

SAF Tehnika A/S
Consolidated Interim Report
for 12 month of financial year 2005/6

TABLE OF CONTENTS

| | |
|--|-----------|
| KEY DATA..... | 3 |
| Share and Shareholdings..... | 4 |
| Information on management and supervisory board members..... | 5 |
| Information on professional and educational background of the management board members..... | 6 |
| Information on professional and educational background of the supervisory board members | 7 |
| Management Report..... | 8 |
| Consolidated Balance Sheet..... | 11 |
| Consolidated Income Statement for 12 month of the financial year 2005/6.. | 13 |
| Consolidated Income Statement for Q4 of the financial year 2005/6..... | 14 |
| Consolidated Cash Flow Statement..... | 15 |
| Statement of Changes in Equity..... | 16 |
| Notes for Consolidated Interim Report..... | 18 |
| Note 1 Customer Receivables..... | 19 |
| Note 2 Prepaid expenses..... | 19 |
| Note 3 Inventories..... | 19 |
| Note 4 Non-current physical assets..... | 19 |
| Note 5 Accounts payable..... | 20 |
| Note 6 Provisions..... | 20 |
| Note 7 Share capital..... | 21 |
| Note 8 Marketing, advertising and public relations expenses..... | 21 |
| Note 9 Operating expenses..... | 21 |
| Note 10 Financial Income..... | 22 |
| Note 11 Foreign Exchange Loss..... | 22 |
| Note 12 Segment information..... | 22 |

KEY DATA

SAF Tehnika (The Group) is a telecommunications equipment company engaged in the development, production and distribution of digital microwave radio equipment. SAF Tehnika products provide wireless backhaul solutions for digital voice and data transmission. The Group offers two main product lines: low to medium capacity radio links (PDH) and high capacity radio links (SDH). The complete product range offers solutions to mobile network operators, data service providers, government and private companies. Since its establishment in 1999, SAF Tehnika has succeeded in becoming an international player and has been able to compete with such multinational corporations as Ericsson, Nokia, Siemens and NEC. Through the acquisition of Viking Microwave AB on June 1, 2004, SAF Tehnika has considerably improved its R&D capacity.

AS SAF Tehnika is a public joint stock company incorporated under the laws of the Republic of Latvia. The shares of AS SAF Tehnika are quoted on Riga Stock Exchange.

| | |
|------------------------------|--|
| Legal address: | Ganibu Dambis 24a Riga, LV – 1005 Latvia |
| Commercial Registry Nr.: | 40003474109 |
| VAT Registry Nr.: | LV40003474109 |
| Beginning of financial year: | 01.07.2005 |
| End of financial year: | 30.06.2006 |
| Phone: | +371 7046840 |
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Aleksis Orlovs
Member of the Management Board

July 27, 2006

Share and Shareholdings

SAF Tehnika shareholders (over 5%) as of 25.11.2005

| Name | Ownership interest (%) |
|--|------------------------|
| Hansapank AS Clients Account | 20.13% |
| Didzis Liepkalns | 17.05% |
| Andrejs Grišāns | 10.03% |
| Normunds Bergs | 9.74% |
| Juris Zieme | 8.71% |
| Skandinaviska Enskilda Banken AB Clients Account | 8.59% |
| Nordea Bank Finland PLC Clients Account | 6.31% |
| Vents Lācars | 6.08% |

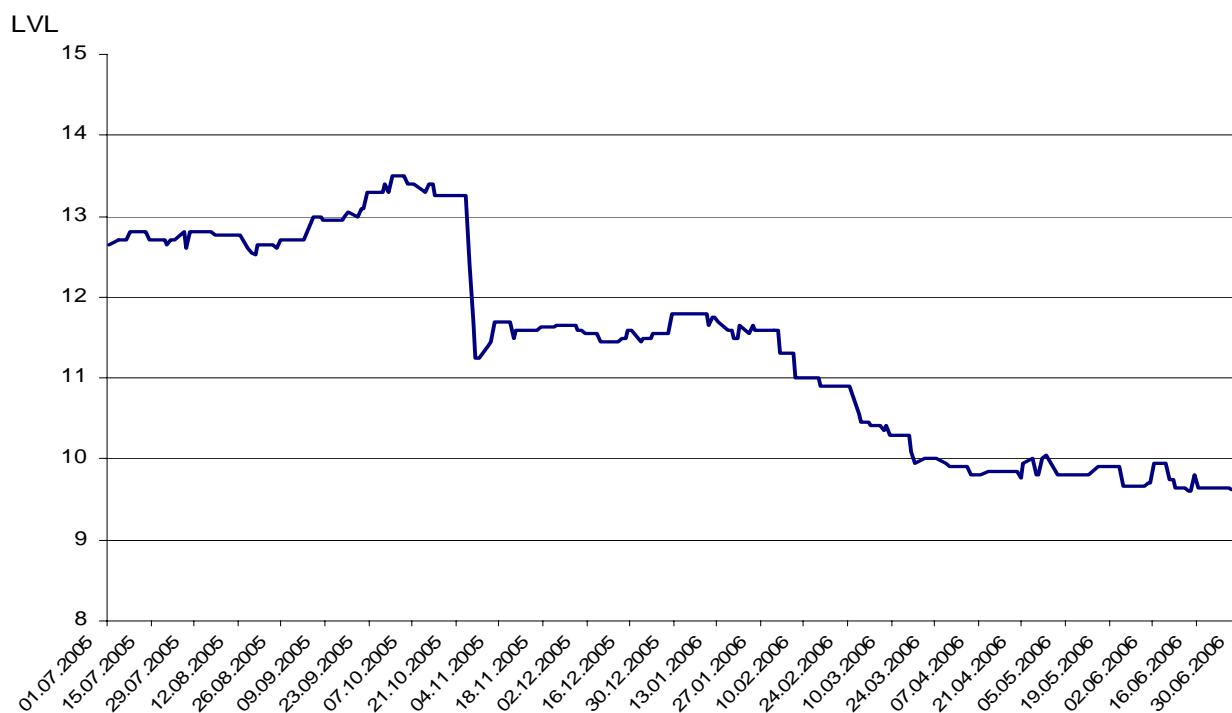
SAF Tehnika share price development for the reporting period

