

SAF Tehnika A/S
Annual Report
for the year ended 30 June 2008

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**SAF TEHNIKA A/S
ANNUAL REPORT
FOR THE YEAR ENDED 30 JUNE 2008**

Information about the Company

Name of the company	SAF Tehnika A/S
Legal status of the company	Joint stock company
Registration number, place and date of registration	4 000 347 410 9 Riga, 27 December 1999 Registered with the Commercial Register on 10 March 2004
Address	Ganibu dambis 24a Riga, LV-1005 Latvia
Names of the shareholders	Normunds Bergs (9.74%) Juris Ziema (8.71%) Didzis Liepkalns (17.05%) Andrejs Grisans (10.03%) Vents Lacars (6.08%) Other shareholders – 48.39%
Names and positions of Council Members	Vents Lacars – Chairman of the Council Juris Ziema – Deputy Chairman of the Council Andrejs Grisans – Council Member Ivars Senbergs – Council Member Janis Bergs – Council Member
Names and positions of Board Members	Normunds Bergs – Chairman of the Board Didzis Liepkalns – Deputy Chairman of the Board Aleksis Orlovs – Board Member (till October 31, 2007) Aira Loite – Board Member (from November 1, 2007) Janis Ennitis – Board Member
Reporting period	1 July 2007 – 30 June 2008
Previous reporting period	1 July 2006 – 30 June 2007
Name and address of the auditor and sworn auditor in charge	Deloitte Audits Latvia SIA Sworn Auditors' Company's Licence No. 43 Gredu street 4a Riga, LV-1019 Latvia Sworn Auditor in Charge: Inguna Stasa Sworn Auditor's Certificate No. 145

Report of the Board

Type of activity

SAF Tehnika A/S (hereinafter – the Company) is a designer, producer and distributor of microwave digital radio data transmission equipment used mainly by telecommunications operators by providing voice and data transmission as an alternative to cable channels. The Company offers approximately 200 products comprising solutions for mobile network operators, data service providers (such as Internet service providers and telecommunications companies), as well as state and private companies. The aim of SAF Tehnika A/S is to provide wireless communications for data and voice transmissions at reasonable prices. The Company believes that its success is based on flexibility, unique approach to scientific research, and ability to provide its customers with high quality solutions at a low price.

Activity of the Company in the reporting year

The Company's net sales for the 12-month period of the financial year 2007/2008 reached LVL 10 644 021 (EUR 15 145 077) representing 79% of the previous financial year's net sales. Key reasons include slowing sales in the prior main markets – Asia and Europe. The Asian region posted a revenue decrease of 41%. This was mostly due to substantial decrease in China sales. Decrease was partially compensated by sales results in India where all forecasted equipment for delayed India project was shipped successfully. Sales volumes in Europe have fallen by 37% as a result of changes in market demand (from PDH to SPDH products). Moreover price erosion is observed in all markets. There is consistent growth in Latin America as a result of good cooperation with the Company's main customers, while Africa showed sharp growth by 38% over the year due to previous initiatives. The CIS region results were largely on par compared to the corresponding period of the prior financial year. Recurring supplies to this region are projected for the coming financial year.

The Company was exporting its products to 70 countries all over the world, and its aggregate exports for the reporting period comprised LVL 10 152 007 (EUR 14 445 005), which is 95.38% from all sales.

The net loss of the Company for the financial year 2007/2008 is LVL 612 105 (EUR 870 947) which mainly reflects lower sales and falling margins due to market consolidation and increasing competition.

Due substantial investments in previous years which allowed to ensure necessary production capacity there were no need for the same level of investments in the reporting period. The Company has invested LVL 269 233 (EUR 383 070) and the largest part of the Company's investment forms investments in product certification, development and production software, production equipment and IT.

The company's research and development projects, several marketing activities in financial year 2007/2008 were appraised and supported by government and European Union grants in total amount of LVL 309 723 (EUR 440 696) thereby facilitated the Company's competitiveness in the global telecommunication markets.

The wireless radio market is continuing development in a direction observed in the previous reporting period (FY2006/2007) – such as price erosion decreasing sales profitability, telecom operator market focus mainly on combination of different services such as voice, data and TV communication in the same network. Currently the demand is increasing globally for both higher capacity to be delivered to the user and higher spectral efficiency to be achieved. These trends manifest in a move away from traditional PDH/SDH grade radio systems into new breed of product capable of delivering said features plus more than 16E1 interfaces (SPDH), Ethernet interface for packet data and traditional SDH interfaces as STM-1. In response to that SAF Tehnika is developing its new product line – SAF's Next generation 100 Mbps Microwave Radio System.

Report of the Board (cont'd)

Research and development

Strong in-house research and development team is one of Company's cornerstones ensuring development of new products and maintenance and enhancement of existing product lines CFM(PDH) and CFQ(SDH) as main preconditions for future growth of the Company.

A number of significant development projects of new products progressed well during the reporting period. Most notably new CFIP product line was announced at Cebit'2008 in March and preparation for production was important activity also. The first product model launched within CFIP line is flexible Ethernet/E1 Full Outdoor system with capacity up to 108Mbps, specifically suitable for future mobile voice network backhauling, data networks, WiMax, and other uses. CFIP platform will serve as a basis for many more new products to address market requirements mentioned while meeting specific price points expected.

Foreign branches and representation offices

The Swedish subsidiary SAF Tehnika Sweden is participating in the development of the SAF radiolink product portfolio which complies with the ETSI-standard.

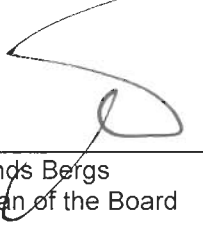
During the last financial year SAF Tehnika Sweden has completed the development work with the SDH radiolink family, the products are in production and have been delivered to customers all over the world. In order to further increase the radiolink-portfolio the Swedish subsidiary is participating in the development of the new IP based radiolinks. These new products will be launched during the current financial year and is a joint development project within the SAF group. The objective is to be able to lower manufacturing costs and offer our customer complete affordable radiolink solutions.

SAF Tehnika Sweden has participated in the development of a high quality user-friendly product-family with affordable prices. The commitment with ongoing development will ensure that this will be the case also in the future.

Future prospects

In the 2008/2009 financial year, the Company plans to keep on developing new products and improving of the existing product range so as to follow latest market trends. New CFIP product line expected to replace CFM products in the coming few years and is ready for production. Currently extensive promotion work has been started. The CFQ product line will continue to be developed according to customers' needs. This is expected to show 50% growth during the 2008/09 financial year. The local presence in regions of largest growth potential – Africa and Asia will be strengthened in this way intensifying local customer services. There will be a slight business strategy change, which will focus more on new and mid-size customers in all regions therefore continuing Company's focus to multiply existing customer base over the World decreasing its customer dependence. Foreseeing further data network growth, the Company will also look for new customers outside the traditional partnership set up. To support this trend special product models are developed to target new customer segment generally coming from data networks.

The Board is proposing to use retained earnings from previous periods to cover losses of the financial year 2007/2008 and not to pay dividend.



Normunds Berģs
Chairman of the Board

Riga, 28 October 2008

The annual report was approved by the shareholders' meeting on _____ 2008.

Chairman of the shareholders' meeting _____

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STATEMENT OF BOARD'S RESPONSIBILITIES

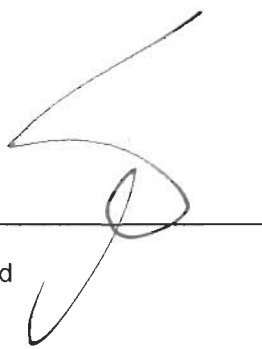
The Board of SAF Tehnika A/S (hereinafter – the Company) is responsible for preparing the financial statements of the Company.

The financial statements set out on pages 8 to 37 are prepared in accordance with the source documents and present fairly the financial position of the Company as at 30 June 2008 and the results of its financial performance and cash flows for the year then ended.

The above mentioned financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU on a going concern basis. Appropriate accounting policies have been applied on a consistent basis. Prudent and reasonable judgements and estimates have been made by the management 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 Company's assets and the prevention and detection of fraud and other irregularities in the Company. The Board is also responsible for the compliance with the Latvian state laws.

