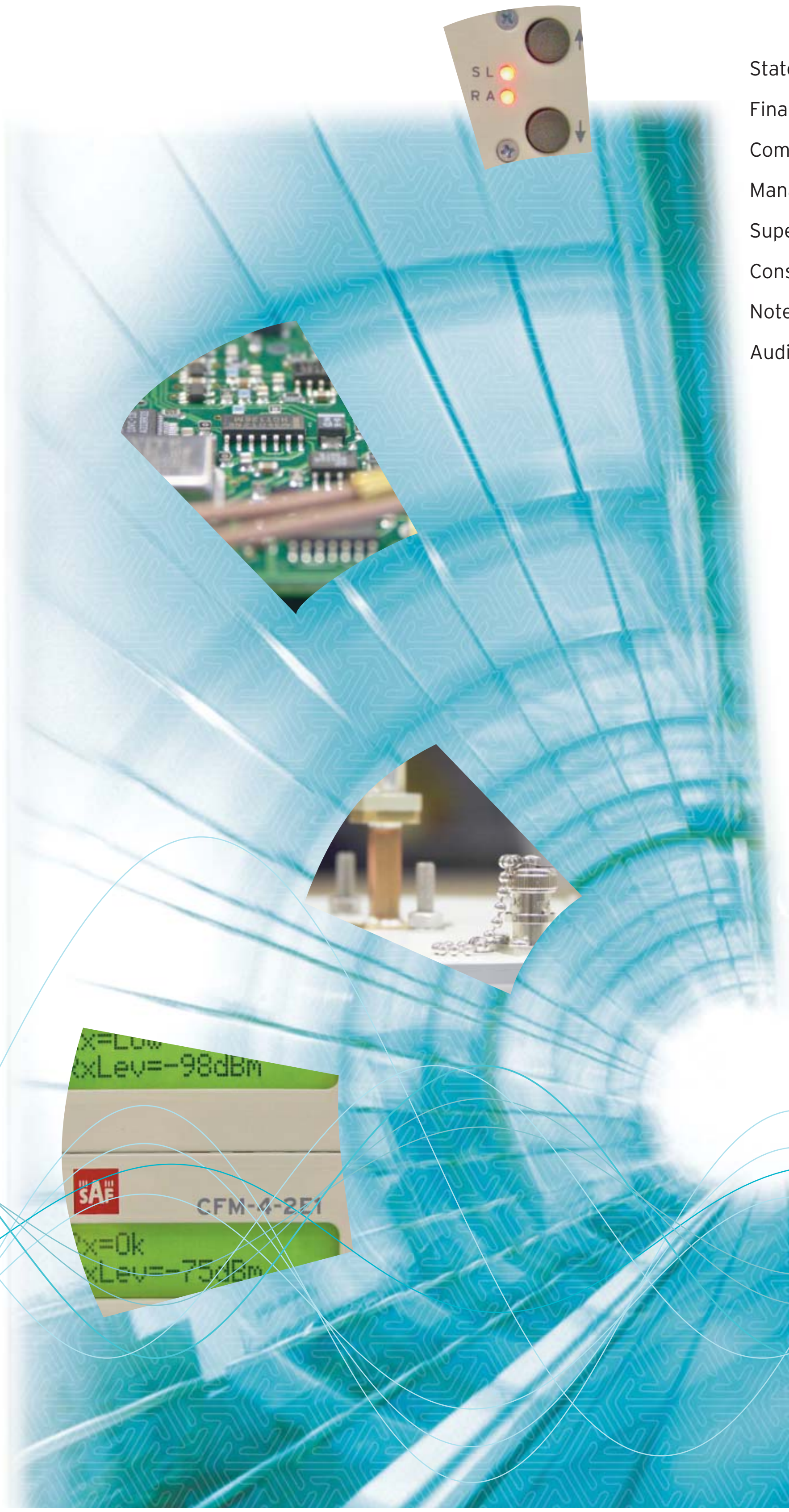


Our Goal is

to be one of the leading microwave radio equipment companies in the world, while extending product offering and providing advanced solutions for ever wider range of customers.

Our Strategy is

based on innovative product design to ensure high quality and optimum price solutions.

Statement of Board's Responsibility

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

The financial statements on pages 9 to 30 are prepared in accordance with the source documents and present fairly the financial position of the Group as of 30 June 2004 and the results of its operations and cash flows for the year ended 30 June 2004.

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards on a going concern basis.

Appropriate accounting policies have been applied on a consistent basis. Prudent and reasonable judgments and estimates have been made by the Board in the preparation of the financial statements.