SAF Tehnika (SAF1R)

Period: 2005-07-01 - 2006-06-30

Currency: LVL

Marketplace: RSE



Information on management and supervisory board members

SAF Tehnika Management Board:

| Name | Position | Ownership interest (%) |
|------------------|-----------------|-------------------------------|
| Normunds Bergs | Chairman | owns 9.74% of shares |
| Didzis Liepkalns | Vice Chairman | owns 17.05% of shares |
| Aleksis Orlovs | Member | |

SAF Tehnika Supervisory Board:

| Name | Position | Ownership interest (%) |
|-----------------|-----------------|-------------------------------|
| Vents Lācars | Chairman | owns 6.08% of shares |
| Juris Ziema | Vice-Chairman | owns 8.71% of shares |
| Andrejs Grišāns | Member | owns 10.03% of shares |
| Ivars Šenbergs | Member | |

Information on professional and educational background of the management board members

Normunds Bergs

Normunds Bergs, born in 1963, is Chairman of the Board and Chief Executive Officer of SAF Tehnika A/S. Mr. Bergs is one of the founders of SIA Fortech (co-founding company of SAF Tehnika A/S) 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 AS Microlink in 2000, Mr. Bergs became Chief Executive Officer of SAF Tehnika A/S and a member of the Management Board of AS Microlink. From 1992 to 1999, Mr. Bergs worked for World Trade Center Riga, where he was holding 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.

Aleksis Orlovs

Aleksis Orlovs, born in 1974, is Board Member and Chief Financial Officer. 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 was holding 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 Business Administration (MBA) degree from the Riga Business School which he received in 2004, as well as he 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.

Information on professional and educational background of the supervisory board members

Vents Lācars,

Vents Lācars, born in 1968, is a Member of the Supervisory Council and Sales and Marketing Director of SAF Tehnika A/S. Before co-founding the Company, from 1992 to 2000, he worked in 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.

Juris Ziema,

Juris Ziema, born in 1964, co-founder of the Company, is a Member of the Supervisory Council and Production Department Manager. 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

Andrejs Grišāns

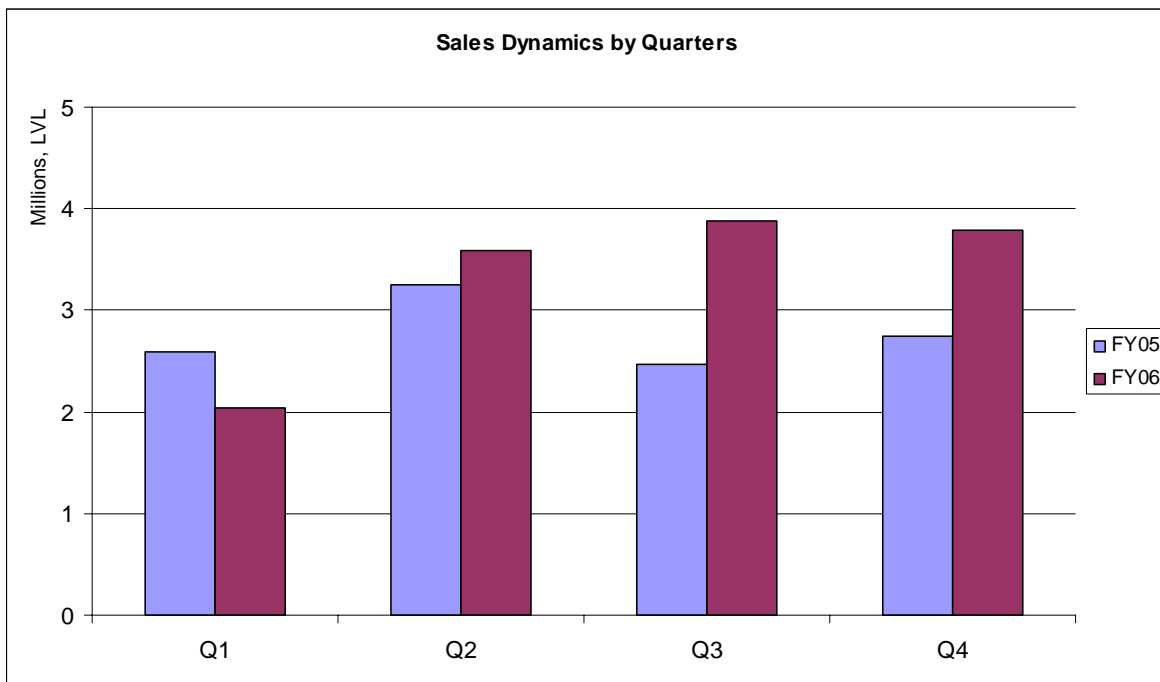
Andrejs Grišāns, born in 1964, is Production Department Manager of SAF. Mr. Grišāns has 20 years of experience in the engineering industry and is one of the founders of SAF. Prior to joining the Company, he owned and managed a private company specializing in electronic equipment engineering, production 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.