For the Board,



Normunds Bergs
Chairman of the Board

28 October 2008

INDEPENDENT AUDITOR'S REPORT

To the shareholders of AS "SAF Tehnika":

Report on the financial statements

We have audited the accompanying financial statements of AS "SAF Tehnika" (the Company), which comprise the Company's balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements of the Company give a true and fair view of the financial position of the Company as of 30 June 2008, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on the management reports

We have read the report of the Management Board (pages 4 to 5) of the annual report and we have not identified any material discrepancies between the historical financial information presented in these reports and the financial statements for the year ended 30 June 2008.

Deloitte Audits Latvia SIA
License No. 43



Inguna Stasa
Board member
Sworn Auditor
Certificate No. 145

Rīga, Latvia
28 October 2008

SAF TEHNIKA A/S
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Balance sheet

	Notes	30 June		30 June	
		2008 LVL	2007 LVL	2008 EUR	2007 EUR
ASSETS					
Non-current assets					
Property, plant and equipment	6	963 620	1 318 619	1 371 109	1 876 227
Intangible assets	6	114 685	123 953	163 182	176 369
Prepayments for property, plant, equipment and intangible assets	6	35 989	20 762	51 208	29 541
Investments in related company	7	480 209	645 569	683 276	918 562
Non-current financial assets		591	590	839	839
Deferred tax assets	13	48 160	46 673	68 526	66 410
		1 643 254	2 156 166	2 338 140	3 067 948
Current assets					
Inventories	8	2 885 161	5 411 276	4 105 214	7 699 552
Corporate income tax	24	95 410	351 086	135 756	499 550
Receivables	9	2 521 670	2 356 115	3 588 013	3 352 450
Receivables from related company		1 979	-	2 816	-
Other receivables	10	111 072	248 398	158 041	353 439
Prepaid expense		46 133	48 120	65 641	68 469
Derivatives	11	61	-	87	-
Cash and cash equivalents	12	1 671 178	266 515	2 377 872	379 216
		7 332 664	8 681 510	10 433 440	12 352 676
Total assets		8 975 918	10 837 676	12 771 580	15 420 624
EQUITY					
Share capital	14	2 970 180	2 970 180	4 226 185	4 226 185
Share premium		2 004 204	2 004 204	2 851 725	2 851 725
Retained earnings		2 793 449	3 405 554	3 974 720	4 845 667
Total equity		7 767 833	8 379 938	11 052 630	11 923 577
LIABILITIES					
Current liabilities					
Payables	15	1 202 926	814 823	1 711 609	1 159 389
Payables to related company		-	170 380	-	242 429
Borrowings	16	5 159	1 467 416	7 341	2 087 945
Deferred income		-	5 119	-	7 284
Total liabilities		1 208 085	2 457 738	1 718 950	3 497 047
Total equity and liabilities		8 975 918	10 837 676	12 771 580	15 420 624

The accompanying notes on pages 12 to 37 are an integral part of these financial statements.

The financial statements on pages 8 to 37 were approved by the Board and signed on its behalf by:

Normunds Bergs
Chairman of the Board

28 October 2008

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Income statement

	Notes	Year ended 30 June		Year ended 30 June	
		2008 LVL	2007 LVL	2008 EUR	2007 EUR
Sales	17	10 644 021	13 411 682	15 145 077	19 083 104
Cost of sales	18	(9 511 093)	(10 855 329)	(13 533 066)	(15 445 741)
Gross profit		1 132 928	2 556 353	1 612 011	3 637 363
Selling and marketing costs	19	(1 445 996)	(1 819 435)	(2 057 467)	(2 588 823)
Administrative expense	20	(564 421)	(788 648)	(803 099)	(1 122 145)
Other income	21	333 104	243 691	473 965	346 741
Financial revenue		21 539	5 099	30 647	7 255
Financial expense	22	(90 746)	(179 135)	(129 120)	(254 886)
(Loss)/ Profit before taxes		(613 592)	17 925	(873 063)	25 505
Corporate income tax	23	1 487	(24 547)	2 116	(34 927)
Loss for the year		(612 105)	(6 622)	(870 947)	(9 422)
Attributable to:					
Shareholders of the Company		(612 105)	(6 622)	(870 947)	(9 422)
Earnings per share attributable to the shareholders of the Company (LVL/ EUR per share)					
– basic	25	-0.206	-0.002	-0.293	-0.003
– diluted	25	-0.206	-0.002	-0.293	-0.003

The accompanying notes on pages 12 to 37 are an integral part of these financial statements.

Normunds Bergs
Chairman of the Board

28 October 2008

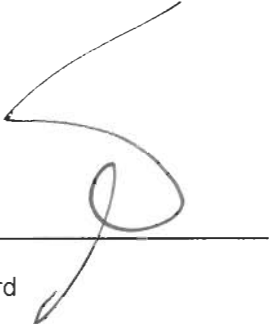
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Statement of changes in equity

	Share capital (Note 14) LVL	Share premium LVL	Personnel shares LVL	Retained earnings LVL	Total LVL
Balance as at 30 June 2006	2 970 180	2 004 204	60 000	3 946 212	8 980 596
Cancellation of personnel shares	-	-	(60 000)	60 000	-
Dividends for 2005/2006	-	-	-	(594 036)	(594 036)
Loss for the period	-	-	-	(6 622)	(6 622)
Balance as at 30 June 2007	2 970 180	2 004 204	-	3 405 554	8 379 938
Loss for the period	-	-	-	(612 105)	(612 105)
Balance as at 30 June 2008	2 970 180	2 004 204	-	2 793 449	7 767 833

	Share capital (Note 14) EUR	Share premium EUR	Personnel shares EUR	Retained earnings EUR	Total EUR
Balance as at 30 June 2006	4 226 185	2 851 725	85 372	5 614 954	12 778 236
Cancellation of personnel shares	-	-	(85 372)	85 372	-
Dividends for 2005/2006	-	-	-	(845 237)	(845 237)
Loss for the period	-	-	-	(9 422)	(9 422)
Balance as at 30 June 2007	4 226 185	2 851 725	-	4 845 667	11 923 577
Loss for the period	-	-	-	(870 947)	(870 947)
Balance as at 30 June 2008	4 226 185	2 851 725	-	3 974 720	11 052 630

The accompanying notes on pages 12 to 37 are an integral part of these financial statements.



 Normunds Bergs
 Chairman of the Board

28 October 2008

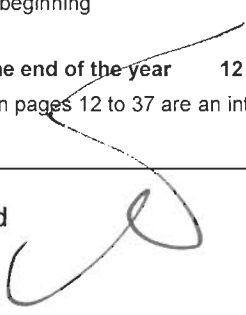
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Cash flow statement