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

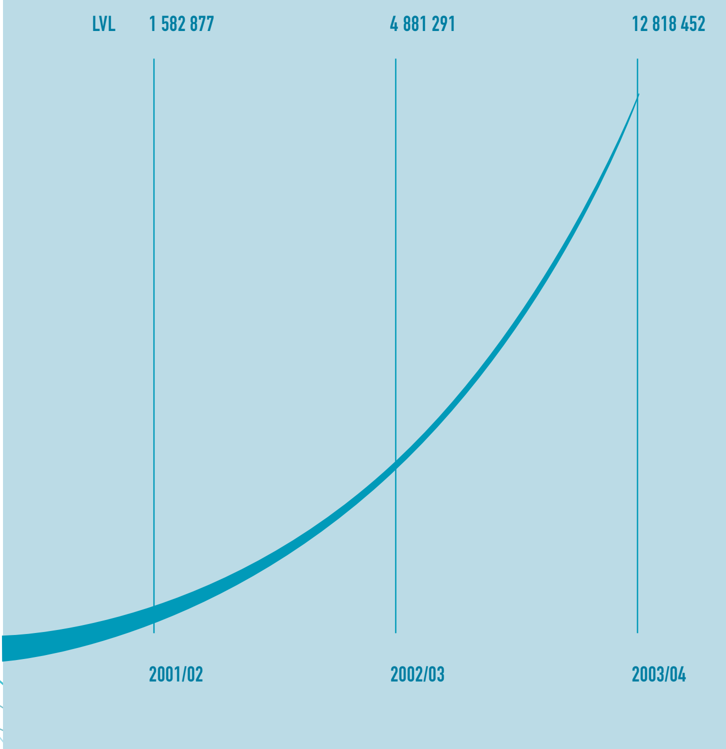
On behalf of the Board,

Normunds Bergs
Chairman of the Board

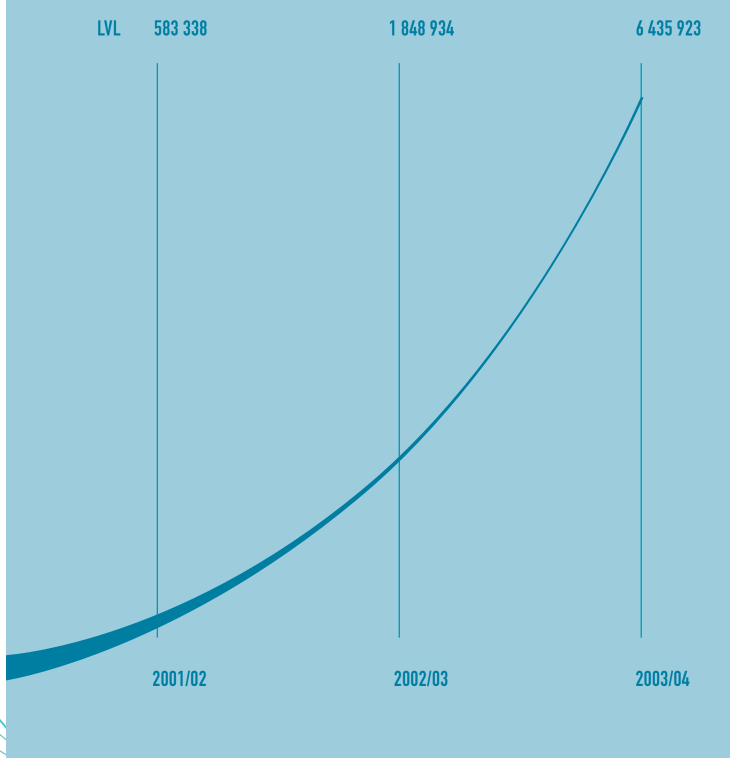
October 14, 2004

Financial Highlights

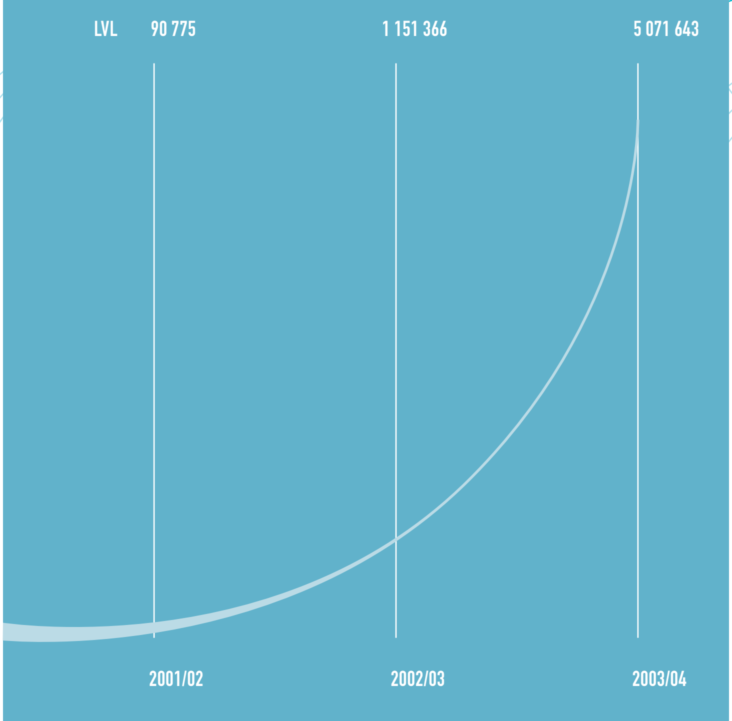
Net Sales



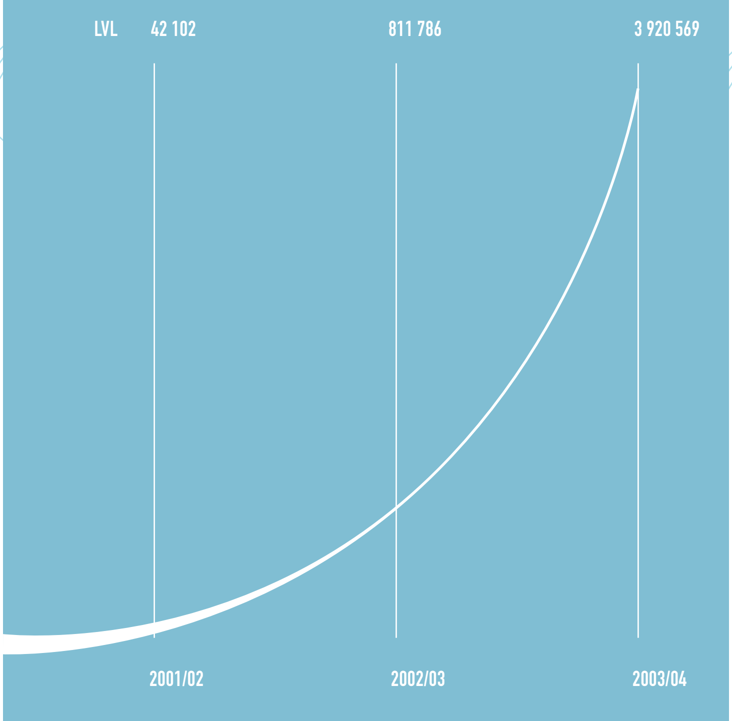
Gross Profit



Operating Profit



Net Profit



Company's Management & Structure

Chief Executive Officer, Chairman of the Management Board:	Normunds Bergs
Members of the Management Board:	Didzis Liepkalns Aleksis Orlovs
Chairman of the Supervisory Council:	Kristjan Kalda
Members of the Supervisory Council:	Allan Martinson Hanno Haamer Juris Ziema Vents Lacars

Administration
- Management
- Finances
- Quality & standards

Research & Development
- Microwave & millimeter wave design
- RF design
- Signal processing
- Multiplexers & interfaces
- Processors & controllers
- Mechanical construction
- Technical documentation
- Hardware & software for computerized testing

Production
- Purchases
- Assembling
- Adjustment
- Testing
- Documentation of production
- Repairs

Sales & Marketing
- Market research
- Product promotion
- Work with clients
- Product manuals
- Customer support
- Warranty & after warranty services

Logistics
- Packaging
- Clearance procedures
- Deliveries

Management Board Report

Dear investors,

The first financial year of SAF Tehnika as a Public Joint-Stock Company is over and I am happy to inform you that it was very successful, rich with positive events and encourages grand for optimism in the future.

