

**SAF Tehnika A/S**  
**Consolidated Interim Report**  
**for 12 month of financial year 2007/08**  
(July 1, 2007 – June 30, 2008)

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## 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 (up to 34 Mbps) and high capacity radio links SDH (up to 155 Mbps). The new CFIP product line - SAF's Next Generation 100Mbps Microwave Radio System – was presented at the exhibition CeBIT 2008, Hannover, Germany. 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 Nokia Siemens Networks, Ericsson, Alcatel 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.

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Aira Loite  
Member of the Management Board

August 6, 2008

## Share and Shareholdings

### SAF Tehnika shareholders (over 5%) as of 04.04.2008

Name	Ownership interest (%)
Hansapank AS Clients Account	22.93%
Didzis Liepkalns	17.05%
Skandinaviska Enskilda Banken AB Clients Account	10.47%
Andrejs Grišāns	10.03%
Normunds Bergs	9.74%
Juris Zieme	8.71%
Vents Lācars	6.08%

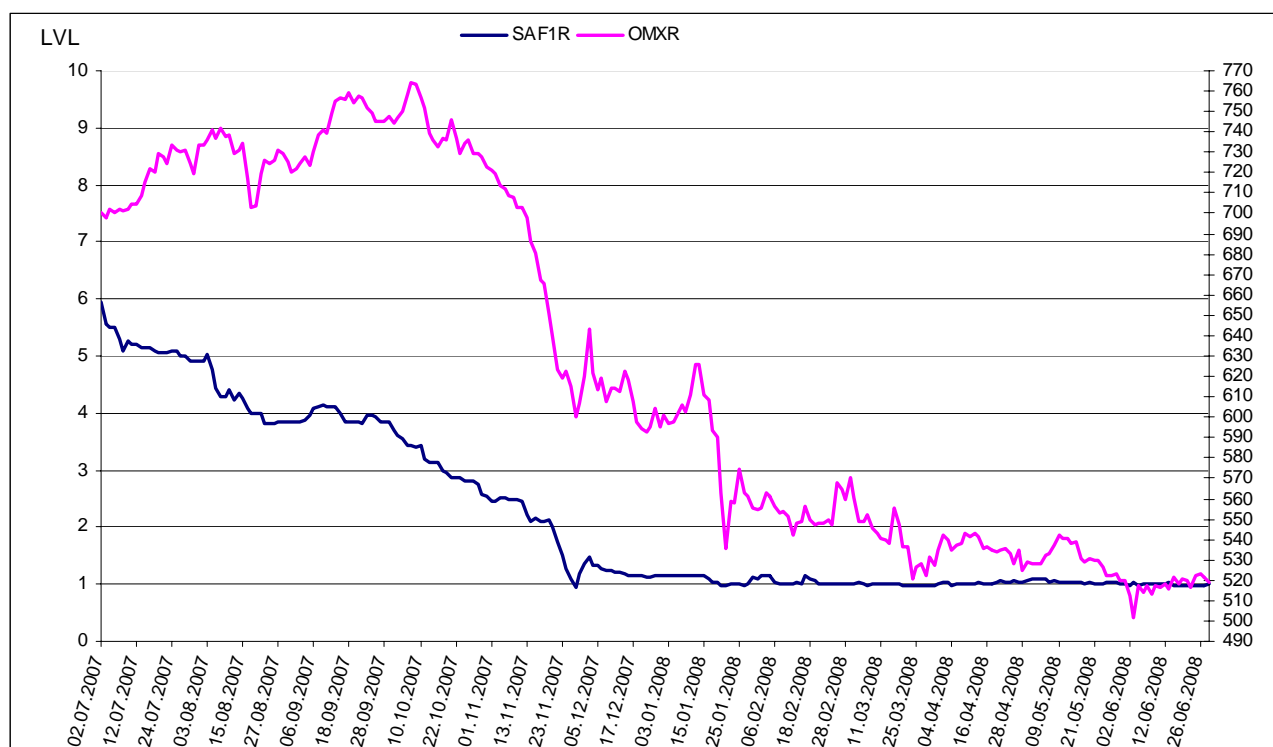
### SAF Tehnika share price and OMX Riga index development for the reporting period

SAF Tehnika (SAF1R)

Period: 2007-07-01 - 2008-06-30

Currency: LVL

Marketplace: NASDAQ OMX Riga Stock Exchange



## Information on management and supervisory board members

### SAF Tehnika Management Board:

<b>Name</b>	<b>Position</b>	<b>Ownership interest (%)</b>
Normunds Bergs	Chairman	owns 9.74% of shares
Didzis Liepkalns	Vice Chairman	owns 17.05% of shares
Jānis Ennitis	Member	
Aleksis Orlovs*	Member	
Aira Loite**	Member	

\* Board member till October 31, 2007

\*\* Board member from November 1, 2007

### SAF Tehnika Supervisory Board:

<b>Name</b>	<b>Position</b>	<b>Ownership interest (%)</b>
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	
Jānis Bergs	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 Centre 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.

### **Jānis Ennitis**

Janis Ennitis is a Board Member and he holds the position of Vice-President Sales and Marketing in the Company. Prior to joining the Company in July 2006, Janis Ennitis was employed by information technology and electronics distribution company GNT Latvia (now ALSO) as Sales and Marketing director. Mr. Ennitis holds a Master degree of Microelectronics from Riga Technical University which he graduated in 1996. Post graduate studies during 1996/1997 were held at the Technical University of Lausanne in Switzerland.