	Notes	Year ended 30 June		Year ended 30 June	
		2008 LVL	2007 LVL	2008 EUR	2007 EUR
(Loss)/ Profit before tax		(613 592)	17 925	(873 063)	25 505
<u>Adjustments for:</u>					
- depreciation	6	452 910	616 551	644 433	877 273
- amortization	6	126 579	109 693	180 106	156 079
- changes in provisions for slow-moving inventories	8	78 741	50 522	112 039	71 887
- changes in accruals for unused annual leave	15	(7 885)	27 381	(11 220)	38 960
- changes in allowances for bad debtors	9	(45 856)	(28 279)	(65 247)	(40 237)
- interest income		(21 539)	(5 098)	(30 647)	(7 254)
- interest expense	22	24 001	91 863	34 150	130 709
- (gain)/loss from revaluation of derivative financial instruments	11	(61)	21 593	(87)	30 724
- receipt of government grant	21	(309 723)	(207 783)	(440 696)	(295 649)
- cancellation of long term loan		-	17 050	-	24 260
- allowance for loan to LETERA		-	44 458	-	63 258
- (gain)/loss from sale of PPE		252	(14 637)	359	(20 827)
Cash (used in)/generated from operations before changes in working capital		(316 173)	741 239	(449 873)	1 054 688
Inventories decrease/ (increase)		2 438 981	(1 014 813)	3 470 357	(1 443 949)
Receivables decrease		32 411	741 259	46 117	1 054 717
Payables increase/ (decrease)		225 608	(1 081 133)	321 011	(1 538 314)
Cash (used in)/generated from operating activities		2 380 827	(613 448)	3 387 612	(872 858)
Receipt of government grant		292 814	39 589	416 637	56 330
Interest paid		(24 001)	(91 863)	(34 150)	(130 709)
Income tax repaid/ (paid)		255 676	(1 768)	363 793	(2 516)
Net cash (used in)/generated from operating activities		2 905 316	(667 490)	4 133 892	(949 753)
Cash flows from (to) investing activities					
Purchases of property, plant and equipment		(129 218)	(1 170 350)	(183 861)	(1 665 258)
Proceeds from sale of PPE		16 274	103 916	23 156	147 859
Purchases of intangible assets		(109 365)	(79 841)	(155 612)	(113 604)
Interest received		18 553	9 611	26 399	13 675
Issued long-term borrowings		-	(44 458)	-	(63 258)
Net cash (used in) investing activities		(203 756)	(1 181 122)	(289 918)	(1 680 586)
Cash flows from (to) financing activities					
Proceeds from (repayment of) borrowings		(1 462 257)	1 460 124	(2 080 604)	2 077 569
Repayment of loan to related company		165 360	128 499	235 286	182 838
Dividends paid to the Company's shareholders	26	-	(594 036)	-	(845 237)
Net cash (used in)/ generated from financing activities		(1 296 897)	994 587	(1 845 318)	1 415 170
Effect of exchange rate changes		-	339	-	482
Net increase/ (decrease) in cash and cash equivalents		1 404 663	(853 686)	1 998 656	(1 214 687)
Cash and cash equivalents at the beginning of the year		266 515	1 120 201	379 216	1 593 903
Cash and cash equivalents at the end of the year	12	1 671 178	266 515	2 377 872	379 216

The accompanying notes on pages 12 to 37 are an integral part of these financial statements.

Normunds Bergs
Chairman of the Board
28 October 2008



Notes to the financial statements

1. General information

The core business activity of SAF Tehnika A/S (hereinafter – the Company) comprises the design, production and distribution of microwave radio data transmission equipment offering an alternative to cable channels. The Company offers approximately 200 products to mobile network operators, data service providers (such as Internet service providers and telecommunications companies), as well as state and private companies. The Company owns 100% subsidiary SAF Tehnika Sweden AB, established in May 2004, which is engaged in the development of microwave radio equipment.

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

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

These financial statements were approved by the Board on 28 October 2008.

The Company's shareholders have the power to amend the financial statements after the issue.

2. Summary of significant accounting policies

The principal accounting and measurement policies adopted in the preparation of these financial statements are set out below:

A Basis of preparation

The financial statements of SAF Tehnika have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. IFRS as adopted by the EU do not currently differ from IFRS as issued by the International Accounting Standards Board (IASB) and currently effective for the purpose of these financial statements, except for certain hedge accounting requirements under IAS 39, which have not been adopted by the EU. The Company has determined that the unendorsed hedge accounting requirements under IAS 39 would not impact the Company's financial statements had they been endorsed by the EU at the balance sheet date. The accounting policies used by the Company are consistent with those used in the previous accounting period.

Standards and Interpretations effective in the current period

In the current year, the Company has adopted:

- IFRS 7 *Financial Instruments: Disclosures*. IFRS 7 requires disclosures that enable users to evaluate significance of the Company's financial instruments and the nature and extent of risks arising from those financial instruments;
- Amendment to IAS 1 *Presentation of Financial Statements ("Capital disclosures")*. This amendment requires Company to make new disclosures to enable users of the financial statements to evaluate the Company's objectives, policies and processes of managing capital;
- IFRIC 10 *Interim Financial Reporting and Impairment*. This interpretation establishes that entity shall not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost;
- IFRIC 11 *IFRS 2: Group and Treasury Share Transactions*. The interpretation provides guidance on classification of transactions as equity-settled or as cash-settled and also gives guidance on how to account for share-based payment arrangements that involve two or more entities within the same group in the individual financial statements of each group entity.

The adoption of the above Standards and Interpretations did not have a material impact on the financial statements of the Company except for additional disclosures in the financial statements mainly related to financial instruments.

Notes to the financial statements (cont'd)

2. Summary of significant accounting policies (cont'd)

B Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The financial statements are presented in lats (LVL), which is the Company's functional and presentation currency. According to the requirements of Riga Stock Exchange, all balances are also stated in euros (EUR). For disclosure purposes, the currency translation has been performed by applying the official currency exchange rate determined by the Bank of Latvia, i.e. EUR 1 = LVL 0.702804.

(b) Transactions and balances

Foreign currency transactions are translated into the functional 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 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Such cost includes the cost of replacing part of such plant and equipment when that cost is incurred if the recognition criteria are met.

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 Company and the cost of the item can be measured reliably.

Current repairs are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets to allocate their cost to the estimated residual values applying the following depreciation rates:

	% per annum
Mobile phones	50
Technological equipment	33.33
Transport 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, useful lives and methods are reviewed, and adjusted if appropriate, at each financial year-end. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount exceeds its estimated recoverable amount (see Note F).

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

Notes to the financial statements (cont'd)

2. Summary of significant accounting policies (cont'd)

D Intangible assets other than goodwill

(a) Trademarks and licenses

Trademarks and licenses have a definite useful life and are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is calculated on a straight-line basis to allocate the costs of trademarks and licenses over their estimated useful life, which usually is 3 years.

(b) Software

Acquired computer software licenses are capitalised on the basis of the purchase and installation costs. These costs are amortised over their estimated useful lives of three years.

E Research and development

Research costs are expensed as incurred. An intangible asset arising from the development expenditure on an individual project is recognized only when the Company can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intentions to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure during the development. Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and any accumulated impairment losses. Any expenditure capitalized is amortized over the period of expected future sales from the related project.

F Impairment of assets

Intangible assets that are not put in use or have an indefinite useful life are not subject to amortisation and are reviewed for impairment on an annual basis. Assets that are subject to amortisation and depreciation 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 selling costs and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units).

G Segments

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

H Government grants

Government grants are recognized where there is a reasonable assurance that the grant will be received and all attaching conditions will be complied. When the grant relates to an expense item, it is recognized as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

Notes to the financial statements (cont'd)

2. Summary of significant accounting policies (cont'd)

I Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is stated on a first-in, first-out (FIFO) basis. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale. Costs of finished goods and work-in-progress include cost of materials.

J Receivables

Receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method. Allowance for impairment of receivables is established when there is objective evidence that the Company will not be able to collect the full amount due according to the original terms. The amount of the allowance is measured as the difference between the carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. Change in allowance is recognised in the income statement.

K Cash and cash equivalent

Cash and cash equivalents comprise current bank accounts balances and deposits, and short-term highly liquid investments with an original maturity of three months or less.

L Share capital

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

M Borrowings

Borrowings are initially recognised 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 recognised in the income statement over the period of the borrowings using the effective interest rate method. Borrowings are classified as current liabilities unless the Company is entitled to postpone the settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs are recognized as an expense when incurred.

N Deferred tax

Deferred 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 financial statements. However, if the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business acquisition that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred tax is determined using tax rates (and laws) that have been enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred income tax liability is settled.

Deferred 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.

Notes to the financial statements (cont'd)

2. Summary of significant accounting policies (cont'd)

N Deferred tax (cont'd)

Deferred 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 Company makes social insurance contributions under the State's health, retirement benefit and unemployment schemes at the statutory rates in force during the year, based on gross salary payments. The Company will have no legal or constructive obligations to pay further contributions if the statutory fund cannot settle their liabilities towards the employees. The cost of these payments is included into the income statement in the same period as the related salary cost.

P Revenue recognition

Revenue comprises the fair value of the goods and services sold, net of value-added tax, discounts and inter-Group sales. Revenue is recognised as follows:

(a) Sale of goods

Sale of goods is recognised when a Company entity has passed the significant risks and rewards of ownership of the goods to the customer, i.e. 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) Rendering of services

Revenue is recognised in the period when the services are rendered.

R Leases

Leases of property, plant and equipment 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 lease period.

S Investments in subsidiaries

Investments in subsidiaries are recognized at cost less impairment losses. If the recoverable amount of an investment is lower than its carrying amount, due to circumstances not considered to be temporary, the investment value is written down to its recoverable amount.