Ivars Šenbergs

Ivars Šenbergs, born in 1962, from November 2004, Member of the Board of SIA „Juridiskais Audits” and Chairman of the Board of SIA „Namīpašumu pārvalde”. From 1999 until 2000 worked as SIA „Fortek” Finance and Administrative Director. Graduated Law Faculty of University of Latvia.

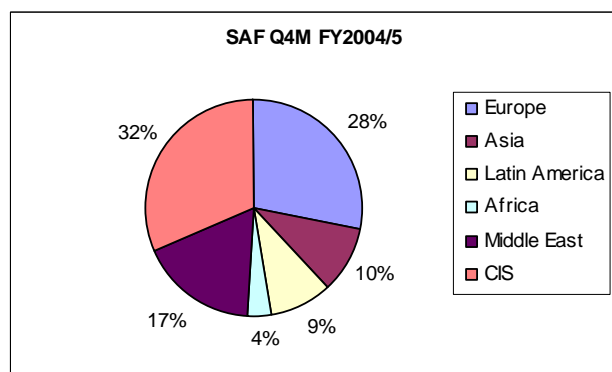
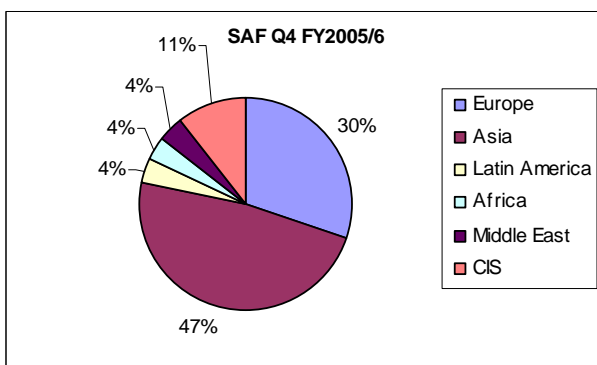
Management Report

The Group's consolidated non-audited net sales for the fourth quarter of financial year 2005/6 were 3 778 988 LVL (5 377 015 EUR), representing a year-on-year increase of 38%. This result was achieved by combination of the Group's continuing regional diversification policy and strong business activities in Asia. Performance was steady in Europe, Africa and CIS countries, while Latin America continues to show good growth off a low base. Revenues in China continue to recover. The Group supplied the second half of a significant project for BSNL in India.



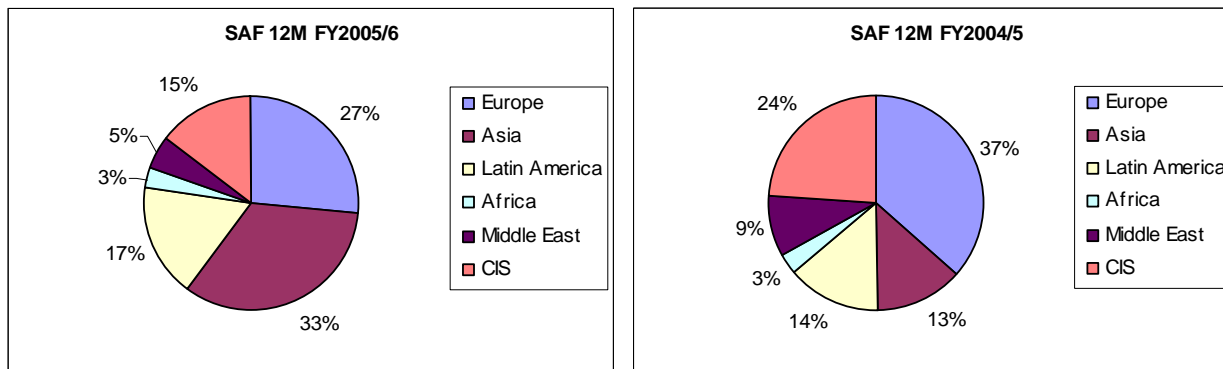
The Group commenced rolling out its SDH product (launched at the World 3GSM Congress on February 13) into the global communications market. The CFQ (SDH) product line offers high capacity data transmission capabilities suitable for operators to provide various leading edge 3G data services as well as wireless solutions for emerging WiMax networks.

Quarter 4 sales breakdown comparative charts:



The Group's consolidated non-audited net sales for the 12 months of financial year 2005/6 reached a new high of 13 292 273 LVL (18 913 200 EUR), representing a year-on-year increase of 20%.

12 month sales breakdown comparative charts:



The consolidated net profit of the Group for the fourth quarter was 551 462 LVL (784 660 EUR), representing a year-on-year increase of 155%. The consolidated net profit of the Group for the 12 months of financial year 2005/6 was 1 507 794 LVL (2 145 398 EUR), approximately 3% less than in the previous financial year. If the unfavorable foreign exchange outcome is excluded, net profit would have exceeded the previous financial year's results. Other factors included the weaker than anticipated first half of the financial year (refer to comments issued at that time) as well as differences in regional sales destinations of the Group (increasing share of Asia and Latin America). The overall product pricing levels in the Group's sales destinations have not changed markedly during the past 12 months.