### **Aira Loite**

Aira Loite is Member of the Board and Chief Financial Officer of SAF Tehnika AS since November 1st, 2007. Prior to joining the Company, Aira Loite worked from April 2006 to October 2007 for SIA Lattelecom – initially as the Corporate Management Director, but after February 2007 as the Director of Corporate Information and Control Unit. A. Loite was a Board Member and the Manager of Finance and Administration Department at SIA Microlink Latvia from October 2000 to March 2006. Within the period from March 2004 to October 2005 she simultaneously performed the duties of the CFO for Microlink Group. A. Loite has higher education in mathematics (University of Latvia, 1988) and she is presently studying at Riga International School of Economics and Business Administration within Salford MBA program.

**Aleksis Orlovs**, was Board Member and Chief Financial Officer till November 1st, 2007. He left SAF Tehnika on November, 30 2007.

## **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. 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 1957, co-founder of the Company, is a Member of the Supervisory Council. Prior to joining the Company, he owned and managed a private company specializing in electronic equipment engineering, production and distribution. From 1992 to 1999, 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 1984 to 1992 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, is a Member of the Supervisory Council. 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.

### **Jānis Bergs**

Janis Bergs, born in 1970, is a Member of the Supervisory Council. Currently is the Chairman of Management Board of SIA FMS. Former acted as Chairman of the Management Board of SIA „Fortech”, later Chairman of the management Board of Mirolink Group. In 2004 elected in the Management Board of the Latvian Information Technology and Telecommunications Association. J. Bergs graduated from Riga Technical University with a degree in radio engineering in 1993. In 2000 he graduated from Riga Business School with an MBA degree.

## **Statement of Board's Responsibilities**

The Board of SAF Tehnika A/S (hereinafter – the Company) is responsible for preparing the consolidated interim financial statements of the Company and its subsidiary (hereinafter – the Group). Interim financial statements of the Group has not been audited or otherwise checked by auditors.

The consolidated interim financial statements are prepared in accordance with the source documents and present fairly the financial position of the Group as at 30 June 2008 and the results of its operations and cash flows for the 12 month period ended 30 June 2008.

The consolidated interim 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. The consolidated interim financial statements have been prepared based on the same accounting principles applied in the Consolidated Financial Statements for the year ended on June 30, 2007. Prudent and reasonable judgments and estimates have been made by the management in the preparation of the consolidated interim financial statements.

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

The consolidated interim financial statements have been prepared in Latvian Lats and Euro.

Currency Exchange rate for LVL/EUR is 0.702804

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Aira Loite

CFO, Member of the Management Board

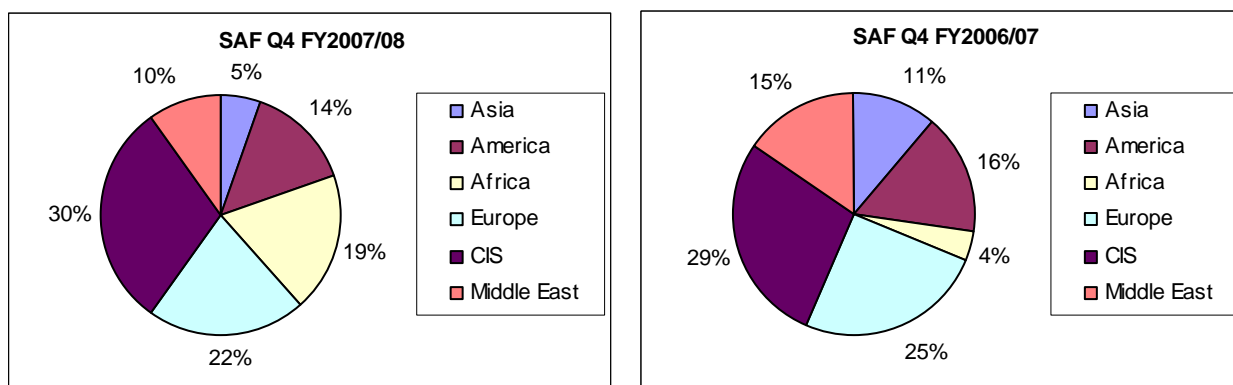


## Management Report

The Group's consolidated non-audited net sales for the fourth quarter of financial year 2007/08 were 2 907 762 LVL (4 137 373 EUR), representing a year-on-year increase of 24%.

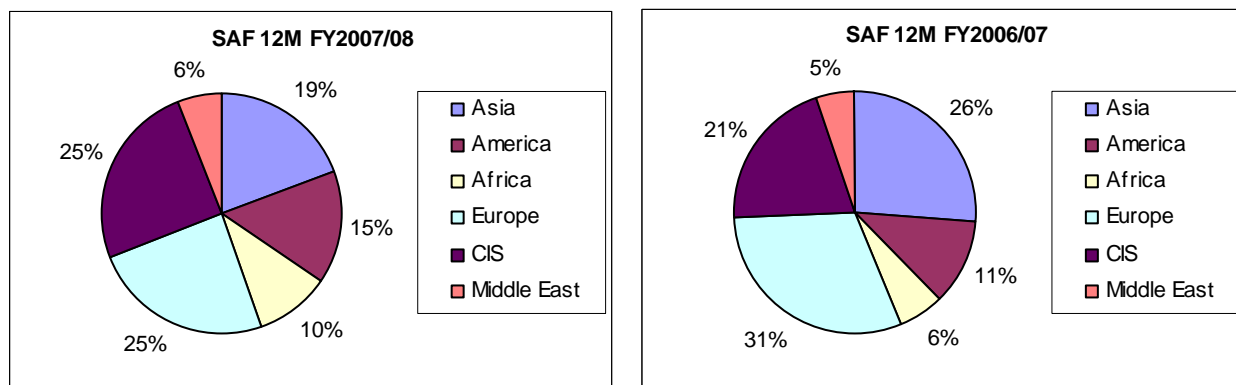
By diversifying and broadening the customer base, greater stability has been achieved in all of the main regions - CIS, Europe and Latin-America. Key growth drivers were the results in Asia and Africa, where efforts from the previous year finally brought expected results. Due to sales restructuring North America is out of the Group's focus currently. Based on credit risk analysis Middle East sales were lower than in previous quarters. The results were exceptionally good in several European countries where products for new projects have been delivered to customers. Stable sales from established partnerships came from India, Russia/CIS and Latin America. Pricing pressures are ongoing. In order to maintain a presence and recruit new partners and customers, the Group participated in regional exhibitions such as CommunicAsia in Singapore and Svjaz in Moscow.