Capital investments during the financial year 2003/2004 and rapid growth of demand ensured 2.6 times increase of sales comparing with the previous financial year, which justifies the strategy chosen by the company – to keep the high quality and optimum price ratio.

Last year we successfully started working on one of the company's major objectives – diversification of sales. Geographically the area of the company's activities has extended and now covers several new regions, the most important of those are South America and Africa.

We also have positive increase trend in the export volume. In the reporting year income from foreign sales reached 94.36%, in the previous financial year export volume made 84% of sales.

In the reporting year the ISO 9001 quality audit was successfully carried out and we obtained a quality compliance certificate. The company also became a member of ETSI (European Telecommunications Standards Institute), which enables us to be up-to-date and aware of novelties in the industry and to participate in working out new telecommunications standards. We started launching the CRM (Customer Relationship Management) system, which will help to improve the quality of service. I hope that all this will make better the quality of the company's products and performance of the company in general.

During the reporting year JSC SAF Tehnika increased production capacity and attracted 36% more human resources (number of staff on 30.06.2003 was 75, on 30.06.2004 company employed 116 people). The area of rented office and production space increased by 74%, as compared to the end of the previous financial year.

In May of the reporting period the company successfully made initial share offer with total market capitalisation over 50 million euros.

We can also be proud of the deal on purchase of the Swedish company Viking Microwave, which is now already integrated as SAF Tehnika Sweden and has started business. I am sure that new competence in development of microwave radio will significantly increase the company competitiveness, as range of SAF Tehnika products has extended. SAF Tehnika's estonian subsidiary – SAF International did not conduct business in the reporting year and we have come to decision to start it's liquidation process.

In the period from the last day of the reporting year till signing of this report there were no important events, which could have serious effect on the results of the reporting period.

Looking into the future I can assert that SAF Tehnika will follow its strategy in respect of investments in the company development, business expansion to new markets and development of new products, according to the demands of concrete markets.

Annual report was approved by the General Shareholders' Meeting on October 29, 2004

Chairman of the General Shareholders' Meeting

Normunds Bergs
Chairman of the Board

Riga, October 29, 2004

Supervisory Council Report

During the financial year Joint stock Company SAF Tehnika has successfully continued operation according the strategy chosen by the company – to keep high quality of production while optimizing costs.

To ensure competitiveness in the rapid market growth company has performed several important actions. Most significant one – 40 new employees have been hired, thus increasing the production capacity.

As a result of rapid increase of export sales the company experienced turnover increase by 163% (comparing to previous financial year), as a result of finalization of several successful deals for supplies in Asia and Latin America regions the company managed to increase profit by 383% (811 786 LVL in the previous financial year and 3 920 569 LVL during this financial year).

Performance of R&D division has to be specially noted, efforts by engineers have provided the base to finish comprehensive product line and to improve further the existing products, thus ensuring the solution could be delivered to customer. While investing into new developments SAF Tehnika Sweden was established to develop next generation products to address new demands from the markets in coming years.

Production division has made several important improvements mainly in the field of the production quality improvement. Most important of them – work on the equipment quality control system which consists of more detailed logging and analysis facilities during automated production tests and processes.

Sales and Marketing Department has been working hard to capitalize on ever wider products range available, offering solutions for new markets and increasing sales in existing accounts.

Considering the achieved results, Supervisory Council congratulates the management Board with successful activities during financial year and wishes to continue with the same progress next year.

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

Kristian Kalda
Chairman of the Supervisory Council

Vents Lacars
Member of the Supervisory Council

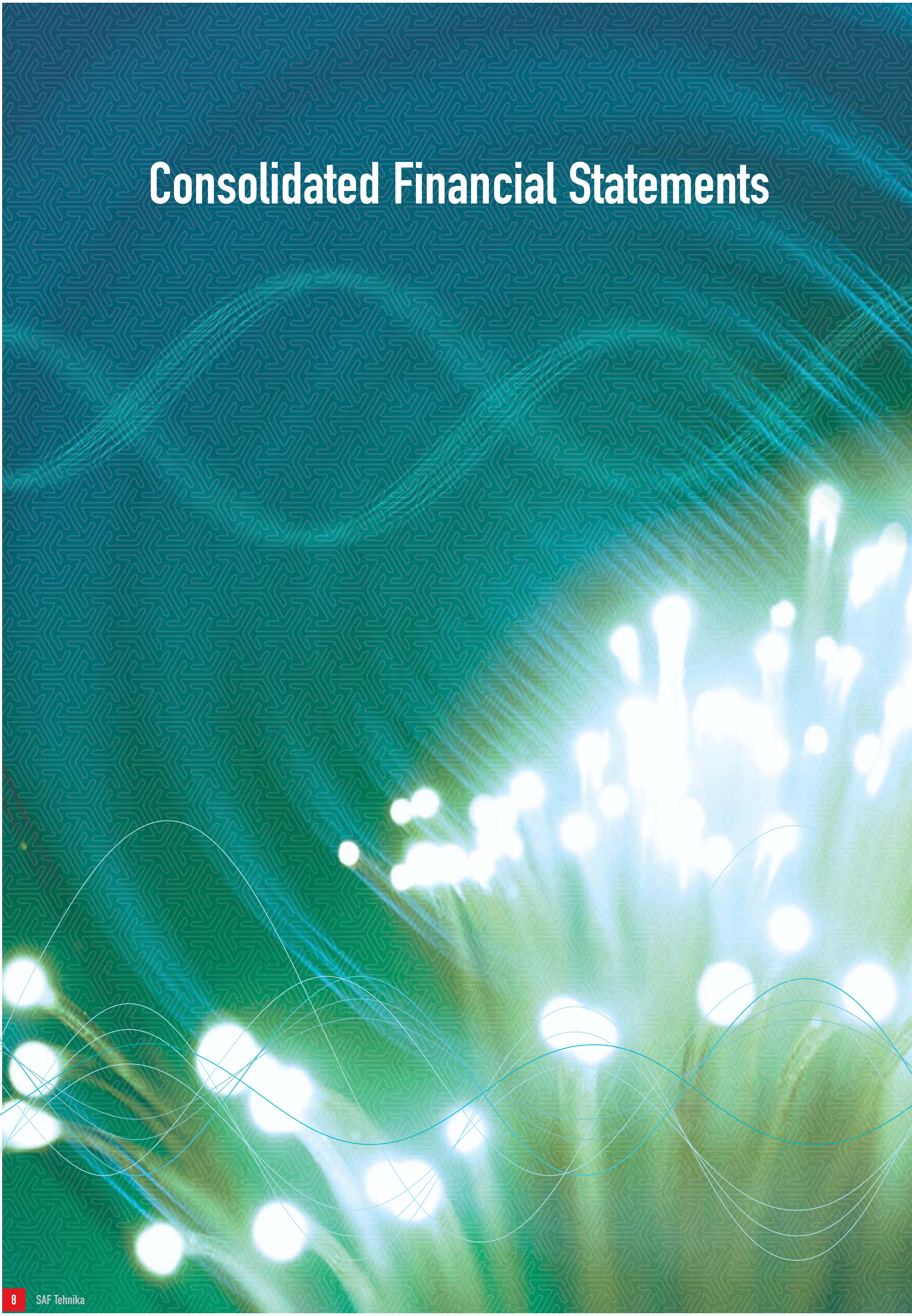
Allan Martinson
Member of the Supervisory Council