Market overview (no marked changes since 9 months results, so largely reproduced below)

The Point to Point (P2P) wireless radio market in which SAF Tehnika operates is in good shape and experiencing ongoing growth. There are no signs of a slowdown as deployments are ongoing in large markets such as India and Latin America. The new Chinese 3G standard (TD-SCDMA) has been approved and the market continues to await high level 3G network deployment decisions. New segments are about to be established in the P2P microwave radio market. For example, the Group is in a position to participate in the development of WiMAX networks. As mentioned in the previous quarterly release, WiMAX wireless access service providers could utilize P2P microwave radios in the backbone of their WiMAX network infrastructure.

Guidance:

Management is confident of at least 10% better results in the next financial year 2006/07. SAF Tehnika AS succeeded to win its first significant SDH (high capacity) project in Kosovo to the value of EUR 0.4 mln. The transaction is expected to be invoiced during the first quarter of financial year 2006/07. The Group is negotiating further new projects with BSNL (India). These are expected to be invoiced at some stage during financial year 2006/07.

Dividends:

Management proposal for dividend in respect of the financial year 2005/2006 is LVL 0.2 per share (LVL 0.1 for financial year 2004/2006), amounting to a total dividend of LVL 594 036.

On June 30, 2006 the Group employed 166 people (132 in FY 2004/05).

Consolidated balance sheet

| ASSETS | Note | 30.06.2006 | 30.06.2005 | 30.06.2006 | 30.06.2005 |
|--|------|-------------------|------------------|-------------------|-------------------|
| CURRENT ASSETS | | LVL | LVL | EUR | EUR |
| Cash and bank | | 1 244 633 | 105 190 | 1 770 953 | 149 672 |
| Short-term investments | | | | 0 | 0 |
| Customer receivables | 1 | | | | |
| Accounts receivable | | 3 222 506 | 2 012 949 | 4 585 213 | 2 864 168 |
| Allowance for uncollectible receivables | | -219 717 | -286 085 | -312 629 | -407 062 |
| Total | | 3 002 789 | 1 726 864 | 4 272 584 | 2 457 106 |
| Other receivables | | | | | |
| Other current receivables | | 13 995 | 6 512 | 19 913 | 9 266 |
| Short-term loans given | | 2 635 | | 3 749 | 0 |
| Derivative financial instruments | | 21 592 | | 30 723 | 0 |
| Total | | 38 222 | 6 512 | 54 385 | 9 266 |
| Prepaid expenses | 2 | | | | |
| Prepaid taxes | | 543 898 | 195 339 | 773 897 | 277 942 |
| Other prepaid expenses | | 81 262 | 61 491 | 115 625 | 87 494 |
| Total | | 625 160 | 256 830 | 889 522 | 365 436 |
| Inventories | 3 | | | | |
| Raw materials | | 2 606 941 | 1 944 988 | 3 709 343 | 2 767 469 |
| Work-in-progress | | 1 646 187 | 2 198 079 | 2 342 313 | 3 127 585 |
| Finished goods | | 477 899 | 431 421 | 679 989 | 613 857 |
| Merchandise purchased for resale | | | | 0 | 0 |
| Prepayments to suppliers | | 26 927 | 70 253 | 38 314 | 99 961 |
| Total | | 4 757 954 | 4 644 741 | 6 769 959 | 6 608 872 |
| TOTAL CURRENT ASSETS | | 9 668 758 | 6 740 137 | 13 757 403 | 9 590 352 |
| NON-CURRENT ASSETS | | | | | |
| Long-term financial assets | | 15 579 | | 22 167 | 0 |
| NON-CURRENT physical assets | 4 | | | | |
| Plant and equipment | | 1 583 217 | 1 345 324 | 2 252 715 | 1 914 224 |
| Other equipment and fixtures | | 688 235 | 626 156 | 979 270 | 890 940 |
| Accumulated depreciation | | -1 445 460 | -926 669 | -2 056 704 | -1 318 531 |
| Prepayments for noncurrent physical assets | | 31 782 | 192 | 45 222 | 273 |
| Total | | 857 774 | 1 045 003 | 1 220 503 | 1 486 906 |
| Intangible assets | | | | | |
| Purchased licenses, trademarks etc. | | 141 948 | 141 666 | 201 974 | 201 573 |
| Goodwill | | 537 133 | 525 854 | 764 271 | 748 223 |
| Prepayments for intangible assets | | 37 337 | 26 876 | 53 126 | 38 239 |
| Total | | 716 418 | 694 396 | 1 019 371 | 988 035 |
| TOTAL NON-CURRENT ASSETS | | 1 589 771 | 1 739 399 | 2 262 041 | 2 474 941 |
| TOTAL ASSETS | | 11 258 529 | 8 479 536 | 16 019 444 | 12 065 293 |