Chart 1. Quarter 4 revenue breakdown comparative charts:



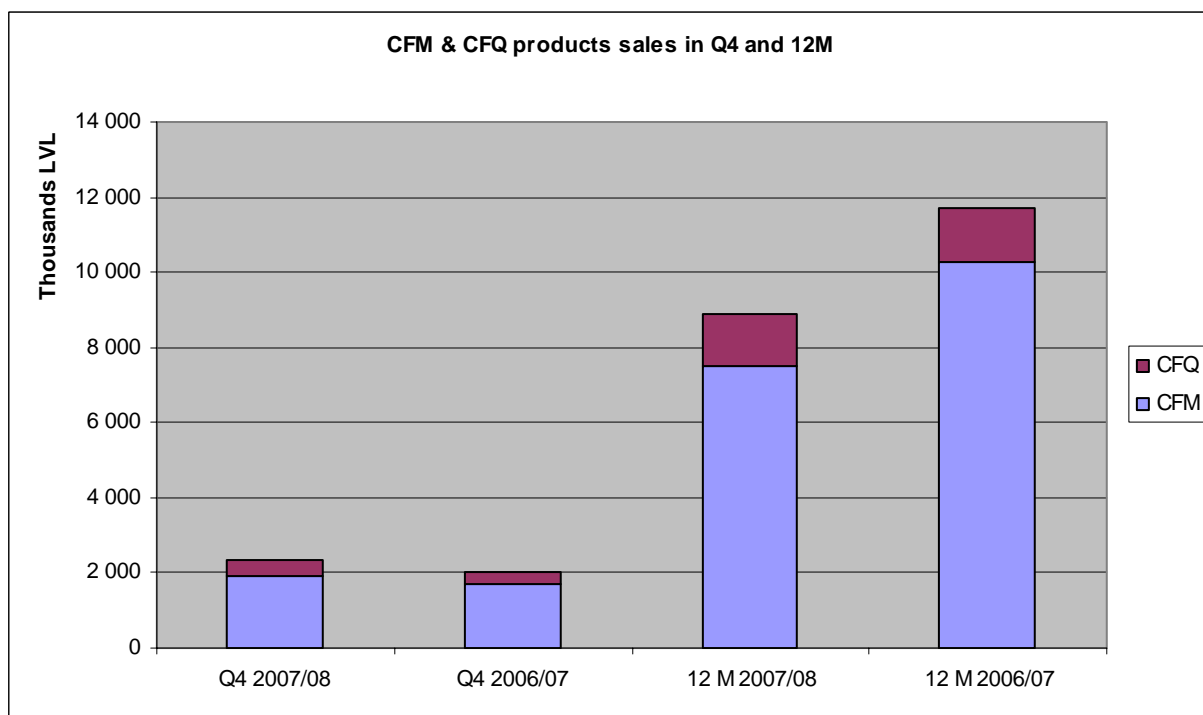
The Group's consolidated non-audited net sales for the financial year 2007/08 were 10 650 128 LVL (15 153 767 EUR) representing 80% of the previous financial year's result. Key reasons include slowing sales in the prior main markets (Asia and Europe). This was due to changes in market demand (from PDH to SPDH products) as well as price erosion in all markets. There is consistent growth in Latin America as a result of good cooperation with the Group's main customers, while Africa showed 25% growth over the year due to previous initiatives.

Chart 2. 12 months revenue breakdown comparative charts:



As a result of technology shifts, the market for the Group’s main product line, CFM, continues to shrink. Our second product line (CFQ) has grown by 16% and therefore not covered lost CFM volumes. There is heightened interest from customers towards our new product line, CFIP. SAF Tehnika’s CFIP products should be fully available during Q2 of financial year 2008/09.

Chart 3. Quarter 4 and 12 month product sales breakdown.



The consolidated net profit of the Group for the fourth quarter of financial year 2007/8 was 91 708 LVL (130 489 EUR) compared with a loss of 650 380 LVL (-925 407 EUR) during the same quarter last financial year.

The consolidated net loss of the Group for the 12 months of financial year 2007/08 was 431 300 LVL (613 685 EUR), compared with a consolidated net profit for the 12 months of FY 2006/07 of

159 582 LVL (227 065 EUR). The net loss mainly reflects lower sales and falling margins due to market consolidation and increasing competition.

### **Market overview**

The Point to Point (P2P) wireless radio market in which SAF Tehnika operates has showed growth exceeding 10% during 2007. Based on independent overviews, projected growth for 2008 will stay in the same range. There is a continuing trend towards higher capacity products. Nonetheless, PDH/SPDH (Super PDH) products dominate the market. At the same time markets are very different between regions and even countries within a region. Key client considerations, other than price, are product standardization and extended payment periods. This further intensifies competition. One other trend is telephony's growing focus on data (away from voice). This is encouraging a technology shift from TDM (time division multiplexing) to IP standard in data networks. Both of these trends will drive market volume up even in a situation where the majority of the World is already covered by mobile networks. Continuing consolidation and acquisition in telecom and data networks, followed by full network outsourcing to global telecom vendors is the key negative development from the Group's perspective.

