SAF Tehnika A/S
Condensed Consolidated Annual Accounts

30 June 2005

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Report of the Board

Description of activities

SAF Tehnika (hereafter – the Group) is a manufacturer, producer and distributor of digital microwave point-to-point radio data transmission equipment which is used mainly by telecommunication operators to provide voice and data transmission as 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. The purpose of the Group is to provide wireless connections for data and voice transmission for acceptable price. The Group 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.

Group activity in the financial year

The Group's consolidated net sales for 12 month period of financial year 2004/2005 were Ls 11 066 391. Despite the fact that revenues from China decreased by approximately Ls 6 000 000 (in the previous financial year China represented 57% of revenues), turnover constituted 86% of the previous financial year's consolidated net sales. Sales to Asia, Africa and Latin America increased rapidly. Over the past 12 months the Group has entered 15 new markets, thereby increasing the total number of active markets by 50% (now 45 countries). Nearly all of the new countries are considered to be emerging markets.

The consolidated net profit of the Group for financial year 2004/2005 (incorporating SAF Tehnika Sweden) was Ls 1 559 327. Net profit compared with the previous year was affected mainly by decreased turnover (less beneficial economies of scale) and SAF Tehnika Sweden costs. Ongoing developments such as the new common modem project are being undertaken in order to address this issue. The key determinant for better profitability measures solely rests on increased turnover due to absolute fixed cost levels.

During the reporting year the Group increased production capacity by investing Ls 587 143 into property, plant and equipment and intangible assets and recruting 20 new employees.

The Group signed contracts with all of Sweden's Tele2 subsidiaries in Russia. Furthermore SAF Tehnika has become an official supplier for Russia's second-largest mobile network operator VimpelCom. Also the sale of SAF network management system has been introduced.

During reporting period the Group has participated in exhibitions CommunicAsia 2005 in Singapore and CeBit in Hanover with great success as well as became a member of Latvian Chamber of Commerce and Industry. These activities will help to acquire new collaboration partners and clients.

The Group is planning to expand further internationally by penetrating new geographic markets both in developing and developed countries while accommodating local user preferences and market-specific characteristics.

Following the majority shareholder decision taken at the previous annual general meeting, the Group paid a Ls 1 per share dividend and implemented a 2 for 1 bonus share issue.

Scientific research and development

A good perspective for nearest years is the Group` s focusing on the development of new products and improvement of existing ones in this way constantly offering more qualitative and diverse production. For example, the Group has completed the indoor unit (IDU) and outdoor unit (ODU) testing process by implementation of IDU thermo-testing.

Report of the Board (continued)

Foreign branch offices

During reporting period the liquidation of Estonian company SAF International was completed.

Swedish company SAF Tehnika Sweden AB during reporting period was working on development and production start of CFQ system.

Court proceedings

Based on the results of the tax audit of SAF Tehnika A/S (the Company) the State Revenue Service (SRS) imposed an additional corporate income tax charge and a penalty. As the Company disagreed with such decision, the decision of SRS was appealed in Administrative region court. The Court satisfied the claim and decided that the disputed decision was unfounded and had to be withdrawn. The Court decision was not appealed and came in force.

Future perspectives

Based on ongoing investments (including increased production capacity) and existing demand levels, management of SAF Tehnika considers that the results of financial year 2005/2006 will be better thanks to the successful income diversification measures undertaken following the unexpected (3G-related) industry slowdown in the Chinese market.

On behalf of the Board

Normunds Bergs
Chairman of the Board

Riga, 4 October 2005

Consolidated balance sheet

	As at 30 June	
	2005	**2004**
	EUR	**EUR**
ASSETS		
Non-current assets		
Property, plant and equipment	1 486 905	1 482 880
Intangible assets	988 037	923 368
Available for sale financial assets	-	45 040
	2 474 942	**2 451 288**
Current assets		
Inventories	6 211 948	4 178 940
Current income tax	258 954	-
Trade and other receivables	2 672 815	4 278 678
Derivative financial instruments	-	6 326
Cash and cash equivalents	149 672	1 212 652
	9 293 389	**9 676 596**
Total assets	**11 768 331**	**12 127 884**
EQUITY		
Share capital	7 077 910	4 261 869
Reserves	1 456 170	14 671
Currency translation reserve	(1 550)	(3 232)
Retained earnings	2 129 505	5 578 467
Total equity	**10 662 035**	**9 851 775**
LIABILITIES		
Non-current liabilities		
Deferred tax liabilities	21 460	41 864
	21 460	**41 864**
Current liabilities		
Trade and other payables	1 063 366	1 307 966
Current income tax liabilities	-	922 029
Borrowings	8 681	3 584
Derivative financial instruments	12 789	666
	1 084 836	**2 234 245**
Total liabilities	**1 106 296**	**2 276 109**
Total equity and liabilities	**11 768 331**	**12 127 884**

Currency Exchange rate for LVL/EUR 0.702804 , as on 30.06.2005.