Hanno Haamer
Member of the Supervisory Council

Juris Ziema
Member of the Supervisory Council

Riga, October 15, 2004

Consolidated Financial Statements



Consolidated Balance Sheet

year ended 30 June	Note	Ls 2004	Ls 2003
Assets			
Non-current assets			
Property, plant and equipment	5	1 042 174	508 294
Intangible assets	6	648 947	82 069
Available for sale financial assets		31 654	31 654
		1 722 775	**622 017**
Current assets			
Inventories	9	2 936 976	1 880 698
Trade and other receivables	8	3 007 072	861 441
Derivative financial instruments	7	4 446	-
Cash and cash equivalents	10	852 257	1 540
		6 800 751	**2 743 679**
Total assets		**8 523 526**	**3 365 696**
Equity			
Capital and reserves attributable the Company's equity holders			
Share capital	11	2 995 259	721 982
Other reserves		10 311	70 645
Currency translation reserve		(2 272)	-
Retained earnings		3 920 569	811 786
Total equity		**6 923 867**	**1 604 413**
Lilabilities			
Non-current liabilities			
Borrowings	13	-	80 137
Deferred income tax liabilities	14	29 422	19 298
		29 422	**99 435**
Current liabilities			
Trade and other payables	12	919 244	553 266
Current income tax liabilities		648 006	241 248
Borrowings	13	2 519	867 334
Derivative financial instruments	7	468	-
		1 570 237	**1 661 848**
Total liabilities		**1 599 659**	**1 761 283**
Total equity and liabilities		**8 523 526**	**3 365 696**

The notes on pages 13 to 30 are an integral part of these consolidated financial statements.
The financial statements on pages 9 to 30 were approved by the Board and were signed on its behalf by:

Normunds Bergs
Chairman of the Board

October 14, 2004

Consolidated Income Statement

year ended 30 June	Note	Ls 2004	Ls 2003
Sales	1	12 818 452	4 881 291
Cost of goods sold	2	(6 382 529)	(3 032 357)
Gross profit		**6 435 923**	**1 848 934**
Selling and marketing costs	3	(959 486)	(492 072)
Administrative expenses	4	(416 706)	(205 598)
Other income		11 912	102
Operating profit		**5 071 643**	**1 151 366**
Finance costs – net	15	(263 351)	(90 314)
Profit before income tax		**4 808 292**	**1 061 052**
Income tax expense	16	(887 723)	(249 266)
Profit for the year		**3 920 569**	**811 786**
Attributable to:			
Equity holders of the Company		3 920 569	811 786
		3 920 569	**811 786**
Earnings per share for profit attributable to the equity holders of the Company during the year			
(expressed in Ls per share)			
– basic	18	11.92	4.05
– diluted	18	11.92	4.05

The notes on pages 13 to 30 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

year ended 30 June	Ls Share capital	Ls Share premium	Ls Other reserve	Ls Currency translation reserve	Ls Retained earnings	Ls **Total**
As at 30 June 2002	**200 103**	**171 717**	**45 774**	**-**	**24 871**	**442 465**
Issue of share capital	200	349 962	-	-	-	350 162
Allocation of profit	-	-	24 871	-	(24 871)	-
Profit for the year	-	-	-	-	811 786	811 786
As at 30 June 2003	**200 303**	**521 679**	**70 645**	**-**	**811 786**	**1 604 413**
Issue of share capital	67 637	1 531 649	-	-	-	1 599 286
Costs of issue of capital	-	(48 129)	-	-	-	(48 129)
Dividend relating to 2002/2003	-	-	-	-	(150 000)	(150 000)
Allocation of profit	-	-	661 786	-	(661 786)	-
Issue of share capital	722 120		(722 120)		-	-
Currency translation difference	-	-	-	(2 272)	-	(2 272)
Profit for the year	-	-	-	-	3 920 569	3 920 569
As at 30 June 2004	**990 060**	**2 005 199**	**10 311**	**(2 272)**	**3 920 569**	**6 923 867**

Other reserves have been created by allocation of profit in accordance with the shareholder's decision and can be distributed subject to shareholders' approval.