### **Guidance**

In the 2008/09 financial year, SAF Tehnika plans to keep on developing the new product line, CFIP, so as to follow the latest market trends. CFIP is expected to replace CFM products in the coming few years. 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. There will be a slight business strategy change, which will focus more on new and mid-size customers in all regions. Foreseeing further data network growth, the Group will also look for new customers outside the traditional partnership set up.

The Group's net cash flow for the 12 month period of the financial year was a positive 1 650 447 LVL (2 348 375 EUR). The Group carries a net cash balance (excluding interest bearing liabilities) of 1 944 876 LVL (2 767 309 EUR) as of June 30, 2008.

On June 30, 2008 the Group employed 161 people. (171 people on June 30, 2007)

**Consolidated balance sheet**  
**As of June 30, 2008**

	Note	30.06.2008	30.06.2007	30.06.2008	30.06.2007
<b>CURRENT ASSETS</b>		<b>LVL</b>	<b>LVL</b>	<b>EUR</b>	<b>EUR</b>
<b>Cash and bank</b>		<b>1 950 035</b>	<b>299 588</b>	<b>2 774 650</b>	<b>426 275</b>
<b>Customer receivables</b>	<b>1</b>				
Accounts receivable		2 667 252	2 547 553	3 795 158	3 624 841
Allowance for uncollectible receivables		-145 582	-191 438	-207 144	-272 392
<b>Total</b>		<b>2 521 670</b>	<b>2 356 115</b>	<b>3 588 013</b>	<b>3 352 450</b>
<b>Other receivables</b>	<b>2</b>				
Other current receivables		15 423	173 313	21 945	246 602
Short-term loans given		885		1 259	0
Derivative financial instruments		61	0	87	0
<b>Total</b>		<b>16 369</b>	<b>173 313</b>	<b>23 290</b>	<b>246 602</b>
<b>Prepaid expenses</b>	<b>3</b>				
Prepaid taxes		170 336	394 099	242 366	560 752
Other prepaid expenses		71 413	99 637	101 612	141 771
<b>Total</b>		<b>241 749</b>	<b>493 736</b>	<b>343 978</b>	<b>702 523</b>
<b>Inventories</b>	<b>4</b>				
Raw materials		786 245	1 861 485	1 118 726	2 648 655
Work-in-progress		1 843 901	3 312 931	2 623 635	4 713 876
Finished goods		500 142	643 049	711 638	914 976
Prepayments to suppliers		19 242	15 491	27 379	22 043
<b>Total</b>		<b>3 149 530</b>	<b>5 832 956</b>	<b>4 481 378</b>	<b>8 299 549</b>
<b>TOTAL CURRENT ASSETS</b>		<b>7 879 353</b>	<b>9 155 708</b>	<b>11 211 309</b>	<b>13 027 399</b>
<b>NON-CURRENT ASSETS</b>					
<b>Long-term financial assets</b>					
Deferred income tax		138 593	138 680	197 200	197 324
Other long-term receivable		590	590	839	839
<b>Total</b>		<b>139 183</b>	<b>139 270</b>	<b>198 040</b>	<b>198 163</b>
<b>NON-CURRENT physical assets</b>	<b>5</b>				
Plant and equipment		1 989 880	1 968 291	2 831 344	2 800 626
Other equipment and fixtures		1 168 838	1 168 259	1 663 107	1 662 283
Accumulated depreciation		-2 174 023	-1 770 061	-3 093 356	-2 518 570
Prepayments for noncurrent physical assets		27 473	109	39 091	155
<b>Total</b>		<b>1 012 168</b>	<b>1 366 598</b>	<b>1 440 185</b>	<b>1 944 494</b>
<b>Intangible assets</b>					
Purchased licenses, trademarks etc.		114 685	123 953	163 182	176 369
Goodwill		402 028	455 729	572 034	648 444
Prepayments for intangible assets		12 707	20 653	18 080	29 388
<b>Total</b>		<b>529 420</b>	<b>600 335</b>	<b>753 297</b>	<b>854 201</b>
<b>TOTAL NON-CURRENT ASSETS</b>		<b>1 680 771</b>	<b>2 106 203</b>	<b>2 391 522</b>	<b>2 996 857</b>
<b>TOTAL ASSETS</b>		<b>9 560 124</b>	<b>11 261 911</b>	<b>13 602 831</b>	<b>16 024 256</b>

**Consolidated balance sheet**  
**As of June 30, 2008**

<b>LIABILITIES AND OWNERS' EQUITY</b>	<b>Note</b>	<b>30.06.2008</b>	<b>30.06.2007</b>	<b>30.06.2008</b>	<b>30.06.2007</b>
<b>CURRENT LIABILITIES</b>		<b>LVL</b>	<b>LVL</b>	<b>EUR</b>	<b>EUR</b>
Short-term loans from financial institutons	6	5 159	1 467 416	7 341	2 087 945
Customer prepayments for goods and services		70 836	39 390	100 791	56 047
Accounts payable	7	875 298	445 434	1 245 437	633 795
Tax liabilities		113 365	111 079	161 304	158 051
Salary-related accrued expenses		312 261	182 869	444 307	260 199
Provisions	8	235 027	629 566	334 413	895 792
Prepaid revenue		0	5 119	0	7 285
<b>TOTAL CURRENT LIABILITIES</b>		<b>1 611 946</b>	<b>2 880 873</b>	<b>2 293 593</b>	<b>4 099 113</b>
<b>OWNERS' EQUITY</b>					
Share capital		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
Retained earnings		3 390 686	3 231 104	4 824 512	4 597 447
Net profit for the financial year		-431 300	159 582	-613 685	227 065
Currency translation reserve		14 408	15 968	20 501	22 720
<b>TOTAL OWNERS' EQUITY</b>		<b>7 948 178</b>	<b>8 381 038</b>	<b>11 309 238</b>	<b>11 925 143</b>
<b>TOTAL LIABILITIES AND OWNERS' EQUITY</b>		<b>9 560 124</b>	<b>11 261 911</b>	<b>13 602 831</b>	<b>16 024 256</b>