Consolidated balance sheet

| | Note | 30.06.2006 | 30.06.2005 | 30.06.2006 | 30.06.2005 |
|--|------|-------------------|------------------|-------------------|-------------------|
| LIABILITIES AND OWNERS' EQUITY | | LVL | LVL | EUR | EUR |
| CURRENT LIABILITIES | | | | | |
| Debt obligations | | | | | |
| Short-term loans from financial institutions | | 7 456 | 6 101 | 10 609 | 8 681 |
| Derivative financial instruments | | | 8 988 | 0 | 12 789 |
| Total | | 7 456 | 15 089 | 10 609 | 21 470 |
| Customer prepayments for goods and services | | 9 229 | | 13 132 | 0 |
| Accounts payable | 5 | 1 752 338 | 362 468 | 2 493 353 | 515 745 |
| Tax liabilities | | 113 818 | 85 992 | 161 948 | 122 356 |
| Salary-related accrued expenses | | 371 000 | 298 878 | 527 885 | 425 265 |
| Provisions | 6 | | | | |
| Deferred income tax liability | | 15 082 | 15 082 | 21 460 | 21 460 |
| Other provisions | | 293 566 | 208 706 | 417 707 | 296 962 |
| Total | | 308 648 | 223 788 | 439 167 | 318 422 |
| TOTAL CURRENT LIABILITIES | | 2 562 489 | 986 215 | 3 646 094 | 1 403 258 |
| OWNERS' EQUITY | | | | | |
| Share capital | 7 | 2 970 180 | 2 970 180 | 4 226 185 | 4 226 185 |
| Paid in capital over par | | 2 004 204 | 2 004 204 | 2 851 725 | 2 851 725 |
| Restricted personnel incentive shares | | 60 000 | | 85 372 | |
| Reserves | | | 1 023 402 | 0 | 1 456 170 |
| Retained earnings | | 2 163 009 | -62 702 | 3 077 685 | -89 217 |
| Net profit for the financial year | | 1 507 794 | 1 559 327 | 2 145 398 | 2 218 722 |
| Currency translation reserve | | -9 147 | -1 090 | -13 015 | -1 550 |
| TOTAL OWNERS' EQUITY | | 8 696 040 | 7 493 321 | 12 373 350 | 10 662 035 |
| TOTAL LIABILITIES AND OWNERS' EQUITY | | 11 258 529 | 8 479 536 | 16 019 444 | 12 065 293 |

Consolidated Income Statement for 12 month of the financial year 2005/6

| | Note | 30.06.2006 | 30.06.2005 | 30.06.2006 | 30.06.2005 |
|--|------|--------------------|-------------------|--------------------|--------------------|
| | | LVL | LVL | EUR | EUR |
| Net sales | | 13 287 427 | 11 066 391 | 18 906 305 | 15 746 056 |
| Other operating income | | 4 846 | | 6 895 | 0 |
| Total income | | 13 292 273 | 11 066 391 | 18 913 200 | 15 746 056 |
| Direct cost of goods sold or services rendered | | -7 192 880 | -5 300 124 | -10 234 546 | -7 541 397 |
| Marketing, advertising and public relations expenses | 8 | -701 874 | -409 272 | -998 677 | -582 342 |
| Bad receivables | | 65 575 | -266 592 | 93 305 | -379 326 |
| Operating expenses | 9 | -972 857 | -740 060 | -1 384 251 | -1 053 011 |
| Salaries, bonuses and social expenses | | -2 028 017 | -1 811 132 | -2 885 608 | -2 577 009 |
| Depreciation expense | | -661 825 | -553 440 | -941 692 | -787 474 |
| Other expenses | | -13 387 | -4 022 | -19 048 | -5 723 |
| Operating expenses | | -11 505 265 | -9 084 642 | -16 370 517 | -12 926 282 |
| EBIT | | 1 787 008 | 1 981 749 | 2 542 683 | 2 819 774 |
| Financial income (except ForEx rate difference) | 10 | 120 187 | 2 934 | 171 011 | 4 175 |
| Financial costs (except ForEx rate difference) | | -2 454 | -27 562 | -3 492 | -39 217 |
| Foreign exchange +gain/(loss) | 11 | -171 210 | -12 512 | -243 610 | -17 803 |
| Financial items | | -53 477 | -37 140 | -76 091 | -52 845 |
| EBT | | 1 733 531 | 1 944 609 | 2 466 592 | 2 766 929 |
| Provision for taxes | | -225 737 | -385 282 | -321 194 | -548 207 |
| Net profit | | 1 507 794 | 1 559 327 | 2 145 398 | 2 218 722 |

*Earnings per share

EPS 30.06.2006. = 0.50LVL (0.71 EUR)

EPS 30.06.2005. = 0.51 LVL (0.73 EUR) (adjusted for restricted personnel incentive shares issue, October 26, 2005)