T Dividend payment

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

Notes to the financial statements (cont'd)

2. Summary of significant accounting policies (cont'd)

U Standards and Interpretations in issue not yet adopted

At the date of authorisation of these financial statements the following Standards and Interpretations were in issue but not yet effective:

- IAS 1 *Comprehensive Revision (amendment)* (effective for accounting periods beginning on or after 1 January 2009, however, not yet adopted by EU). The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning of the comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period;
- IAS 23 (Revised) *Borrowing Costs* (effective for accounting periods beginning on or after 1 January 2009, however, not yet adopted by EU). According to this amendment borrowing costs, that are directly attributable to the acquisition, construction and production of a qualifying asset, should form part of the cost of that asset;
- IFRS 8 *Operating Segments* (effective for accounting periods beginning on or after 1 January 2009). The standard sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers;
- IFRIC 12 *Service Concession Arrangements* (effective for accounting periods beginning on or after 1 January 2008, however, not yet adopted by EU). The interpretation addresses how service concession operators should apply existing International Financial Reporting Standards to account for the obligations they undertake and rights they receive in service concession arrangements;
- IFRIC 13 *Customer Loyalty Programmes* (effective for accounting periods beginning on or after 1 July 2008, however, not yet adopted by EU). The interpretation specifies how customer loyalty programs should be accounted for;
- IFRIC 14 IAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective for accounting periods beginning on or after 1 January 2008, however, not yet adopted by EU). The interpretation provides guidelines on how to assess the limit in IAS 19 Employee benefits on the amount of the surplus that can be recognised as an asset. It also explains how this limit may be influenced by a minimum funding requirement.

The Company anticipates that adoptions of the above Standards and Interpretations will have no material impact on the financial statements of the Company in the period of initial application.

Notes to the financial statements (cont'd)

3. Financial risk management

(1) Financial risk factors

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

- (a) Foreign currency risk;
- (b) Credit risk;
- (c) Liquidity risk.
- (d) Cash flow interest rate risk

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

The responsibility for risk management lies with the Finance Department. The Finance Department identifies and evaluates risks and seeks for solutions to avoid financial risks in close co-operation with other Company's operating units.

(a) Foreign currency risk

The Company operates internationally and is exposed to foreign currency risk mainly arising from U.S. dollar fluctuations.

Foreign currency risk primarily arises from future commercial transactions and recognised assets – cash and trade receivables and liabilities – accounts payables and borrowings. To manage the foreign currency risk arising from future commercial transactions and recognised assets and liabilities, the Company uses forward foreign currency contracts. The foreign currency risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency different from the entity's functional currency. The Finance Department manages the net open position in each foreign currency by signing forward foreign currency contracts or maintaining borrowings (in form of credit line) in appropriate currency and amount.

The Company's risk management policy is to hedge 65% - 85% of expected transactions (mainly export sales) in U.S dollars for the following 6 months.

(b) Credit risk

From time to time the Company has significant exposure of credit risk with its overseas customers. The Company's policy is to ensure that wholesale of products is carried out with customers having appropriate credit history. If the customers are residing in countries with high credit risk, then Letters of Credit issued by reputable credit institutions are used as credit risk management instruments. In situations where no Letters of Credit can be obtained from reputable credit institutions, the prepayments from the customers are requested.

As at 30 June 2008, the Company's credit risk exposure to a single customer amounted to 17.00 % of the total trade receivables (30.07.2007: 29.57%). The outstanding debt of this customer is supported by Letter of Credit. With respect to credit risk arising from the other financial assets of the Company, which comprise cash and cash equivalents and derivatives, the Company's exposure to credit risk arises from the default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The Company's maximum credit risk exposure amounts to LVL 4 448 094 or 49.56% to total assets (30.06.2007: LVL 3 270 824 or 30.18% to total assets).

Notes to the financial statements (cont'd)

3. Financial risk management (cont'd)

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through short-term borrowings secured by the Letters of Credit terms. Due to the dynamic nature of the core operations, the Finance Department aims to maintain flexibility in funding by obtaining available credit lines. During the reporting period 5 million EUR multi-currency credit line was available assigned by Nordea bank Finland plc Latvia branch according to the agreement concluded on February 21, 2007. Since 1 July 2008 the credit line amount was decreased to 3 million EUR evaluating potential necessity. The assigned overdraft facility has not been used as at 30 June 2008. (see Note 16 Borrowings)

(d) Cash flow interest rate risk

As the Company does not have significant interest bearing assets, the Company's income and cash flows are largely independent of changes in market interest rates. The Company's cash flows from interest bearing liabilities are dependent on current market interest rates.

(2) Accounting for derivative financial instruments

The Company uses derivative financial instruments such as forward currency contracts to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are initially recognized at fair value on the date on which derivative contract is entered to and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives that do not qualify as hedge accounting are taken directly to profit or loss for the year.

The fair value of forward currency contracts is calculated as by reference to current forward exchange rates for contracts with similar maturity profiles.

(3) Fair value

The carrying amounts of all financial assets and liabilities approximate their fair value.

Notes to the financial statements (cont'd)

4. Management of the capital structure

The Company manages its capital to ensure that the Company will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance.

The capital structure of the Company consists of debt, which includes the borrowings disclosed in note note 16, cash and cash equivalents and equity, comprising issued capital, retained earnings and share premium.

The gearing ratio at the year end was as follows:

	30/06/2008	30/06/2007	30/06/2008	30/06/2007
	LVL	LVL	EUR	EUR
Debt	1 208 085	2 457 738	1 718 950	3 497 047
Cash and cash in bank	-1 671 178	-266 515	-2 377 872	-379 216
Net debt	-463 093	2 191 223	-658 922	3 117 831
Equity	7 767 833	8 379 938	11 052 630	11 923 577
Debt to equity ratio	16%	29%	16%	29%
Net debt to equity ratio	-6%	26%	-6%	26%

5. Key estimates and assumptions

International Financial Reporting Standards as adopted by the EU and the legislation of the Republic of Latvia require that in preparing the financial statements, the management of the Company make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of off-balance sheet assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

The following are the critical judgements and key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

- the Company reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period;
- the Company reviews property, plant and equipment and intangible assets assesses 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 selling costs and value in use;
- the Company estimates allowance for impairment of receivables.

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Notes to the financial statements (cont'd)

6. Property, plant, equipments and intangible assets

	Intangible assets	Leasehold improvements	Equipment and machinery	Other assets	Prepayments for assets	Total
	LVL	LVL	LVL	LVL	LVL	LVL
Year ended 30/06/2007						
Opening net carrying amount	141 948	271 555	438 928	115 509	69 119	1 037 059
Additions	79 842	363 734	651 699	154 916	-	1 250 191
Reclassified	16 684	-	-	31 673	(48 357)	-
Depreciation charge	(109 693)	(43 651)	(496 986)	(75 914)	-	(726 244)
Disposals	(4 828)	-	(66 219)	(26 625)	-	(97 672)
Closing net carrying amount	123 953	591 638	527 422	199 559	20 762	1 463 334
Year ended 30/06/2008						
Opening net carrying amount	123 953	591 638	527 422	199 559	20 762	1 463 334
Additions	117 311	4 389	87 089	14 566	45 868	269 223
Reclassified	-	-	-	-	(30 641)	(30 641)
Depreciation charge	(126 579)	(68 477)	(320 165)	(64 268)	-	(579 489)
Disposals	-	-	(602)	(7 531)	-	(8 133)
Closing net carrying amount	114 685	527 550	293 744	142 326	35 989	1 114 294
As at 30/06/2006						
Cost	460 648	391 713	1 583 145	296 522	69 119	2 801 147
Accumulated depreciation	(318 700)	(120 158)	(1 144 217)	(181 013)	-	(1 764 088)
Net carrying amount	141 948	271 555	438 928	115 509	69 119	1 037 059
As at 30/06/2007						
Cost	548 608	755 447	1 908 578	412 258	20 762	3 645 653
Accumulated depreciation	(424 655)	(163 809)	(1 381 156)	(212 699)	-	(2 182 319)
Net carrying amount	123 953	591 638	527 422	199 559	20 762	1 463 334
As at 30/06/2008						
Cost	588 039	759 837	1 928 710	407 858	35 989	3 720 433
Accumulated depreciation	(473 354)	(232 287)	(1 634 966)	(265 532)	-	(2 606 139)
Net carrying amount	114 685	527 550	293 744	142 326	35 989	1 114 294

During the reporting year, the Company did not enter into any operating or finance lease agreements.