On behalf of the Board

Normunds Bergs
Chairman of the Board

4 October 2005

Consolidated income statement

	Year ended 30 June	
	2005	**2004**
	EUR	**EUR**
Sales	15 746 056	18 239 014
Cost of goods sold	(10 165 650)	(9 081 521)
Gross profit	**5 580 406**	**9 157 493**
Selling and marketing costs	(1 279 253)	(1 365 225)
Administrative expenses	(1 481 379)	(592 090)
Operating profit	**2 819 774**	**7 200 178**
Finance costs – net	(52 845)	(358 595)
Profit before income tax	**2 766 929**	**6 841 583**
Income tax expense	(548 207)	(1 263 116)
Profit for the year	**2 218 722**	**5 578 467**
Attributable to:		
Equity holders of the Company	2 218 722	5 578 467
	2 218 722	5 578 467
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in EUR per share)		
– basic	0.74	1.88
– diluted	0.74	1.88

Currency Exchange rate for LVL/EUR 0.702804 , as on 30.06.2005.

Consolidated statement of changes in equity

	Share capital EUR	Share premium EUR	Reserves* EUR	Currency translation reserve EUR	Retained earnings EUR	Total EUR
Balance at 30 June 2003	**285 005**	**742 282**	**100 518**	**-**	**1 155 068**	**2 282 873**
Issue of share capital	96 239	2 179 340	-	-	-	2 275 579
Costs of issue of capital	-	(68 481)	-	-	-	(68 481)
Dividend relating to 2002/2003	-	-	-	-	(213 431)	(213 431)
Allocation of profit	-	-	941 637	-	(941 637)	-
Issue of share capital	1 027 484	-	(1 027 484)	-	-	-
Currency translation differences	-	-	-	(3 232)	-	(3 232)
Profit for the year	-	-	-	-	5 578 467	5 578 467
Balance at 30 June 2004	**1 408 728**	**2 853 141**	**14 671**	**(3 232)**	**5 578 467**	**9 851 775**
Issue of share capital	2 817 457	-	-	-	(2 817 457)	-
Costs of issue of capital	-	(1 416)	-	-	-	(1 416)
Dividend relating to 2003/2004	-	-	-	-	(1 408 728)	(1 408 728)
Allocation of profit	-	-	1 441 499	-	(1 441 499)	-
Currency translation differences	-	-	-	1 682	-	1 682
Profit for the year	-	-	-	-	2 218 722	2 218 722
Balance at 30 June 2005	**4 226 185**	**2 851 725**	**1 456 170**	**(1 550)**	**2 129 505**	**10 662 035**

* Reserves have been created by allocation of profit in accordance with the shareholders’ decision and can be distributed subject to shareholders’ approval.

Currency Exchange rate for LVL/EUR 0.702804 , as on 30.06.2005.

Consolidated cash flow statement

	Year ended 30 June	
	2005	**2004**
	EUR	**EUR**
Cash flows from operating activities		
Cash generated from operations	2 608 252	2 950 015
Interest paid	(39 217)	(158 481)
Income tax paid	(1 416 045)	(343 692)
Net cash generated from operating activities	**1 152 990**	**2 447 842**
Cash flows from investing activities		
Business acquisition	-	(905 693)
Received as a result of subsidiary liquidation	39 054	-
Purchases of property, plant and equipment (PPE)	(656 529)	(666 223)
Proceeds from sale of PPE	262	5 081
Purchases of intangible assets	(179 993)	(173 973)
Interest received	4 249	10 148
Net cash used in investing activities	**(792 957)**	**(1 730 660)**
Cash flows from financing activities		
Proceeds from issuance of ordinary shares	-	2 207 097
Finance lease payments	-	(399 547)
Proceeds from borrowings	5 096	-
Repayments of borrowings	-	(1 100 840)
Dividends paid to Company's shareholders	(1 408 728)	(213 431)
Net cash (used in) / from financing activities	**(1 403 632)**	**493 279**
Effects of exchange rate changes	(19 381)	-
Net (decrease) / increase in cash and cash equivalents	**(1 062 980)**	**1 210 461**
Cash and cash equivalents at the beginning of the year	1 212 652	2 191
Cash and cash equivalents at the end of the year	**149 672**	**1 212 652**

Currency Exchange rate for LVL/EUR 0.702804 , as on 30.06.2005.