The notes on pages 13 to 30 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

year ended 30 June	Note	Ls 2004	Ls 2003
Cash flows from operating activities			
Cash generated from operations	19	2 073 282	(682 782)
Interest paid		(111 381)	(38 099)
Income tax paid		(241 548)	(968)
Net cash generated from/(used in) operating activities		**1 720 353**	**(721 849)**
Cash flows from investing activities			
Business acquisition		(636 525)	-
Purchases of property, plant and equipment (PPE)		(468 224)	(297 715)
Proceeds from sale of PPE		3 571	5 685
Purchases of intangible assets		(122 269)	(91 260)
Interest received		7 132	-
Net cash used in investing activities		**(1 216 315)**	**(383 290)**
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		1 551 157	350 162
Finance lease payments		(280 803)	(65 919)
Proceeds from borrowings		-	771 321
Repayments of borrowings		(773 675)	-
Dividends paid to Company's shareholders		(150 000)	-
Net cash generated from financing activities		**346 679**	**1 055 564**
Net increase/(decrease) in cash and cash equivalents		**850 717**	**(49 575)**
Cash and cash equivalents at beginning of the year		1 540	51 115
Cash and cash equivalents at end of the year	**10**	**852 257**	**1 540**

The notes on pages 13 to 30 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

General information

SAF Tehnika (the Company) and its subsidiary (together the Group) is a designer, producer and distributor of digital microwave point-to-point radio data transmission equipment which offers an alternative to cable channels. The Group markets its portfolio of approximately 130 products to cellular network operators, data service providers (such as internet service providers and telecommunication companies), governments and private companies. During the year, the Group established subsidiary company 'SAF Tehnika Sweden', a research and development company for microwave radios.

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

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

These consolidated financial statements have been approved for issue by the Board of Directors on 14 October 2004.

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

Summary of significant accounting policies

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

A. Basis of preparation

These consolidated financial statements of SAF Tehnika Group have been prepared in accordance with International Financial Reporting Standards (IFRS). IFRS 1, First-time Adoption of International Financial Reporting Standards, has been applied in preparing these financial statements. These consolidated financial statements are the first Group's financial statements to be prepared in accordance with IFRS.

The policies set out below have been consistently applied to all the years presented.

Financial statements of Company until 30 June 2003 had been prepared in accordance with Latvian law On the Annual accounts of Companies (Latvian GAAP). Latvian GAAP differs in certain respects from International Financial Reporting Standards (IFRS) however those differences do not apply to the actual balances or transactions of the Company. Accordingly, the adoption of the IFRS resulted in changes in disclosure and presentation of the information while it did not result in restatement of the comparative financial information therefore no reconciliation between Latvian GAAP and IFRS financial information is presented.

These consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets (including derivative instruments) as specified in the accounting policies below.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note U (Critical accounting estimates and judgements).

Early adoption of standarts

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

IAS 1*	Presentation of Financial Statements
IAS 2*	Inventories
IAS 8*	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10*	Events after the Balance Sheet Date
IAS 16*	Property, Plant and Equipment
IAS 17*	Leases

Notes to the Consolidated Financial Statements (continued)

IAS 21* The Effects of Changes in Foreign Exchange Rates
IAS 24* Related Party Disclosures
IAS 27* Consolidated and Separate Financial Statements
IAS 32* Financial Instruments: Disclosure and Presentation
IAS 33* Earnings per Share
IAS 39* Financial Instruments: Recognition and Measurement
IAS 36* Impairment of Assets
IAS 38* Intangible Assets

** revised 2003*

Because these are the first financial statements prepared in accordance with IFRS the early adoption of the above standards did not result in any restatements of the comparative financial information.

B. Consolidation and business combinations

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

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

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

C. Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

(c) Group companies

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

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

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

D. Property, plant and equipment

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

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

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

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

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

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

E. Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the net identifiable assets of the acquired subsidiary or business at the date of acquisition. Goodwill on acquisitions of subsidiaries or businesses is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

(b) Trademarks and licences

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

(c) Computer software

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

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

Notes to the Consolidated Financial Statements (continued)

(d) Intangible assets acquired through business combinations

Intangible assets acquired through business combinations are separately indentified, valued and recorded at their fair value. An asset is identifiable when it both arises from contractual or other legal rights, and is separable. Subsequently these assets are measured on a similar basis with other similar intangible assets.

F. Research and development

Research expenditure is recognised as an expense as incurred. The Group has not incurred development expenditure qualifying for capitalization.

G. Impairment of assets

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

H. Segment reporting

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

I. Inventories

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

J. Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount. The amount of provision is recognised in the income statement.

K. Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

L. Share capital

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

M. Borrowings

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

N. Deferred income tax

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

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

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

O. Employee benefits

The Group does not operate any pension scheme or provide any significant benefits or compensation schemes in addition to contracted salaries and wages. The Group makes social insurance contributions to the State's health, retirement benefit and unemployment schemes at the statutory rates in force during the year, based on gross salary payments. The cost of these payments is expensed in the same period as the related salary cost.

P. Revenue recognition

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

(a) Sales of goods

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

(b) Sales of services

Sales of services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

R. Leases

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in liabilities. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the asset's useful life and the lease term.

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

S. Dividend distribution

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

T. Financial risk management

(1) Financial risk factors

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

(a) market risk (including foreign exchange),
(b) credit risk,
(c) liquidity risk,
(d) cash flow and interest-rate risk.

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

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

(a) Market risk

Foreign exchange risk

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

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

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

Approximately 70% of projected sales in US dollar qualify as 'highly probable' forecast transactions for hedge accounting purposes.

(b) Credit risk

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

(c) Liquidity risk

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

Notes to the Consolidated Financial Statements (continued)

(d) Cash flow and interest rate risk

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

(2) Accounting for derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. The Group designates certain derivatives as cash flow hedges.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items. The fair values of various derivative instruments used for hedging purposes are disclosed in Note 7 ('Forward foreign Exchange contracts – cash flow hedges').

As the Group started hedging activities only in the reporting year the management considers it has not yet accumulated sufficient evidence on the effectiveness of the hedge, therefore all changes in fair value of the hedge instruments are recognized in income statement.

(3) Fair value estimation

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

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

U. Critical accounting estimates and judgements

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

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

Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note G.

Notes to the Consolidated Financial Statements (continued)

1. Segment information and sales

The Company operates in a single business and single geographical segment. Under IAS 14 geographical segment is determined by a reference to the dominant source of geographical risks which is the location of its main production unit in Latvia.