## Consolidated Income Statement for 12 month of the financial year 2007/08

	Note	30.06.2008	30.06.2007	30.06.2008	30.06.2007
		LVL	LVL	EUR	EUR
Net sales	9	10 650 128	13 362 094	15 153 767	19 012 547
Other operating income		333 931	251 816	475 142	358 302
<b>Total income</b>		<b>10 984 059</b>	<b>13 613 910</b>	<b>15 628 908</b>	<b>19 370 849</b>
Direct cost of goods sold or services rendered		-6 643 709	-7 335 454	-9 453 146	-10 437 411
Marketing, advertising and public relations expenses	10	-516 159	-623 495	-734 428	-887 153
Bad receivables		45 856	28 279	65 247	40 237
Operating expenses	11	-1 015 647	-1 557 638	-1 445 135	-2 216 319
Salaries, bonuses and social expenses	12	-2 540 468	-2 842 488	-3 614 760	-4 044 496
Depreciation expense		-608 961	-745 677	-866 473	-1 061 003
Amortization of product Prototypes		-46 310	-37 778	-65 893	-53 753
Other expenses		-28 495	-95 581	-40 543	-136 000
<b>Operating expenses</b>		<b>-11 353 893</b>	<b>-13 209 832</b>	<b>-16 155 134</b>	<b>-18 795 899</b>
<b>EBIT</b>		<b>-369 834</b>	<b>404 078</b>	<b>-526 226</b>	<b>574 950</b>
Financial income (except ForEx rate difference)		27 282	6 549	38 819	9 318
Financial costs (except ForEx rate difference)		-24 071	-92 185	-34 250	-131 167
Foreign exchange +gain/(loss)		-66 164	-88 568	-94 143	-126 021
<b>Financial items</b>		<b>-62 953</b>	<b>-174 204</b>	<b>-89 574</b>	<b>-247 870</b>
<b>EBT</b>		<b>-432 787</b>	<b>229 874</b>	<b>-615 800</b>	<b>327 081</b>
<b>Corporate income tax</b>		<b>1 487</b>	<b>-70 292</b>	<b>2 116</b>	<b>-100 017</b>
<b>Net profit</b>		<b>-431 300</b>	<b>159 582</b>	<b>-613 685</b>	<b>227 065</b>

\*Earnings per share

EPS 30.06.2008. = -0.15 LVL (-0.21 EUR)

EPS 30.06.2007. = 0.05 LVL (0.08 EUR)

## Consolidated Income Statement for Q4 of the financial year 2007/08

	30.06.2008	30.06.2007	30.06.2008	30.06.2007
	LVL	LVL	EUR	EUR
Net sales	2 907 762	2 350 170	4 137 373	3 343 991
Other operating income	187 513	141 761	266 807	201 709
<b>Total income</b>	<b>3 095 275</b>	<b>2 491 931</b>	<b>4 404 180</b>	<b>3 545 698</b>
Direct cost of goods sold or services rendered	-1 779 316	-1 285 223	-2 531 739	-1 828 708
Marketing, advertising and public relations expenses	-192 323	-114 997	-273 651	-163 626
Bad receivables	-7 128	-69 436	-10 142	-98 799
Operating expenses	-256 035	-630 881	-364 305	-897 663
Salaries, bonuses and social expenses	-646 404	-692 087	-919 750	-984 751
Depreciation expense	-138 353	-305 407	-196 859	-434 555
Amortization of product Prototypes	-11 543	-13 027	-16 424	-18 536
Other expenses	-13 640	-12 402	-19 408	-17 645
<b>Operating expenses</b>	<b>-3 044 742</b>	<b>-3 123 460</b>	<b>-4 332 279</b>	<b>-4 444 283</b>
<b>EBIT</b>	<b>50 533</b>	<b>-631 529</b>	<b>71 902</b>	<b>-898 585</b>
Financial income (except ForEx rate difference)	16 643	659	23 681	938
Financial costs (except ForEx rate difference)	-17	-27 397	-24	-38 982
Foreign exchange +gain/(loss)	23 062	-13 130	32 815	-18 682
<b>Financial items</b>	<b>39 688</b>	<b>-39 868</b>	<b>56 471</b>	<b>-56 727</b>
<b>EBT</b>	<b>90 221</b>	<b>-671 397</b>	<b>128 373</b>	<b>-955 312</b>
<b>Corporate income tax</b>	<b>1 487</b>	<b>21 017</b>	<b>2 116</b>	<b>29 904</b>
<b>Net profit</b>	<b>91 708</b>	<b>-650 380</b>	<b>130 489</b>	<b>-925 407</b>

\*Earnings per share

EPS 30.06.2008. = 0.03 LVL (0.04 EUR)

EPS 30.06.2007. = -0.22 LVL (-0.31 EUR)