Consolidated Income Statement for Q4 of the financial year 2005/6

| | 30.06.2006 | 30.06.2005 | 30.06.2006 | 30.06.2005 |
|--|-------------------|-------------------|-------------------|-------------------|
| | LVL | LVL | EUR | EUR |
| Net sales | 3 778 974 | 2 746 687 | 5 376 996 | 3 908 184 |
| Other operating income | 14 | | 20 | 0 |
| Total income | 3 778 988 | 2 746 687 | 5 377 015 | 3 908 184 |
| Direct cost of goods sold or services rendered | -1 996 971 | -1 301 995 | -2 841 434 | -1 852 572 |
| Marketing, advertising and public relations expens | -204 456 | -141 954 | -290 915 | -201 982 |
| Bad receivables | 7 846 | -162 834 | 11 164 | -231 692 |
| Operating expenses | -255 708 | -221 483 | -363 840 | -315 142 |
| Salaries, bonuses and social expenses | -658 300 | -491 710 | -936 677 | -699 640 |
| Depreciation expense | -135 643 | -149 184 | -193 003 | -212 270 |
| Other expenses | -10 399 | | -14 796 | 0 |
| Operating expenses | -3 253 631 | -2 469 160 | -4 629 501 | -3 513 298 |
| EBIT | 525 357 | 277 527 | 747 515 | 394 886 |
| Financial income (except ForEx rate difference) | 109 937 | 99 | 156 426 | 141 |
| Financial costs (except ForEx rate difference) | 16 | 8 859 | 23 | 12 605 |
| Foreign exchange +gain/(loss) | -22 256 | -13 526 | -31 666 | -19 246 |
| Financial items | 87 697 | -4 568 | 124 783 | -6 500 |
| EBT | 613 054 | 272 959 | 872 298 | 388 386 |
| Provision for taxes | -61 592 | -56 398 | -87 638 | -80 247 |
| Net profit | 551 462 | 216 561 | 784 660 | 308 139 |

*Earnings per share

EPS 30.06.2006. = 0.18 LVL

EPS 30.06.2005. = 0.07 LVL (adjusted for restricted personnel incentive shares issue, October 26, 2005)

Consolidated cash flow statement for 12 months of the financial year 2005/06

| | 30.06.2006. | 30.06.2005. | 30.06.2006. | 30.06.2005. |
|---|------------------|-------------------|------------------|-------------------|
| Consolidated Cash Flow Statement | LVL | LVL | EUR | EUR |
| CASH GENERATED FROM OPERATIONS (of which) | 1 810 311 | 974 631 | 2 575 841 | 1 386 775 |
| Cash received from customers | 12 062 979 | 11 855 491 | 17 164 073 | 16 868 844 |
| Cash paid to suppliers and employees | -9 985 388 | -9 885 658 | -14 207 927 | -14 066 024 |
| Paid income tax | -267 280 | -995 202 | -380 305 | -1 416 045 |
| NET CASH USED IN INVESTING ACTIVITIES (of which) | -484 366 | -694 038 | -689 190 | -987 527 |
| Business acquisition | | -135 771 | 0 | -193 185 |
| Cash received from other long-term investments SAF Group | | 27 447 | | 39 054 |
| Cash paid for purchasing non-current physical assets | -484 757 | -587 911 | -689 747 | -836 522 |
| Cash received from the sale of non-current physical assets | 1 261 | 184 | 1 794 | 262 |
| Loans given | -811 306 | -72 520 | -1 154 384 | -103 187 |
| Cash received from repayment of loans given | 795 727 | 71 547 | 1 132 218 | 101 802 |
| Interest received | 14 709 | 2 986 | 20 929 | 4 249 |
| NET CASH USED IN FINANCING ACTIVITIES (of which) | -197 149 | -1 014 040 | -280 518 | -1 442 848 |
| Short-term loans received | 1 191 | 3 582 | 1 695 | 5 097 |
| Paid interest | -2 280 | -27 562 | -3 244 | -39 217 |
| Cash received from ERAF subsidies | 100 958 | | 143 650 | 0 |
| Dividends paid | -297 018 | -990 060 | -422 619 | -1 408 728 |
| Effects of exchange rate changes | 10 647 | -13 620 | 15 148 | -19 380 |
| TOTAL CASH FLOW: | 1 139 443 | -747 067 | 1 621 281 | -1 062 980 |
| Cash and cash equivalents as at the beginning of period | 105 190 | 852 257 | 149 672 | 1 212 652 |
| Cash and cash equivalents as at the end of period | 1 244 633 | 105 190 | 1 770 953 | 149 672 |
| NET INCREASE / DECREASE IN CASH AND CASH EQUIVALENTS | 1 139 443 | -747 067 | 1 621 281 | -1 062 980 |

Statement of changes in consolidated equity for the 12 months period ended June 30 2006

| | Share capital | Share premium | Personnel incentive shares | Other reserves | Currency translation reserves | Retained earnings | Total |
|---------------------------------|------------------|------------------|----------------------------------|-------------------|-------------------------------------|----------------------|------------------|
| | Ls | Ls | Ls | Ls | Ls | Ls | Ls |
| As at 30 June 2004 | 990 060 | 2 005 199 | 0 | 10 311 | -2 272 | 3 920 569 | 6 923 867 |
| Issue of share capital | 1 980 120 | - | - | - | - | -1 980 120 | - |
| Costs of issue of share capital | - | -995 | - | - | - | - | -995 |
| Dividend relating to 2003/2004 | - | - | - | - | - | -990 060 | -990 060 |
| Allocation of profit | - | - | - | 1 013 091 | - | -1 013 091 | - |
| Issue of share capital | - | - | - | - | - | - | - |
| Currency translation difference | - | - | - | - | 1 182 | - | 1 182 |
| Profit for the year | - | - | - | - | - | - | 1 559 327 |
| As at 30 June 2005 | 2 970 180 | 2 004 204 | 0 | 1 023 402 | -1 090 | 1 496 625 | 7 493 321 |
| Issue of share capital | - | - | - | - | - | - | - |
| Costs of issue of share capital | - | - | - | - | - | - | - |
| Dividend relating to 2004/2005 | - | - | - | - | - | -297 018 | -297 018 |
| Allocation of profit | - | - | 60 000 | -1 023 402 | - | 963 402 | 0 |
| Currency translation difference | - | - | - | - | -8 057 | - | -8 057 |
| Profit for the year | - | - | - | - | - | 1 507 794 | 1 507 794 |
| As at 30 June 2006 | 2 970 180 | 2 004 204 | 60 000 | 0 | -9 147 | 3 670 803 | 8 696 040 |