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

	Ls 12 months ended 30.06.2004	Ls 12 months ended 30.06.2003
Asia	7 415 401	2 179 345
Europe	4 234 147	2 104 488
Other countries	1 168 904	597 458
	12 818 452	**4 881 291**

2. Cost of goods sold

	Ls 12 months ended 30.06.2004	Ls 12 months ended 30.06.2003
Purchases and subcontractors	5 263 727	2 456 853
Salary expenses (incl. accruals for annual leave)	521 317	243 769
Social insurance (incl. accruals for annual leave)	123 451	59 635
Depreciation and amortization	228 096	140 890
Delivery expenses	55 490	36 454
Lease of premises	100 396	35 652
Supplies	14 842	18 942
Public utilities costs	20 496	15 206
Transportation costs	12 780	10 731
Other production costs	41 934	14 225
	6 382 529	**3 032 357**

Purchases and subcontractors cost includes research and development expense of Ls 16 487 (2003/2004: Ls 2 040).

Notes to the Consolidated Financial Statements (continued)

3. Selling and marketing costs

	Ls 12 months ended 30.06.2004	Ls 12 months ended 30.06.2003
Advertising and marketing costs	632 907	370 068
Salary expenses (incl. accruals for annual leave)	131 398	55 696
Social insurance (incl. accruals for annual leave)	31 970	13 633
Business trip expenses	71 326	20 555
Depreciation and amortization	59 542	14 546
Other selling and distribution expenses	32 343	17 574
	959 486	**492 072**

4. Administrative expenses

	Ls 12 months ended 30.06.2004	Ls 12 months ended 30.06.2003
Salary expenses (incl. accruals for annual leave)	102 129	31 510
Social insurance (incl. accruals for annual leave)	23 153	7 477
Depreciation and amortization	45 734	29 224
Provisions for bad and doubtful accounts receivable	(20 257)	39 750
Financial and management consultations	20 153	17 787
Bank commissions	27 846	13 745
Office expenses	11 154	9 679
IT services	11 718	9 240
Communication expenses	14 634	8 925
Representation costs	14 543	6 346
Business trip expenses	22 307	2 343
Sponsorship	55 200	1 000
Other administrative expenses	88 392	28 572
	416 706	**205 598**

Notes to the Consolidated Financial Statements (continued)

5. Property, plant and equipment

	Ls Leasehold improvements	Ls Equipment and machinery	Ls Other assets	Ls Advances for assets	Ls Total
Cost					
30.06.2002.	-	212 174	32 369	3 047	247 590
Additions	42 925	295 716	122 278	12 563	473 482
Reclassifications	-	3 047	-	(3 047)	-
Disposals	-	(2 902)	(7 096)	-	(9 998)
30.06.2003.	42 925	508 035	147 551	12 563	711 074
Depreciation					
30.06.2002.	-	53 869	6 557	-	60 426
Charge for the period	5 469	126 896	14 674	-	147 039
Disposals	-	(985)	(3 700)	-	(4 685)
30.06.2003.	5 469	179 780	17 531	-	202 780
Net book value 30.06.2002.	**-**	**158 305**	**25 812**	**3 047**	**187 164**
Net book value 30.06.2003.	**37 456**	**328 255**	**130 020**	**12 563**	**508 294**
Cost					
30.06.2003	42 925	508 035	147 551	12 563	711 074
Additions	177 135	265 024	108 618	24 312	575 089
Acquisition of business	-	225 606	3 880	-	229 486
Reclassifications	-	11 179	1 384	(12 563)	-
Disposals	-	(2 779)	-	-	(2 779)
30.06.2004.	220 060	1 007 065	261 433	24 312	1 512 870
Depreciation					
30.06.2003	5 469	179 780	17 531	-	202 780
Charge for the period	22 524	202 117	44 614	-	269 255
Disposals	-	(1 339)	-	-	(1 339)
30.06.2004.	27 993	380 558	62 145	-	470 696
Net book value 30.06.2003	**37 456**	**328 255**	**130 020**	**12 563**	**508 294**
Net book value 30.06.2004	**192 067**	**626 507**	**199 288**	**24 312**	**1 042 174**

During the reporting year property, plant and equipment in amount of Ls 92 820 were acquired under finance lease (2002/2003: Ls 175 767). The lease obligations were paid during the reporting year. The Group had not entered operating lease agreements.

6. Intangible assets

	Ls Goodwill	Ls Trademarks & licenses	Ls Other	Ls Advances	Ls **Total**
Cost					
30.06.2002.	-	-	41 868	-	41 868
Additions	-	59 767	20 729	10 764	91 260
30.06.2003.		**59 767**	**62 597**	**10 764**	**133 128**
Amortisation					
30.06.2002.	-	-	13 439	-	13 439
Charge for the period	-	8 443	29 177	-	37 620
30.06.2003.	**-**	**8 443**	**42 616**	**-**	**51 059**
Net book value 30.06.2002	**-**	**-**	**28 429**	**-**	**28 429**
Net book value 30.06.2003	**-**	**51 324**	**19 981**	**10 764**	**82 069**
Cost					
30.06.2003	-	59 767	62 597	10 764	133 128
Additions	-	36 580	73 417	12 272	122 269
Acquisition of business	511 051	-	-	-	511 051
Reclassifications	-	10 764	-	(10 764)	-
Disposals	-	(2 325)	-	-	(2 325)
30.06.2004	**511 051**	**104 786**	**136 014**	**12 272**	**764 123**
Amortisation					
30.06.2003	-	8 443	42 616	-	51 059
Charge for the period	-	38 191	25 926	-	64 117
30.06.2004	**-**	**46 634**	**68 542**	**-**	**115 176**
Net book value 30.06.2003	**-**	**51 324**	**19 981**	**10 764**	**82 069**
Net book value 30.06.2004	**511 051**	**58 152**	**67 472**	**12 272**	**648 947**

Amortisation of Ls 16 889 (2002/2003: Ls 12 616) is included in the "cost of goods sold" in the income statement; Ls 38 819 (2002/2003: Ls 8 406) in "selling and marketing costs"; and Ls 8 409 (2002/2003: Ls 16 598) in "administrative expenses."