## Consolidated cash flow statement for 12 months of the financial year 2007/08

	30.06.2008	30.06.2007	30.06.2008	30.06.2007
	LVL	LVL	EUR	EUR
<b>CASH GENERATED FROM OPERATIONS (of which)</b>	<b>2 858 960</b>	<b>-512 236</b>	<b>4 067 934</b>	<b>-728 846</b>
Cash received from customers	10 448 042	13 963 793	14 866 225	19 868 687
Cash paid to suppliers and employees	-7 904 627	-14 476 029	-11 247 271	-20 597 534
Paid tax	315 545		448 980	0
<b>NET CASH USED IN INVESTING ACTIVITIES (of which)</b>	<b>-202 457</b>	<b>-1 241 717</b>	<b>-288 070</b>	<b>-1 766 804</b>
Cash paid for purchasing non-current physical assets	-237 879	-1 310 792	-338 471	-1 865 089
Cash received from the sale of non-current physical assets	16 889	103 916	24 031	147 859
Loans given	0	-604 014	0	-859 434
Cash received from repayment of loans given	0	559 556	0	796 176
Interest received	18 533	9 617	26 370	13 683
<b>NET CASH USED IN FINANCING ACTIVITIES (of which)</b>	<b>-1 020 133</b>	<b>814 533</b>	<b>-1 451 518</b>	<b>1 158 975</b>
Short-term loans received	0	1 769 535	0	2 517 821
Repayment of short-term loans	-1 462 257	-309 576	-2 080 604	-440 487
Paid interest	-24 002	-90 560	-34 152	-128 855
Cash received from state	466 126	39 170	663 238	55 734
Dividends paid		-594 036	0	-845 237
<b>Effects of exchange rate changes</b>	<b>14 077</b>	<b>-5 625</b>	<b>20 030</b>	<b>-8 004</b>
<b>TOTAL CASH FLOW:</b>	<b>1 650 447</b>	<b>-945 045</b>	<b>2 348 375</b>	<b>-1 344 678</b>
Cash and cash equivalents as at the beginning of period	299 588	1 244 633	426 275	1 770 953
Cash and cash equivalents as at the end of period	1 950 035	299 588	2 774 650	426 275
<b>NET INCREASE / DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>1 650 447</b>	<b>-945 045</b>	<b>2 348 375</b>	<b>-1 344 678</b>



**Statement of changes in consolidated equity for the 12 months period ended June 30 2008**

	Share capital  Ls	Share premium  Ls	Currency translation reserve  Ls	Retained earnings  Ls	Total  Ls
<b>As at 30 June 2006</b>	2 970 180	2 004 204	<b>-5 544</b>	3 825 140	8 793 980
Dividend relating to 2005/2006	-	-	-	<b>-594 036</b>	<b>-594 036</b>
Currency translation difference	-	-	21 512	-	21 512
Profit for the year	-	-	-	159 582	159 582
<b>As at 30 June 2007</b>	2 970 180	2 004 204	15 968	3 390 686	8 381 038
Currency translation difference	-	-	-1 560	-	<b>-1 560</b>
Profit for the year	-	-	-	-431 300	<b>-431 300</b>
<b>As at 30 June 2008</b>	2 970 180	2 004 204	14 408	2 959 386	7 948 178

**Statement of changes in consolidated equity for the 12 months period ended June 30 2008**

	Share capital  EUR	Share premium  EUR	Currency translation reserve  EUR	Retained earnings  EUR	Total  EUR
<b>As at 30 June 2006</b>	4 226 185	2 851 725	<b>-7 888</b>	5 442 684	12 512 706
Dividend relating to 2005/2006	-	-	-	<b>-845 237</b>	<b>-845 237</b>
Currency translation difference	-	-	30 609	-	30 609
Profit for the year	-	-	-	227 065	227 065
<b>As at 30 June 2007</b>	4 226 185	2 851 725	22 720	4 824 512	11 925 143
Currency translation difference	-	-	-2 220	-	<b>-2 220</b>
Profit for the year	-	-	-	-613 685	<b>-613 685</b>
<b>As at 30 June 2008</b>	4 226 185	2 851 725	20 500	4 210 827	11 309 239

## Notes for consolidated interim report

### Note 1 Customer receivables

	30.06.2008	30.06.2007	30.06.2008	30.06.2007
	Ls	Ls	EUR	EUR
Accounts receivables	2 667 252	2 547 553	3 795 158	3 624 841
Provisions for bad and doubtful accounts receivable	(145 582)	(191 438)	(207 144)	(272 392)
	<b>2 521 670</b>	<b>2 356 115</b>	<b>3 588 013</b>	<b>3 352 450</b>

The Group ceased discounting Letters of Credit as overdraft rates are more favourable. Working capital is deemed sufficient. Provisions for bad and doubtful accounts receivable, in comparison with the 12 month period of the previous financial year 2006/07 reduced by LVL 46 thousand (EUR 65 thousand) or 24%. This is the same level as at the end of the third quarter.

### Note 2 Other current receivables

	30.06.2008	30.06.2007	30.06.2008	30.06.2007
	Ls	Ls	EUR	EUR
Other current receivables	15 423	173 313	21 945	246 602
	<b>15 423</b>	<b>173 313</b>	<b>21 945</b>	<b>246 602</b>

### Note 3 Prepaid taxes

	30.06.2008	30.06.2007	30.06.2008	30.06.2007
	Ls	Ls	EUR	EUR
Prepaid taxes	170 336	394 099	242 366	560 752
	<b>170 336</b>	<b>394 099</b>	<b>242 366</b>	<b>560 752</b>

Prepaid taxes have decreased by LVL 224 thousand (EUR 318 thousand). This is mainly due to less paid advance Corporate Income tax and less VAT.

### Note 4 Inventories

	30.06.2008	30.06.2007	30.06.2008	30.06.2007
	Ls	Ls	EUR	EUR
Raw materials	786 245	1 861 485	1 118 726	2 648 655
Work-in-progress	1 843 901	3 312 931	2 623 635	4 713 876
Finished goods	500 142	643 049	711 638	914 976
Prepayments to suppliers	19 242	15 491	27 379	22 043
	<b>3 149 530</b>	<b>5 832 956</b>	<b>4 481 378</b>	<b>8 299 549</b>

Inventories in comparison with the 12 month period of the previous financial year 2006/07 decreased by 46% and in comparison with the previous quarter decreased by 16%. Last year the Group created additional reserves for a wider product assortment and greater manufacturing capacity. Forecasted production volumes were considerably higher than actual volumes in 2007, thus purchased items

were consumed over a much longer period. Current stock levels are deemed appropriate to present production volumes.