Depreciation of LVL 386 303 (2006/2007: LVL 525 762) is included in the income statement caption *Cost of sales*; depreciation of LVL 122 475 (2006/2007: Ls 116 373) – in *Selling and marketing costs*; and depreciation of LVL 68 808 (2006/2007: LVL 82 476) – in *Administrative expense*, and depreciation of LVL 1 903 (2006/2007: LVL 1 633) – in *Other administration expense*

The acquisition cost of fully depreciated property, plant and equipment that is still in use at the end of financial year amounted to LVL 1 581 115 (2006/2007: LVL 1 203 164).

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Notes to the financial statements (cont'd)

6. Property, plant, equipments and intangible assets

	Intangible assets	Leasehold improvements	Equipment and machinery	Other assets	Prepayments for assets	Total
	EUR	EUR	EUR	EUR	EUR	EUR
Year ended 30/06/2007						
Opening net carrying amount	201 974	386 388	624 539	164 354	98 347	1 475 602
Additions	113 605	517 547	927 284	220 426	-	1 778 862
Reclassified	23 739	-	-	45 067	(68 806)	-
Depreciation charge	(156 079)	(62 110)	(707 147)	(108 016)	-	(1 033 352)
Disposals	(6 870)	-	(94 221)	(37 884)	-	(138 975)
Closing net carrying amount	176 369	841 825	750 455	283 947	29 541	2 082 137
Year ended 30/06/2008						
Opening net carrying amount	176 369	841 825	750 454	283 947	29 542	2 082 137
Additions	166 919	6 245	123 916	20 726	65 264	383 070
Reclassified	-	-	-	-	(43 598)	(43 598)
Depreciation charge	(180 106)	(97 434)	(455 554)	(91 445)	-	(824 539)
Disposals	-	-	(855)	(10 716)	-	(11 571)
Closing net carrying amount	163 182	750 636	417 961	202 512	51 208	1 585 499
As at 30/06/2006						
Cost	655 443	557 357	2 252 613	421 912	98 347	3 985 672
Accumulated depreciation	(453 469)	(170 969)	(1 628 074)	(257 558)	-	(2 510 070)
Net carrying amount	201 974	386 388	624 539	164 354	98 347	1 475 602
As at 30/06/2007						
Cost	780 599	1 074 904	2 715 663	586 590	29 541	5 187 297
Accumulated depreciation	(604 230)	(233 079)	(1 965 208)	(302 643)	-	(3 105 160)
Net carrying amount	176 369	841 825	750 455	283 947	29 541	2 082 137
As at 30/06/2008						
Cost	836 704	1 081 151	2 744 307	580 330	51 208	5 293 700
Accumulated depreciation	(673 522)	(330 515)	(2 326 346)	(377 818)	-	(3 708 201)
Net carrying amount	163 182	750 636	417 961	202 512	51 208	1 585 499

During the reporting year, the Company did not enter into any operating or finance lease agreements.

Depreciation of EUR 549 660 (2006/2007: EUR 748 092) is included in the income statement caption *Cost of sales*; depreciation of EUR 174 266 (2006/2007: EUR 165 584) – in *Selling and marketing costs*; and depreciation of EUR 97 905 (2006/2007: EUR 117 353) – in *Administrative expense* and depreciation of EUR 2 708 (2006/2007: EUR 2 323) – in *Other administration expense*.

The acquisition cost of fully depreciated property, plant and equipment that is still in use at the end of financial year amounted to EUR 2 249 724 (2006/2007: EUR 1 711 948).

Notes to the financial statements (cont'd)

7. Investments in related companies

(a) Investment in subsidiary

Name	30/06/2008	Equity share
	%	30/06/2007 %
SAF Tehnika Sweden AB	100	100

On 13 May 2004, the Company established a subsidiary - SAF Tehnika Sweden AB – by making a monetary contribution into the subsidiary's share capital in the amount of LVL 7 170 (EUR 10 202).

On 22 August 2005, the Company capitalised a portion of the current loan issued to SAF Tehnika Sweden AB in the amount of LVL 638 399 (EUR 908 360), thus increasing the value of its investment to LVL 645 569 (EUR 918 562).

In order to optimise capital structure in SAF Sweden and working capital in SAF Group LVL 165 360 (EUR 235 286) were divested from the share capital of SAF Tehnika Sweden in June 2008.

(b) Information about subsidiary

Name	Address	Equity		Profit for the reporting year	
		30/06/2008 LVL	30/06/2007 LVL	2007/2008 LVL	2006/2007 LVL
SAF Tehnika Sweden AB *	E. A .Rosengrens gata 22, Vastra Frolunda, Sweden	335 115	408 772	97 674	114 639

Name	Address	Equity		Profit for the reporting year	
		30/06/2008 EUR	30/06/2007 EUR	2007/2008 EUR	2007/2007 EUR
SAF Tehnika Sweden AB *	E. A .Rosengrens gata 22, Vastra Frolunda, Sweden	476 826	581 630	138 978	163 117

* SAF Tehnika Sweden AB organised and operating in Sweden is fully owned by the Company.

8. Inventories

	30/06/2008 LVL	30/06/2007 LVL	30/06/2008 EUR	30/06/2007 EUR
Raw materials	752 831	1 745 700	1 071 182	2 483 908
Work in progress	1 843 850	3 312 931	2 623 562	4 713 876
Finished goods	500 143	643 049	711 639	914 976
Allowance for slow-moving items	(211 663)	(290 404)	(301 169)	(413 208)
	2 885 161	5 411 276	4 105 214	7 699 552

During the reporting year, additional provisions for slow-moving items of LVL 78 741 (EUR 112 039) (2006/2007: LVL 50 522 (EUR 71 887)) were established and included in cost of sales.

Notes to the financial statements (cont'd)

9. Receivables

	30/06/2008 LVL	30/06/2007 LVL	30/06/2008 EUR	30/06/2007 EUR
Trade receivables	2 667 252	2 547 553	3 795 158	3 624 842
Allowances for bad and doubtful trade receivables	(145 582)	(191 438)	(207 145)	(272 392)
Trade receivables, net	2 521 670	2 356 115	3 588 013	3 352 450

Trade receivables comprise 11 Letters of Credit with original payment term up to 180 days for amount of LVL 674 418 (EUR 959 610) (2006/2007: LVL 1 053 551 (EUR 1 499 068)). As at 30 June 2008, the fair value of receivables approximated their carrying amount.

In the reporting year, the net decrease of allowances for bad and doubtful trade receivables was included in the income statement caption as administrative expense in amount of LVL 33 976 (EUR 48 343) (2006/2007 – decrease of LVL 28 279 (EUR 40 237)), and written-off receivables of LVL 11 880 (EUR 16 905) (see Note 20).

Split of Trade receivables by currencies expressed in LVL

	30/06/2008 LVL	30/06/2008 %	30/06/2007 LVL	30/06/2007 %
LVL	3 015	0.11	35 605	1.40
USD	1 021 291	38.29	1 572 172	61.71
EUR	1 642 946	61.60	939 776	36.89
Trade receivables	2 667 252	100%	2 547 553	100%

Aging analysis of Trade receivables

	30/06/2008 LVL	30/06/2007 LVL	30/06/2008 EUR	30/06/2007 EUR
Not due	2 145 944	1 986 052	3 053 403	2 825 899
Overdue 0 – 89	399 031	445 845	567 770	634 380
Overdue 90 and more	122 277	115 656	173 985	164 563
	2 667 252	2 547 553	3 795 158	3 624 842

Allowances for bad and doubtful trade receivables

	LVL	EUR
Allowances for bad and doubtful trade receivables as of 30 June 2007	191 438	272 392
Written-off	(11 880)	(16 905)
Increase	89 308	127 074
Decrease	(123 284)	(175 416)
Allowances for bad and doubtful trade receivables at 30 June 2008	145 582	207 145

Notes to the financial statements (cont'd)

10. Other receivables

	30/06/2008 LVL	30/06/2007 LVL	30/06/2008 EUR	30/06/2007 EUR
Government grant *	11 790	173 313	16 776	246 602
VAT receivable (see Note 24)	67 208	34 814	95 628	49 536
Other receivables	12 230	24 780	17 402	35 259
Prepayments to suppliers	19 844	15 491	28 235	22 042
	111 072	248 398	158 041	353 439

* - Government grants relates to projects on participation in international exhibitions.