Goodwill arising in acquisition of business is allocated to the Group as single cash-generating unit (CGU), as the acquired subsidiary will function as research and development unit for the whole Group. As the acquisition of business took place in June 2004 the first impairment test of goodwill has not been performed before the balance sheet date. The management is not aware of any indications on potential impairment of goodwill.

Notes to the Consolidated Financial Statements (continued)

7. Derivative financial instruments

		Ls		Ls
		30.06.2004		30.06.2003
	Assets	Liabilities	Assets	Liabilities
Forward foreign Exchange contracts – cash flow hedges	**4 446**	**468**	**-**	**-**

8. Trade and other receivables

	Ls 30.06.2004	Ls 30.06.2003
Trade debtors	2 784 893	522 711
Provisions for bad and doubtful accounts receivable	(19 493)	(39 750)
Trade debtors, net	2 765 400	482 961
Receivables from related parties	-	18 912
VAT receivable	147 422	242 311
Deferred expenses	20 748	25 189
Other debtors	42 095	8 311
Prepayment to suppliers	31 407	83 757
	3 007 072	**861 441**

Trade debtors includes undrawn Letters of Credit with payment term 180 days for Ls 1 832 225.

There is concentration of credit risk with respect to trade receivables, as the Group has a number of large international customers. Approximately 42% of gross trade receivables relate to one large international customer. The credit risk associated with this exposure is managed through above-mentioned Letters of Credit.

9. Inventories

	Ls 30.06.2004	Ls 30.06.2003
Raw materials	1 084 916	895 154
Work in progress	1 613 406	943 281
Finished goods	312 330	42 263
Provisions for slow moving inventories	(73 676)	-
	2 939 976	**1 880 698**

Notes to the Consolidated Financial Statements (continued)

10. Cash and cash equivalents

	Ls 30.06.2004	Ls 30.06.2003
Cash in bank	60 977	1 540
Deposits in money market fund	553 632	-
Short-term bank deposits	237 648	-
	852 257	**1 540**

The effective interest rate on short – term bank deposits (overnight deposits) was 2.9% for Ls and 1.2% for USD. The deposits in money market fund are available on 24 hour advance request and are not subject to significant changes in value.

11. Share capital

The total number of authorised, issued and fully paid ordinary shares with voting rights is 990 060 shares (30.06.2003: 200 303 shares). Nominal value of share is Ls 1.

The Company performed a bonus share issue in April 2004 which resulted in 722 120 new shares issued. In addition 35 000 new shares were issued and paid in cash as part of the Initial Public Offering process in May 2004 and 32 637 new shares were issued and paid in cash in April 2004.

12. Trade and other payables

	Ls 30.06.2004	Ls 30.06.2003
Trade payables	484 944	395 375
Amounts due to related parties	-	38 441
Social security and other taxes	57 054	14 965
Accruals for annual leave	72 066	34 998
Payable for acquisition of business	131 949	-
Other creditors	173 231	69 487
	919 244	**553 266**

13. Borrowings

	Ls 30.06.2004	Ls 30.06.2003
Current		
Bank overdrafts	2 519	776 194
Current portion of finance leases	-	91 140
	2 519	**867 334**
Non-current	**-**	**80 137**
Total	**2 519**	**947 471**

Notes to the Consolidated Financial Statements (continued)

13. Borrowings (continued)

The maturity of borrowings is presented below.

	Ls 6 months or less	Ls 6–12 months	Ls 1–5 year	Ls Over 5 years	Ls Total
At 30 June 2003					
Total borrowings	826 230*	41 104	80 137	-	947 471
At 30 June 2004					
Total borrowings	2 519	-	-	-	2 519

* The former parent company Microlink AS (SAF Tehnika A/S was included in Microlink Group until 25 May 2004) determined the maximum credit line limits to the Microlink group companies, including SAF Tehnika A/S. Until 25 May 2004 the granted credit line limit to SAF Tehnika A/S was USD 500 000 with 6 months LIBOR+2.5% interest rate on drawn down amounts, and Ls 481 495 with 3 months Rigibor+2.5% interest rate on drawn down amounts.

As a security for the overdraft in Hansabank, all Company's assets have been pledged until 25 May 2004 with maximum claim amount of Ls 2.4 million:

– Property, plant and equipment except for mechanical motor vehicles, pledge of what is not explicitly prohibited, as common property at the moment of pledge, as well as further shares of common property;
– Intangible assets, claim rights, long-term financial investments, participation in equity, deposits and inventory, pledging of what is not explicitly prohibited, as common property at the moment of pledge, as well as further shares of common property.

The fair values of the borrowings approximate their carrying values.

14. Deferred income tax liabilities

	Ls 30.06.2004	Ls 12 months ended 30.06.2003
Deferred tax liability at the beginning of the reporting period	19 298	14 925
Increase of deferred tax liability during the reporting period	10 124	4 373
Deferred tax liability at the end of the reporting period	**29 422**	**19 298**

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

	Ls 30.06.2004	Ls 12 months ended 30.06.2003
Temporary difference on fixed assets depreciation	51 284	28 855
Temporary difference on accruals for unused annual leave	(10 810)	(6 650)
Temporary differences on accruals for trade commissions	-	(2 907)
Temporary differences on provisions for slow moving inventories	(11 052)	-
Deferred tax liability	**29 422**	**19 298**

No offsetting of deferred tax liabilities and assets arising at different jurisdictions has been performed. No deferred tax was arising on acquisition of subsidiary and business.

15. Finance costs – net

	Ls 12 months ended 30.06.2004	Ls 12 months ended 30.06.2003
Interest expenses	113 783	38 111
Net losses on foreign exchange	149 568	52 203
	263 351	**90 314**

16. Income tax expense

	Ls 12 months ended 30.06.2004	Ls 12 months ended 30.06.2003
Increase in deferred tax (see Note 14)	10 124	4 373
Corporate income tax charge for the current period	877 599	244 893
	887 723	**249 266**

Corporate income tax differs from the theoretically calculated tax amount that would arise applying the 19% rate stipulated by the law to profit before taxation:

	Ls 12 months ended 30.06.2004	Ls 12 months ended 30.06.2003
Profit before taxation	**4 808 292**	**1 061 052**
Theoretically calculated tax at a tax rate of 19% (2002/2003 – 22%)	913 575	233 431
Tax effect from expenses not deductible for tax purposes	1 361	20 882
Tax relief for donations	(46 920)	(900)
Effect of changes in enacted tax rates on deferred tax	19 707	(4 147)
Tax charge	**887 723**	**249 266**

Deferred tax is calculated by using the enacted tax rates.