#### **Note 5 Non-current physical assets**

	<b>30.06.2008</b>	<b>30.06.2007</b>	<b>30.06.2008</b>	<b>30.06.2007</b>
	<b>Ls</b>	<b>Ls</b>	<b>EUR</b>	<b>EUR</b>
Plant and equipment	1 989 880	1 968 291	2 831 344	2 800 626
Other equipment and fixtures	1 168 838	1 168 259	1 663 107	1 662 283
Accumulated depreciation	(2 174 023)	(1 770 061)	(3 093 356)	(2 518 570)
Prepayments for non-current physical assets	27 473	109	39 091	155
	<b>1 012 168</b>	<b>1 366 598</b>	<b>1 440 185</b>	<b>1 944 494</b>

Decrease of the balance value of non current physical assets, in comparison with the 12 month period of the previous financial year 2006/07, is mainly due to accumulated depreciation.

#### **Note 6 Debt obligations**

	<b>30.06.2008</b>	<b>30.06.2007</b>	<b>30.06.2008</b>	<b>30.06.2007</b>
	<b>Ls</b>	<b>Ls</b>	<b>EUR</b>	<b>EUR</b>
Short-term loans from financial institutions	5 159	1 467 416	7 341	2 087 945
	<b>5 159</b>	<b>1 467 416</b>	<b>7 341</b>	<b>2 087 945</b>

Since July 1, 2008 a new amendment is in force to the multi-currency credit line agreement with Nordea bank Finland Plc Latvian branch by decreasing the assigned credit line by 2M EUR, thus currently amounting to 3M EUR. The interest rate also changed and is equivalent to the respective overnight interbank rate plus a margin 1.15%. The interest rate for an unused credit facility will be applied from July 1, 2008 and is 0.35% per annum.

#### **Note 7 Accounts payable**

	<b>30.06.2008</b>	<b>30.06.2007</b>	<b>30.06.2008</b>	<b>30.06.2007</b>
	<b>Ls</b>	<b>Ls</b>	<b>EUR</b>	<b>EUR</b>
Accounts payable	875 298	445 434	1 245 437	633 795
	<b>875 298</b>	<b>445 434</b>	<b>1 245 437</b>	<b>633 795</b>

Accounts payable, in comparison with the 12 month period of the previous financial year 2006/07 are higher as purchases for stock have increased.

#### **Note 8 Other provisions**

	<b>30.06.2008</b>	<b>30.06.2007</b>	<b>30.06.2008</b>	<b>30.06.2007</b>
	<b>Ls</b>	<b>Ls</b>	<b>EUR</b>	<b>EUR</b>
Other provisions	235 027	629 566	334 413	895 792
	<b>235 027</b>	<b>629 566</b>	<b>334 413</b>	<b>895 792</b>

Provisions, in comparison with the 12 month period of the previous financial year 2006/07, decreased by 167% as earlier purchased components were consumed and respective provisions for slow moving goods might be reversed. Current provisions are half of the level compared with the end of the third quarter.

### Note 9 Segment information

a) The Group's operations may currently be divided into two major structural units by product type – CFM (PDH) and CFQ (SDH) product lines. CFIP product sales have not yet commenced. The structural units are used as a basis for providing information about the primary segments of the Group, i.e. business segments. Production, as well as research and development are organised and managed for each product line (CFM, CFQ and CFIP) 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 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 frequency bands from 7 to 38 GHz. The product is generally exported to developed European countries where the demand for high capacity data transmission possibilities dominates.

This note provides information about division of the Group's turnover and balance items by structural units by product type for 12 month of the financial year 2007/08 and financial year 2006/07.

	CFQ		CFM		Other		Total	
	2007/8 Ls	2006/7 Ls	2007/8 Ls	2006/7 Ls	2007/8 Ls	2006/7 Ls	2007/8 Ls	2006/7 Ls
Segment assets	1 359 635	1 620 380	4 927 495	7 804 289	671 473	654 773	6 958 603	10 079 442
Undivided assets							2 601 521	1 182 469
<b>Total assets</b>							<b>9 560 124</b>	<b>11 261 911</b>
Segment liabilities	251 964	197 649	824 309	595 208	180 092	89 688	1 256 365	882 545
Undivided liabilities							355 581	1 998 328
<b>Total liabilities</b>							<b>1 611 946</b>	<b>2 880 873</b>
Net sales	1 444 963	1 428 510	7 553 502	10 405 813	1 651 663	1 527 771	10 650 128	13 362 094
<b>Segment results</b>	<b>-283 183</b>	<b>-451 884</b>	<b>1 352 994</b>	<b>3 039 983</b>	<b>315 774</b>	<b>317 627</b>	<b>1 385 585</b>	<b>2 905 726</b>
Undivided expenses							-2 089 350	-2 753 464
<b>Profit from operations</b>							<b>-703 765</b>	<b>152 262</b>
Other income							333 931	251 816
Financial expenses, net							-62 953	-174 204
<b>Profit before taxes</b>							<b>-432 787</b>	<b>229 874</b>
Corporate income tax							1 487	-70 292
<b>Net profit</b>							<b>-431 300</b>	<b>159 582</b>
Other information								
Additions of property plant and equipment and intangible assets	1 302	186 474	94 165	742 318	210	6 019	95 677	934 811
Undivided additions							133 920	375 481
<b>Total additions of property plant and equipment and intangible assets</b>							<b>229 597</b>	<b>1 310 292</b>
Depreciation and amortization	101 864	262 198	352 045	316 886	3 213	3 542	457 122	582 626
Undivided depreciation							198 149	200 829
<b>Total depreciation and amortization</b>							<b>655 271</b>	<b>783 455</b>