11. Derivatives

	30/06/2008		30/06/2007		30/06/2008		30/06/2007	
	Assets LVL	Liabilities LVL	Assets LVL	Liabilities LVL	Assets EUR	Liabilities EUR	Assets EUR	Liabilities EUR
Forward foreign currency contracts	61	-	-	-	87	-	-	-

12. Cash and cash equivalents

	30/06/2008 LVL	30/06/2007 LVL	30/06/2008 EUR	30/06/2007 EUR
Cash at bank	357 017	200 217	507 989	284 882
Short-term bank deposits	1 314 161	66 298	1 869 883	94 334
	1 671 178	266 515	2 377 872	379 216

As at 30 June 2008 free cash resources were deposited both in overnight deposits and short term deposits up to one month period. The average annual interest rate on overnight deposits was 2.6 %, short term deposits 4.38 %. As at 30 June 2007 the annual interest rate on short term bank deposits (overnight deposits) was 2.73% for LVL.

Split of Cash by currencies expressed in LVL

	30/06/2008 LVL	30/06/2008 %	30/06/2007 LVL	30/06/2007 %
LVL	249 390	14.92	66 334	24.89
USD	90 340	5.41	6 623	2.48
EUR	1 331 448	79.67	65 212	24.47
SEK	-	-	128 346	48.16
Cash at bank and deposits	1 671 178	100%	266 515	100%

Notes to the financial statements (cont'd)

13. Deferred corporate income tax (asset)/ liability

	Year ended 30/06/2008 LVL	Year ended 30/06/2007 LVL	Year ended 30/06/2008 EUR	Year ended 30/06/2007 EUR
Deferred tax (asset) at the beginning of the year	(46 673)	(26 477)	(66 410)	(37 673)
Change in deferred tax liability during the reporting year (see Note 23)	(1 487)	(20 196)	(2 116)	(28 737)
Deferred tax (asset) at the end of the year	(48 160)	(46 673)	(68 526)	(66 410)

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

	30/06/2008 LVL	30/06/2007 LVL	30/06/2008 EUR	30/06/2007 EUR
Temporary difference on fixed asset depreciation and intangible asset amortisation	1 598	16 529	2 274	23 519
Temporary difference on vacation pay accrual	(18 009)	(19 642)	(25 625)	(27 948)
Temporary difference on provisions for slow-moving and obsolete inventories	(31 749)	(43 560)	(45 175)	(61 981)
Deferred tax (asset), net	(48 160)	(46 673)	(68 526)	(66 410)

Deferred income tax asset for the Company is recognised to the extent that the realisation of the related tax benefit through the future taxable profits is probable.

Reporting period tax losses in amount of LVL 633 102 (EUR 858 137) can be used to offset taxable profit for 5 preceding taxable years.

14. Share capital

As at 30 June 2008, the registered, issued and paid-up share capital is LVL 2 970 180 (EUR 4 226 185) and consists of 2 970 180 ordinary bearer shares with unlimited voting rights (2006/2007: 2 970 180 shares).

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Notes to the financial statements (cont'd)

15. Payables

	30/06/2008 LVL	30/06/2007 LVL	30/06/2008 EUR	30/06/2007 EUR
Trade payables	708 777	407 729	1 008 499	580 146
Vacation pay accrual	123 059	130 944	175 097	186 317
Prepayments from customers	70 836	39 390	100 791	56 047
Taxes and social insurance contributions (see Note 24)	64 817	56 870	92 226	80 919
Other payables	235 437	179 890	334 996	255 960
	1 202 926	814 823	1 711 609	1 159 389

During the reporting period decrease in unused vacation pay included in Income Statement amounted to LVL 7 885 (EUR 11 220) (2006/2007: LVL 27 381 (EUR 38 960)).

Split of Trade payables currencies expressed in LVL

	30/06/2008 LVL	30/06/2008 %	30/06/2007 LVL	30/06/2007 %
LVL	106 701	15.05	102 900	25.24
USD	226 003	31.89	148 239	36.36
EUR	374 320	52.81	152 802	37.47
GBP	1 753	0.25	233	0.06
SEK	-	-	3 555	0.87
Trade payables	708 777	100%	407 729	100%

16. Borrowings

	30/06/2008 LVL	30/06/2007 LVL	30/06/2008 EUR	30/06/2007 EUR
Bank overdrafts and credit cards	5 159	1 467 416	7 341	2 087 945

The Company has not used assigned multi-currency overdraft facility LVL 3 514 020 (EUR 5 000 000) as at 30 June 2008. The balance of unused overdrafts as at 30 June 2007 was LVL 2 095 224 (EUR 2 981 235). The bank overdraft has been secured by a commercial pledge of all the Company's receivables and inventory. Since 1 July 2008 the overdraft facility was decreased to 3 million EUR evaluating potential necessity.

Notes to the financial statements (cont'd)

17. Segment information and sales

a) The Company's operations may be divided into two major structural units by product type –CFM (PDH) and CFQ (SDH) product lines. These structural units are used as a basis for providing information about the primary segments of the Company, i.e. business segments. Production, as well as research and development are organised and managed for each product line (CFM and CFQ) separately.

The CFM product line, or plesiochronous digital hierarchy radio equipment, is offered as a digital microwave radio communications system operating over 7, 8, 13, 15, 18, 23, 26, and 38 GHz frequency bands, as well as ensuring wireless point-to-point channels for digitalised voice and data transmission. CFM is available with 4, 8, 16, or 34 Mbps full-duplex data transmission rate. The demand for this product in Asia basically accounts for this market share.

The CFQ product line, or synchronous digital hierarchy radio equipment, is a digital point-to-point radio system providing high capacity (up to 155 Mbps) data transmission over from 7 to 38 GHz frequency bands. The product is basically exported to developed European countries where the demand for high capacity data transmission possibilities is dominating.

	CFQ		CFM		Other		Total	
	2007/8	2006/7	2007/8	2006/7	2007/8	2006/7	2007/8	2006/7
	LVL	LVL	LVL	LVL	LVL	LVL	LVL	LVL
Assets								
Segment assets	922 689	1 095 489	4 818 740	7 685 197	646 351	653 118	6 387 780	9 433 804
Unallocated assets							2 588 138	1 403 872
Total assets							8 975 918	10 837 676
Segment liabilities	141 415	88 482	793 701	677 096	176 863	115 133	1 111 979	880 711
Unallocated liabilities							96 106	1 577 027
Total liabilities							1 208 085	2 457 738
Income	1 452 701	1 437 128	7 534 083	10 381 565	1 657 237	1 592 989	10 644 021	13 411 682
Segment results	(814 437)	(1 055 069)	1 588 937	3 236 185	358 428	375 237	1 132 928	2 556 353
Unallocated expense							(2 010 417)	(2 608 083)
Loss from operations							(877 489)	(51 730)
Other income							333 104	243 691
Financial expense, net (Loss)/ profit before taxes							(69 207)	(174 036)
Corporate income tax							1 487	(24 547)
Loss for the year							(612 105)	(6 622)
Other information								
Additions of property plant and equipment and intangible assets	514	136 515	94 206	741 829	210	6 019	94 930	884 363
Unallocated additions of property plant and equipment and intangible assets							128 425	365 828
Total additions of property plant and equipment and intangible assets							223 355	1 250 191
Depreciation and amortization	31 179	205 437	351 802	316 784	3 213	3 542	386 194	525 763
Unallocated depreciation and amortization							193 295	200 481
Total depreciation and amortization							579 489	726 244

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Notes to the financial statements (cont'd)