Statement of changes in consolidated equity for the 12 months period ended June 30 2006

| | Share capital | Share premium | Personnel incentive shares | Other reserves | Currency translation reserves | Retained earnings | Total |
|---------------------------------|------------------|------------------|----------------------------------|-------------------|-------------------------------------|----------------------|-------------------|
| | EUR | EUR | EUR | EUR | EUR | EUR | EUR |
| As at 30 June 2004 | 1 408 728 | 2 853 141 | | 14 671 | -3 233 | 5 578 467 | 9 851 775 |
| Issue of share capital | 2 817 457 | - | - | - | - | -2 817 457 | - |
| Costs of issue of share 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 | - |
| Issue of share capital | - | - | - | - | - | - | - |
| Currency translation difference | - | - | - | - | 1 682 | - | 1 682 |
| Profit for the year | - | - | - | - | - | 2 218 722 | 2 218 722 |
| As at 30 June 2005 | 4 226 185 | 2 851 725 | 0 | 1 456 170 | -1 551 | 2 129 506 | 10 662 035 |
| Issue of share capital | - | - | - | - | - | - | - |
| Costs of issue of share capital | - | - | - | - | - | - | - |
| Dividend relating to 2004/2005 | - | - | - | - | - | -422 619 | -422 619 |
| Allocation of profit | - | - | 85 372 | -1 456 170 | - | 1 370 798 | - |
| Currency translation difference | - | - | - | - | -11 464 | - | -11 464 |
| Profit for the year | - | - | - | - | - | 2 145 398 | 2 145 398 |
| As at 30 June 2006 | 4 226 185 | 2 851 725 | 85 372 | 0 | -13 015 | 5 223 083 | 12 373 350 |

Notes for consolidated interim report

Accounting methods and principles used in preparing the consolidated interim report.

This consolidated Interim Report of SAF Tehnika Group has been prepared in accordance with the source documents and present fairly the financial position of the Group as of 30 June, 2006 and the results of its operations and cash flows for the 12 month period ended 30 June, 2006

This consolidated Interim Report has been prepared in accordance with International Financial Reporting Standards (IFRS) on a going concern basis. Appropriate accounting policies have been applied on a consistent basis. The Interim Report has been prepared based on the same accounting principles applied in the Consolidated Financial Statements for the year ended on June 30, 2005.

This Interim Report has not been audited or otherwise checked by auditors.

The Interim Report has been prepared in Latvian Lats and Euro.

Currency Exchange rate for LVL/EUR 0.7028

Note 1 Customer receivables

| | 30.06.2006. | 30.06.2005 | 30.06.2006. | 30.06.2005 |
|---|--------------------|-------------------|--------------------|-------------------|
| | Ls | Ls | EUR | EUR |
| Accounts receivables | 3 222 506 | 2 012 949 | 4 585 213 | 2 864 168 |
| Provisions for bad and doubtful accounts receivable | (219 717) | (286 085) | (312 629) | (407 062) |
| | 3 002 789 | 1 726 864 | 4 272 584 | 2 457 106 |

Accounts receivables, in comparison with the 12 month period of the previous financial year 2004/5, increased as the Group stopped discounting of Letters of Credit, as working capital is sufficient and higher absolute sales levels.

Note 2 Prepaid expenses

| | 30.06.2006. | 30.06.2005 | 30.06.2006. | 30.06.2005 |
|--|--------------------|-------------------|--------------------|-------------------|
| | Ls | Ls | EUR | EUR |
| Prepaid taxes | 543 898 | 195 339 | 773 897 | 1 101 156 |
| Prepaid participation at exhibition | 10 671 | 6 027 | 15 183 | 21 604 |
| Prepaid insurance fees | 17 501 | 8 883 | 24 902 | 35 432 |
| Prepaid software maintenance year fees | 23 162 | 15 293 | 32 957 | 46 893 |
| Other prepaid expenses | 29 928 | 31 288 | 42 584 | 60 591 |
| | 625 160 | 256 830 | 889 523 | 1 265 676 |

Prepaid expenses, in comparison with the 12 month period of the previous financial year 2004/5, increased due to the paid in advance Income tax in Financial Year 2004/5 and Income Tax and VAT during the Financial Year 2005/6

Note 3 Inventories

| | 30.06.2006. | 30.06.2005 | 30.06.2006. | 30.06.2005 |
|--------------------------|--------------------|-------------------|--------------------|-------------------|
| | Ls | Ls | EUR | EUR |
| Raw materials | 2 606 941 | 1 944 988 | 3 709 343 | 2 767 469 |
| Work-in- progress | 1 646 187 | 2 198 079 | 2 342 313 | 3 127 585 |
| Finished goods | 477 899 | 431 421 | 679 989 | 613 857 |
| Prepayments to suppliers | 26 927 | 70 253 | 38 314 | 99 961 |
| | 4 757 954 | 4 644 741 | 6 769 959 | 6 608 872 |

Inventories, in comparison with the 12 month period of the previous financial year 2004/2005, increased as the group already created additional reserves for a wider product assortment as a result of the ongoing revenue diversification process.