	CFQ		CFM		Other		Total	
	2007/8 EUR	2006/7 EUR	2007/8 EUR	2006/7 EUR	2007/8 EUR	2006/7 EUR	2007/8 EUR	2006/7 EUR
Segment assets	1 934 586	2 305 593	7 011 194	11 104 503	955 421	931 659	9 901 200	14 341 754
Undivided assets							3 701 631	1 682 502
<b>Total assets</b>							<b>13 602 831</b>	<b>16 024 256</b>
Segment liabilities	358 512	281 229	1 172 886	846 905	256 248	127 615	1 787 646	1 255 748
Undivided liabilities							505 946	2 843 365
<b>Total liabilities</b>							<b>2 293 592</b>	<b>4 099 113</b>
Net sales	2 055 997	2 032 587	10 747 665	14 806 138	2 350 105	2 173 822	15 153 767	19 012 547
<b>Segment results</b>	<b>-402 933</b>	<b>-642 973</b>	<b>1 925 137</b>	<b>4 325 506</b>	<b>449 306</b>	<b>451 943</b>	<b>1 971 510</b>	<b>4 134 476</b>
Undivided expenses							-2 972 877	-3 917 826
<b>Profit from operations</b>							<b>-1 001 367</b>	<b>216 649</b>
Other income							475 142	358 302
Financial expenses, net							-89 574	-247 870
<b>Profit before taxes</b>							<b>-615 800</b>	<b>327 081</b>
Corporate income tax							2 116	-100 017
<b>Net profit</b>							<b>-613 685</b>	<b>227 065</b>
Other information								
Additions of property plant and equipment and intangible assets	1 853	265 329	133 985	1 056 223	299	8 564	136 136	1 330 116
Undivided additions							190 551	534 261
<b>Total additions of property plant and equipment and intangible assets</b>							<b>326 687</b>	<b>1 864 377</b>
Depreciation and amortization	144 939	373 074	500 915	450 888	4 571	5 039	650 426	829 002
Undivided depreciation							281 941	285 754
<b>Total depreciation and amortization</b>							<b>932 367</b>	<b>1 114 756</b>

b) This note provides information about division of the Group's turnover and assets by geographical regions (customer location) for 12 month of the financial year 2007/08 and financial year 2006/07.

	Net sales		Assets		Net sales		Assets	
	2007/8 Ls	2006/7 Ls	30.06.2008 Ls	30.06.2007 Ls	2007/8 EUR	2006/7 EUR	30.06.2008 EUR	30.06.2007 EUR
Asia	2 072 583	3 515 948	113 757	841 871	2 949 020	5 002 743	161 862	1 197 875
America	1 598 122	1 514 860	503 111	381 624	2 273 923	2 155 452	715 862	543 002
Africa	1 084 962	783 896	86 592	59 354	1 543 762	1 115 384	123 209	84 453
Europe	2 625 372	4 086 555	482 207	270 504	3 735 567	5 814 644	686 119	384 893
CIS	2 640 707	2 780 634	526 660	450 320	3 757 387	3 956 486	749 370	640 748
Middle East	628 382	680 201	809 343	352 442	894 107	967 839	1 151 592	501 481
	<b>10 650 128</b>	<b>13 362 094</b>	<b>2 521 670</b>	<b>2 356 115</b>	<b>15 153 767</b>	<b>19 012 547</b>	<b>3 588 013</b>	<b>3 352 450</b>
Unallocated assets	-	-	7 038 454	8 905 796	-	-	10 014 818	12 671 806
	<b>10 650 128</b>	<b>13 362 094</b>	<b>9 560 124</b>	<b>11 261 911</b>	<b>15 153 767</b>	<b>19 012 547</b>	<b>13 602 831</b>	<b>16 024 256</b>

### Note 10 Marketing, advertising and public relations expenses

	30.06.2008 Ls	30.06.2007 Ls	30.06.2008 EUR	30.06.2007 EUR
Marketing, advertising and public relations expenses	516 159	623 495	734 428	887 153
	<b>516 159</b>	<b>623 495</b>	<b>734 428</b>	<b>887 153</b>

The decrease in marketing expenses, in comparison with the 12 month period of the previous financial year 2006/07, reflects lower sales commissions due to lower sales results and less spending for exhibitions.

**Note 11 Operating expenses**

	<b>30.06.2008</b>	<b>30.06.2007</b>	<b>30.06.2008</b>	<b>30.06.2007</b>
	<b>Ls</b>	<b>Ls</b>	<b>EUR</b>	<b>EUR</b>
Operating expenses	1 015 647	1 557 638	1 445 135	2 216 319
	<b>1 015 647</b>	<b>1 557 638</b>	<b>1 445 135</b>	<b>2 216 319</b>

The main decrease in operating expenses, in comparison with the 12 month period of the previous financial year 2006/07, is due to decreased training, travelling, communication, office-related and IT expenses. These items are always evaluated on an ongoing basis considering the likely return and necessary investment.

**Note 12 Salaries, bonuses and social expenses**

	<b>30.06.2008</b>	<b>30.06.2007</b>	<b>30.06.2008</b>	<b>30.06.2007</b>
	<b>Ls</b>	<b>Ls</b>	<b>EUR</b>	<b>EUR</b>
Salaries, bonuses and social expenses	2 540 468	2 842 488	3 614 760	4 044 496
	<b>2 540 468</b>	<b>2 842 488</b>	<b>3 614 760</b>	<b>4 044 496</b>

Salaries, bonuses and social expenses, in comparison with the 12 month period of the previous financial year 2006/07 have decreased by 11% mainly due to decreased employee headcount. Expenses for bonuses decreased proportionally with the sales decrease.