17. Segment information and sales (cont'd)

	CFQ		CFM		Other		Total	
	2007/8	2006/7	2007/8	2006/7	2007/8	2006/7	2007/8	2006/7
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Assets								
Segment assets	1 312 868	1 558 740	6 856 449	10 935 050	919 675	929 304	9 088 992	13 423 094
Unallocated assets							3 682 588	1 997 530
Total assets							12 771 580	15 420 624
Segment liabilities	201 215	125 899	1 129 335	963 421	251 654	163 820	1 582 204	1 253 140
Unallocated liabilities							136 746	2 243 907
Total liabilities							1 718 950	3 497 047
Income	2 067 007	2 044 849	10 720 034	14 771 636	2 358 036	2 266 619	15 145 077	19 083 104
Segment results	(1 158 839)	(1 501 228)	2 260 854	4 604 676	509 996	533 915	1 612 011	3 637 363
Unallocated expense							(2 860 566)	(3 710 968)
Loss from operations							(1 248 555)	(73 605)
Other income							473 964	346 741
Financial expense, net							(98 472)	(247 631)
(Loss)/ profit before taxes							(873 063)	25 505
Corporate income tax							2116	(34 927)
Loss for the year							(870 947)	(9 422)
Other information								
Additions of property plant and equipment and intangible assets	731	194 243	134 043	1 055 528	299	8 564	135 073	1 258 335
Unallocated additions of property plant and equipment and intangible assets							182 733	520 527
Total additions of property plant and equipment and intangible assets							317 806	1 778 862
Depreciation and amortization	44 364	292 311	500 569	450 743	4 572	5 039	549 505	748 093
Unallocated depreciation and amortization							275 034	285 259
Total depreciation and amortization							824 539	1 033 352

Notes to the financial statements (cont'd)

17. Segment information and sales (cont'd)

b) This note provides information about division of the Company's turnover and assets by geographical segments (customer location).

	Net sales		Assets	
	2007/2008	2006/2007	30/06/2008	30/06/2007
	LVL	LVL	LVL	LVL
Asia	2 072 583	3 515 948	113 757	841 871
America	1 598 122	1 514 860	503 111	381 624
Africa	1 084 962	783 896	86 592	59 354
Europe	2 619 265	4 136 143	482 207	270 504
CIS	2 640 707	2 780 634	526 660	450 320
Middle East	628 382	680 201	809 343	352 442
	10 644 021	13 411 682	2 521 670	2 356 115
Unallocated assets	-	-	6 454 248	8 481 561
	10 644 021	13 411 682	8 975 918	10 837 676

	Net sales		Assets	
	2007/2008	2006/2007	30/06/2008	30/06/2007
	EUR	EUR	EUR	EUR
Asia	2 949 020	5 002 743	161 862	1 197 875
America	2 273 923	2 155 451	715 862	543 002
Africa	1 543 762	1 115 383	123 209	84 453
Europe	3 726 878	5 885 202	686 119	384 893
CIS	3 757 388	3 956 486	749370	640 748
Middle East	894 106	967 839	1 151 591	501 479
	15 145 077	19 083 104	3 588 013	3 352 450
Unallocated assets	-	-	9 183 567	12 068 174
	15 145 077	19 083 104	12 771 580	15 420 624

Notes to the financial statements (cont'd)

18. Cost of sales

	Year ended 30/06/2008 LVL	Year ended 30/06/2007 LVL	Year ended 30/06/2008 EUR	Year ended 30/06/2007 EUR
Purchases of components and subcontractors services	7 708 525	8 705 841	10 968 243	12 387 296
Salary expenses (including accruals for vacation pay)	916 464	1 065 702	1 304 011	1 516 357
Depreciation and amortization (see Note 6)	386 303	525 762	549 660	748 092
Social insurance (including accruals for vacation pay)	217 186	251 919	309 028	358 448
Rent of premises	82 675	87 616	117 636	124 666
Public utilities costs	80 963	64 733	115 200	92 107
Car expenses	23 738	22 201	33 776	31 589
Communication expenses	20 196	23 497	28 736	33 434
Travel expenses	16 344	23 351	23 255	33 225
Low value inventory	9 228	22 939	13 130	32 639
Other production costs	49 471	61 768	70 391	87 888
	9 511 093	10 855 329	13 533 066	15 445 741

Research and development related expenses of LVL 1 777 087 (EUR 2 528 566) (2006/2007: LVL 2 087 294 (EUR 2 969 952)) are included in the income statement caption cost of sales.

19. Selling and marketing costs

	Year ended 30/06/2008 LVL	Year ended 30/06/2007 LVL	Year ended 30/06/2008 EUR	Year ended 30/06/2007 EUR
Advertising and marketing costs	473 023	607 424	673 051	864 286
Wages and salaries (incl. vacation pay reserve)	398 287	517 436	566 711	736 245
Business trips	175 926	260 749	250 320	371 012
Depreciation and amortisation (see Note 6)	122 475	116 373	174 266	165 584
Delivery costs	101 176	111 254	143 960	158 300
Social insurance contributions (incl. vacation pay reserve)	86 824	114 521	123 539	162 949
Other selling and distribution costs	88 285	91 678	125 620	130 447
	1 445 996	1 819 435	2 057 467	2 588 823

Notes to the financial statements (cont'd)

20. Administrative expense

	Year ended 30/06/2008 LVL	Year ended 30/06/2007 LVL	Year ended 30/06/2008 EUR	Year ended 30/06/2007 EUR
Wages and salaries (incl. vacation pay reserve)	192 972	186 390	274 574	265 209
Depreciation and amortisation (see Note 6)	68 808	82 476	97 905	117 353
Social insurance contributions (incl. vacation pay reserve)	41 489	34 668	59 034	49 328
IT services	40 152	47 231	57 131	67 204
Bank charges	30 990	44 425	44 095	63 211
Representation expenses	26 169	49 990	37 235	71 129
Training expenses	22 401	60 922	31 874	86 684
Public utilities costs	11 148	11 357	15 862	16 160
Business trips	10 127	13 432	14 409	19 112
Rent of premises	9 387	9 363	13 356	13 322
Insurance expenses	9 193	9 782	13 080	13 919
Office maintenance costs	8 744	9 788	12 442	13 927
Sponsorship	6 000	36 870	8 537	52 461
Communications expenses	5 881	8 310	8 368	11 824
Allowance for bad and doubtful receivables	(33 976)	(28 279)	(48 343)	(40 237)
Other administration expense	114 936	211 923	163 540	301 539
	564 421	788 648	803 099	1 122 145

21. Other income

	Year ended 30/06/2008 LVL	Year ended 30/06/2007 LVL	Year ended 30/06/2008 EUR	Year ended 30/06/2007 EUR
Government grant	309 723	207 783	440 696	295 649
Other income	23 381	35 908	33 269	51 092
	333 104	243 691	473 965	346 741

The Company has received payment amounting to LVL 292 814 (EUR 416 637) (2006/2007 – LVL 39 589 (EUR 56 331)) of the government grant. The residual amount LVL 11 790 (EUR 16 776) is recorded receivable (see Note 10) and LVL 5 119 (EUR 7 284) was received in 2006/2007 financial year.

22. Financial expense, net

	Year ended 30/06/2008 LVL	Year ended 30/06/2007 LVL	Year ended 30/06/2008 EUR	Year ended 30/06/2007 EUR
Interest expense	24 001	91 863	34 150	130 709
Loss from changes in fair value of derivatives	(61)	21 593	(87)	30 724
Currency exchange loss, net	66 806	65 679	95 057	93 453
	90 746	179 135	129 120	254 886

Notes to the financial statements (cont'd)

23. Corporate income tax

	Year ended 30/06/2008 LVL	Year ended 30/06/2007 LVL	Year ended 30/06/2008 EUR	Year ended 30/06/2007 EUR
Change in deferred tax liability (see Note 13)	(1 487)	(20 196)	(2 116)	(28 737)
Corporate income tax charge for the current reporting year	-	44 743	-	63 664
	(1 487)	24 547	(2 116)	34 927

Corporate income tax differs from the theoretically calculated tax amount that would arise applying the statutory 15% rate to the Company's profit before taxation:

	Year ended 30/06/2008 LVL	Year ended 30/06/2007 LVL	Year ended 30/06/2008 EUR	Year ended 30/06/2007 EUR
Profit (loss) before taxation	(613 592)	17 925	(873 063)	25 505
Tax rate	15%	15%	15%	15%
Theoretically calculated tax	(92 039)	2 689	(130 959)	3 826
Expenses not deductible for tax purposes	(4 414)	33 044	(6 281)	47 017
Not recognised deferred tax asset	94 966	-	135 124	-
Tax relief on donations	-	(11 186)	-	(15 916)
Tax charge	(1 487)	24 547	(2 116)	34 927

The State Revenue Service may inspect the Company's books and records for the last 2.5 years (starting from 1 January 2006) and impose additional tax charges with penalty interest and penalties. The Company's management is not aware of any circumstances, which may give rise to a potential material liability in this respect. (The State Revenue Service had not performed all-inclusive tax audit at the balance sheet date).