Year	Tax rate
2003/2004	19%
2004/2005 and thereafter	15%

The tax authorities may at any time inspect the books and records for the last 3 years and may impose additional tax assessments with penalty interest and penalties. The Group's management is not aware of any circumstances, which may give rise to a potential material liability in this respect. The tax authorities have not performed all-inclusive tax inspection to date.

Notes to the Consolidated Financial Statements (continued)

17. Earnings per share

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year. The Company does not have dilutive potential ordinary shares.

18. Dividends per share

The dividends paid in respect of financial year 2002/2003 were Ls 150 000 or Ls 0.75 per share. A dividend in respect of financial year 2003/2004 of Ls 1 per share, amounting to a total dividend of Ls 990 060, is to be proposed at the Annual General Meeting on 29 October 2004. These financial statements do not reflect this dividend payable.

19. Cash generated from operations

	Note	Ls **12 months ended 30.06.2004**	Ls **12 months ended 30.06.2003**
Profit before taxes		4 808 292	1 061 052
Adjustments for:			
depreciation	5	269 255	147 039
amortization	6	64 117	37 620
loss on disposal of property, plant and equipment		-	(372)
provisions for slow moving inventories		73 676	-
accruals for annual leave	12	37 068	22 661
interest income		(11 329)	(12)
interest expenses		113 783	38 111
Cash generated from operations before changes in working capital		**5 354 862**	**1 306 099**
Inventories increase		(986 242)	(1 499 405)
Trade debtors' increase		(2 211 805)	(537 694)
Trade creditors' (decrease)/increase		(83 533)	48 218
Cash generated from operations		**2 073 282**	**(682 782)**

20. Subsidiaries and business combinations

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

On June 1, 2004, subsidiary of the Group SAF Tehnika Sweden AB acquired Viking Microvawe business. The acquired business contributed revenues of Ls 70 141 and loss of Ls 69 872 for the period from June 1 to June 30, 2004.

Notes to the Consolidated Financial Statements (continued)

20. Subsidiaries and business combinations (continued)

Details of net assets acquired and goodwill are as follows:

	Ls Fair Value
Purchase consideration	
- cash paid	636 525
- contingent consideration	131 949
Total purchase consideration	768 474
Fair value of net assets acquired	(257 423)
Goodwill	**511 051**

Accounting for the business combination has been recorded based on provisional values, as the initial accounting of business combination has not yet been completed. The goodwill is attributable to the cost savings and future benefits from research and development function to be performed by the acquired business for the needs of the entire Group. Any changes to the provisional values resulting from the completion of the accounting for the business combination within 12 months from the acquisition date will be accounted for in accordance with requirements of paragraphs 61-62 of IFRS 3.

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

	Ls Fair value	Ls Acquiree's carrying amount
Property, plant and equipment	228 588	228 588
Inventories	109 636	109 636
Holiday pay accrual	(80 801)	(80 801)
Net assets	**257 423**	**257 423**

There were no acquisitions in the year ended 30 June 2003.

21. Related-party transactions

a) Receivables from related parties*

	Ls 30.06.2004	Ls 30.06.2003
Microlink Latvia SIA	-	1 285
Fortek Informacines Technologijos	-	17 627
	-	**18 912**

b) Amounts due to related parties*

	Ls 30.06.2004	Ls 30.06.2003
Microlink Latvia SIA	-	2 443
Microlink Data AS	-	31 654
Microlink AS	-	4 260
Microlink ServIT AS	-	84
	-	**38 441**

Notes to the Consolidated Financial Statements (continued)

21. Related-party transactions (continued)

c) Sales of goods and services*

	Ls 12 months ended 30.06.2004	Ls 12 months ended 30.06.2003
Microlink Systems SIA	-	398 420
Microlink Latvia SIA	253 867	1 089
Fortek Informacines Technologijos	571 607	360 694
	825 474	**760 203**

d) Purchase of goods and services*

	Ls 12 months ended 30.06.2004	Ls 12 months ended 30.06.2003
Microlink ServIT	-	220 674
Microlink Systems SIA	-	38 232
Microlink Latvia SIA	27 944	893
Microlink Data AS	-	8 963
Microlink Data UAB	242	-
Microlink Datori AS	-	149 683
Fortek Informacines Technologijos	-	105
Microlink AS	1 367	110 339
Delfi AS	-	135
	29 553	**529 024**

* A/S SAF Tehnika was a part of Microlink group until 25 May 2004. SAF Tehnika A/S until that date was a subsidiary of Microlink AS (Estonia). Other companies described above are subsidiaries of Microlink group. The related party transactions are disclosed for the period from 1 July 2003 until 25 May 2004.

e) Key management compensation

	Ls 12 months ended 30.06.2004	Ls 12 months ended 30.06.2003
Board members' remuneration		
salary expenses	65 781	36 586
social insurance	12 992	9 003
Other management remuneration		
salary expenses	67 174	38 018
social insurance	15 165	9 506
Total	**161 112**	**93 113**

There are no loans issued to the management.

22. Events after the balance sheet date

There are no subsequent events since the last date of the reporting year, which would have a significant effect on the financial position of the Group as at 30 June 2004.

PRICEWATERHOUSECOOPERS

To the shareholders of A/S SAF Tehnika

We have audited the consolidated financial statements of A/S SAF Tehnika and it's subsidiary SAF Tehnika Sweden AB (the "Group") for the year ended 30 June 2004 set out on pages 9 to 30. The audited consolidated financial statements include the consolidated balance sheet as of 30 June 2004 and the related consolidated statements of income, changes in equity and cash flows for the year ended 30 June 2004 and note disclosure. These consolidated financial statements are the responsibility of A/S SAF Tehnika management, as referred to on page 3. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements set out on pages 9 to 30 give a true and fair view of the financial position of the Group as of 30 June 2004, and of the results of its operations and its cash flows for the year ended 30 June 2004 in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers SIA
Audit company licence No. 5

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

Member of the Board

October 14, 2004
Riga, Latvia