Note 4 Non-current physical assets

| | 30.06.2006. | 30.06.2005 | 30.06.2006. | 30.06.2005 |
|--|--------------------|-------------------|--------------------|-------------------|
| | Ls | Ls | EUR | EUR |
| Plant and equipment | 1 583 217 | 1 345 324 | 2 252 715 | 1 914 224 |
| Other equipment and fixtures | 688 235 | 626 156 | 979 270 | 890 940 |
| Accumulated depreciation | (1 445 460) | (926 669) | (2 056 704) | (1 318 531) |
| Prepayments for noncurrent physical assets | 31 782 | 192 | 45 222 | 273 |
| | 857 774 | 1 045 003 | 1 220 503 | 1 486 906 |

Non-current physical assets, in comparison with the 12 month period of the previous financial year 2004/2005, decreased due to decreased investments and more aggressive depreciation.

Note 5 Accounts payable

| | 30.06.2006. | 30.06.2005 | 30.06.2006. | 30.06.2005 |
|------------------|--------------------|-------------------|--------------------|-------------------|
| | Ls | Ls | EUR | EUR |
| Accounts payable | 1 752 338 | 362 468 | 2 493 353 | 515 745 |

Accounts payable, in comparison with the 12 month period of the previous financial year 2004/5, increased due to the increase in turnover and more favorable payment terms achieved.

Note 6 Provisions

| | 30.06.2006. | 30.06.2005 | 30.06.2006. | 30.06.2005 |
|-------------------------------|--------------------|-------------------|--------------------|-------------------|
| | Ls | Ls | EUR | EUR |
| Deferred income tax liability | 15 082 | 15 082 | 21 460 | 21 460 |
| Other provisions | 293 566 | 208 706 | 417 707 | 296 962 |
| | 308 648 | 223 788 | 439 167 | 318 422 |

Provisions, in comparison with the 12 month period of the previous financial year 2004/5, increased due to the increase in provisions for slow moving items as a result of sales portfolio diversification and new market entry.

Note 7 Share capital

| | 30.06.2006. | 30.06.2005 | 30.05.2006. | 30.06.2005. |
|---------------------------------------|--------------------|-------------------|--------------------|--------------------|
| | Ls | Ls | EUR | EUR |
| Share capital | 2 970 180 | 2 970 180 | 4 226 185 | 4 226 185 |
| Restricted personnel incentive shares | 60 000 | | 85 372 | |
| | 3 030 180 | 2 970 180 | 4 311 557 | 4 226 185 |

The total number of Company's share capital is LVL 3 030 180 consisting of authorized, issued and fully paid ordinary shares with voting rights is 2 970 180 shares and 60 000 dematerialized restricted employee incentive title shares without voting rights (issued on October 26, 2005). Restricted personnel incentive shares may be bought back only by SAF Tehnika (for detailed information see JSC „SAF Tehnika” Resolutions of Annual Shareholder Meeting October 26, 2005). The nominal value of one share is Ls 1.

Note 8 Marketing, advertising and public relations expenses

| | 30.06.2006. | 30.06.2005 | 30.06.2006. | 30.06.2005 |
|--|--------------------|-------------------|--------------------|-------------------|
| | Ls | Ls | EUR | EUR |
| Marketing, advertising and public relations expenses | 701 874 | 409 272 | 998 677 | 582 342 |

Marketing, advertising and public relations expenses, in comparison with the 12 month period of the previous financial year 2004/5, increased as the group is participating in more exhibitions and increase in sales commissions.

Note 9 Operating expenses

| | 30.06.2006. | 30.06.2005 | 30.06.2006. | 30.06.2005 |
|--------------------|--------------------|-------------------|--------------------|-------------------|
| | Ls | Ls | EUR | EUR |
| Operating expenses | 972 857 | 740 060 | 1 384 251 | 1 053 011 |

Operating expenses, in comparison with the 12 month period of the previous financial year 2004/5, increased due to the increase in IT Outsourcing, traveling, personal and training expenses.

Note 10 Financial income

| | 30.06.2006. | 30.06.2005 | 30.06.2006. | 30.06.2005 |
|------------------|--------------------|-------------------|--------------------|-------------------|
| | Ls | Ls | EUR | EUR |
| Financial income | 120 187 | 2 934 | 171 011 | 4 175 |

Financial Income item includes a LVL 100 958 income from the grant received from the Latvian Investment and Development Agency.

Note 11 Foreign exchange loss

| | 30.06.2006. | 30.06.2005 | 30.06.2006. | 30.06.2005 |
|-----------------------|--------------------|-------------------|--------------------|-------------------|
| | Ls | Ls | EUR | EUR |
| Foreign exchange loss | 171 210 | 12 512 | 243 610 | 17 803 |

The Group experienced a foreign exchange loss of LVL 171 210. Although partial hedging activities are undertaken, the significantly greater dollar-based exposure of the Group's trading activities during the financial year (eg. China, India, Latin America) nevertheless made an impact on overall financial results.

Note 12 Segment information

The Group operates in a single business and 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.