Notes to the financial statements (cont'd)

24. Tax payable

	VAT	Social insurance contributions	Personal income tax	Corporate income tax	Unemployment risk duty	Total
	LVL	LVL	LVL	LVL	LVL	LVL
Payable as at 30.06.2007.	-	33 658	23 172	-	40	56 870
(Receivable) as at 30.06.2007.	(34 814)	-	-	(351 086)	-	(385 900)
Calculated for the period	(453 782)	481 307	312 771	2 173	456	342 925
Transferred to/from other taxes	359 293	(358 835)	-	-	(458)	-
Repaid by SRS	62 095	(3 557)	-	286 151	-	344 689
Paid in the period	-	(112 277)	(311 460)	(32 648)	-	(456 385)
Payable as at 30.06.2008.	-	40 296	24 483	-	38	64 817
(Receivable) as at 30.06.2008.	(67 208)	-	-	(95 410)	-	(162 618)
	VAT	Social insurance contributions	Personal income tax	Corporate income tax	Unemployment risk duty	Total
	EUR	EUR	EUR	EUR	EUR	EUR
Payable as at 30.06.2007.	-	47 891	32 971	-	57	80 919
(Receivable) as at 30.06.2007.	(49 536)	-	-	(499 550)	-	(549 086)
Calculated for the period	(645 673)	684 838	445 033	3 092	649	487 939
Transferred to/from other taxes	511 228	(510 576)	-	-	(652)	-
Repaid by SRS	88 353	(5 061)	-	407 156	-	490 448
Paid in the period	-	(159 756)	(443 168)	(46 454)	-	(649 378)
Payable as at 30.06.2008.	-	57 336	34 836	-	54	92 226
(Receivable) as at 30.06.2008.	(95 628)	-	-	(135 756)	-	(231 384)

Notes to the financial statements (cont'd)

25. Earnings per share

Basic and diluted earnings per share are calculated by dividing the profit by the weighted average number of shares during the year.

	Year ended 30/06/2008 LVL	Year ended 30/06/2007 LVL	Year ended 30/06/2008 EUR	Year ended 30/06/2007 EUR
Profit (loss) for the reporting year (a)	(612 105)	(6 622)	(870 947)	(9 422)
Ordinary shares as at 1 July (b)	2 970 180	2 970 180	2 970 180	2 970 180
Basic and diluted earnings per share for the reporting year (a/b), LVL	-0.206	-0.002	-0.293	-0.003

26. Dividends per share

	Year ended 30/06/2008 LVL	Year ended 30/06/2007 LVL	Year ended 30/06/2008 EUR	Year ended 30/06/2007 EUR
Dividends paid (a)	-	594 036	-	845 237
Number of shares upon payment (b)	2 970 180	2 970 180	2 970 180	2 970 180
Dividends per share for the reporting year (a/b), LVL	-	0.20	-	0.28

27. Management remuneration

Remuneration to the Board and the Council

	Year ended 30/06/2008 LVL	Year ended 30/06/2007 LVL	Year ended 30/06/2008 EUR	Year ended 30/06/2007 EUR
Remuneration to the Board Members				
· salaries	120 026	130 158*	170 782	185 198*
· social insurance contributions	23 578	18 799*	33 548	26 749*
Remuneration to the Council Members				
· salaries	62 415	86 701*	88 809	123 364*
· social insurance contributions	14 291	14 882*	20 334	21 175*
Total	220 310	250 540	313 473	356 486

* Salaries and social insurance contributions include accruals for bonuses for the reporting year results.

Notes to the financial statements (cont'd)

28. Related party transactions

During the period from 1 July 2007 until 30 June 2008, the Company sold its products to its subsidiary SAF Tehnika Sweden AB for the total amount of LVL 57 830 (EUR 82 285).

As at 30 June 2008, the Company has not received payment for sold products for the total amount of LVL 1 979 (EUR 2 816).

The Company received research and advisory services from SAF Tehnika Sweden AB for the total amount of LVL 1 188 684 (EUR 1 691 345) from 1 July 2007 until 30 June 2008.

Besides, the Company bought goods from SAF Tehnika Sweden AB for the total amount of LVL 2 108 (EUR 3 000).

During the period from 1 July 2007 until 30 June 2008, the Company sold its products to other related parties for the total amount of LVL 444 572 (EUR 632 569) and provided services – LVL 5 121 (EUR 7 287).

During the period from 1 July 2007 until 30 June 2008, the Company bought goods from related parties for the total amount of LVL 9 950 (EUR 14 158), bought tangible assets – LVL 26 742 (EUR 38 050) and received services – LVL 21 782 (EUR 30 993).

As at 30 June 2008, the Company has not paid to related parties for the total amount LVL 13 543 (EUR 19 270).

29. Personnel expense

	Year ended 30/06/2008 LVL	Year ended 30/06/2007 LVL	Year ended 30/06/2008 EUR	Year ended 30/06/2007 EUR
Wages and salaries	1 507 722	1 769 528*	2 145 295	2 517 812*
Social insurance contributions	345 499	401 109*	491 601	570 727*
Contributions to pension funds (incl. social insurance contributions)**	-	14 329	-	20 388
Total	1 853 221	2 184 966	2 636 896	3 108 927

* Salaries and social insurance contributions include accruals for bonuses for the reporting year results.

** Contributions to pension funds are made on behalf of the employees of SAF Sweden Tehnika AB.

30. Average number of employees

	Year ended 30/06/2008	Year ended 30/06/2007
Average number of personnel employed during the reporting year:	157	168

Notes to the financial statements (cont'd)

31. Operating lease

Lease agreement No. S-116/02, dated 10 December 2002, was signed with Dambis A/S. According to the agreement, the lessor commissions and SAF Tehnika A/S accepts premises in the total area of 5 851 m² for consideration. The premises are located at Ganību dambis 24a. The agreement expires on 1 March 2016.

According to the signed agreements, the Company has the following lease payment commitments as at 30 June 2008.

	LVL	EUR
1 year	101 154	143 929
2 – 5 years	404 618	575 720
More than 5 years	269 745	383 813
	775 517	1 103 462

32. Contingent liabilities

The Company has contingent liabilities in respect of the bank arising in the ordinary course of business. It is not anticipated that any material liabilities will arise from the contingent liabilities. The Company has given guarantees in the ordinary course of business amounting to LVL 51 584 (EUR 73 397) (2006/2007: LVL 173 777 (EUR 247 262) to third parties).

33. Going concern

The Company closed the reporting year with positive operating cash flow of LVL 2 905 thousand (EUR 4 134 thousand) contrary to the last financial year where negative operating cash flow of LVL 667 thousand (EUR 950 thousand) was recorded therefore proving correctness of the company's strategy by widening partners network in different regions and implementing tight cost control and thus optimising cash flow.

Net loss for the reporting period amounted to LVL 612 thousand (EUR 871 thousand).

The Company's management believes that the existing situation is temporary and takes measures to ensure profitability at the previous level by increasing sale volumes based on current product portfolio and introducing new CF IP product line.

Current assets of the Company are higher than current liabilities. There are no outstanding borrowings. Currently there is also no indication that the Company will not be able to prolong overdraft agreement.

34. Events after balance sheet date

As of the last day of the reporting year until the date of signing these financial statements there have been no events which would have any material impact on the financial position of the Company as at 30 June 2008 or its financial performance and cash flows for the year then ended.