

SAF Tehnika A/S
Consolidated Interim Report
for 3 month of financial year 2008/09

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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 family - SAF's Next Generation 108Mbps 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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Beginning of financial year:	01.07.2008.
End of financial year:	30.06.2009.
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Aira Loite

Member of the Management Board

November 5, 2008

Share and Shareholdings

SAF Tehnika shareholders (over 5%) as of 25.09.2008

Name	Ownership interest (%)
Hansapank AS Clients Account	24.15%
Didzis Liepkalns	17.05%
Andrejs Grišāns	10.03%
Skandinaviska Enskilda Banken AB Clients Account	9.84%
Normunds Bergs	9.74%
Juris Ziema	8.71%
Vents Lācars	6.08%

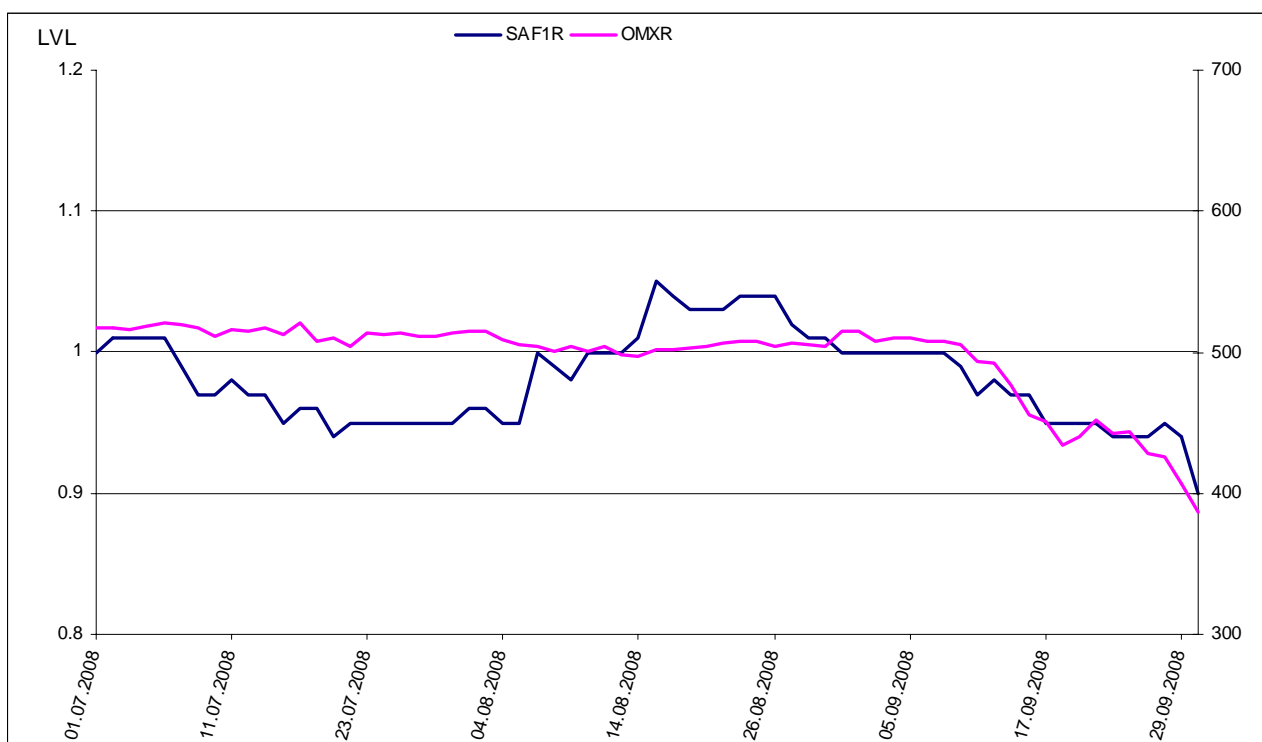
SAF Tehnika share price and OMX Riga index development for the reporting period

SAF Tehnika (SAF1R)

Period: 2008-07-01 - 2008-09-30

Currency: LVL

Marketplace: NASDAQ OMX Riga Stock Exchange



Information on management and supervisory board members

SAF Tehnika Management Board:

Name	Position	Ownership interest (%)
Normunds Bergs	Chairman	owns 9.74% of shares
Didzis Liepkalns	Vice-Chairman	owns 17.05% of shares
Jānis Ennitis	Member	
Aira Loite	Member	

SAF Tehnika Supervisory Board:

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

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 September 2008 and the results of its operations and cash flows for the 3 month period ended 30 September 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, 2008. 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

Aira Loite

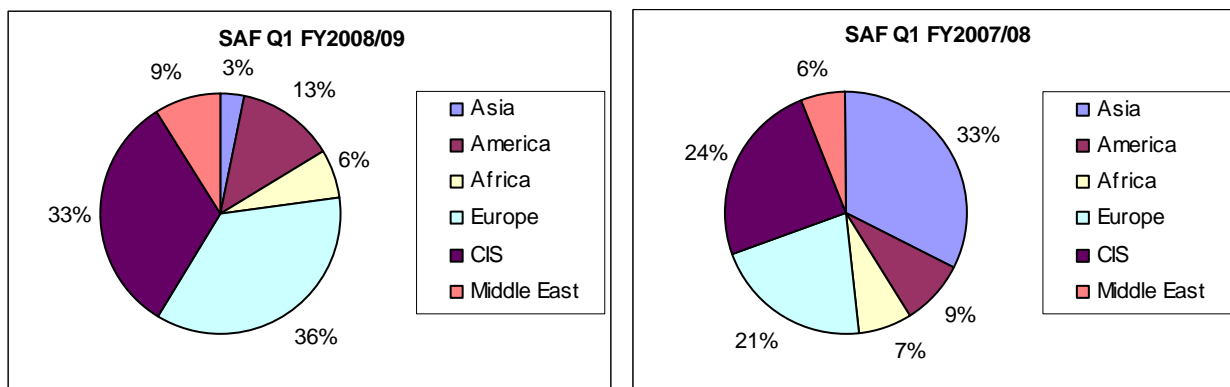
Member of the Management Board

Management Report

The Group's consolidated non-audited net sales for the first quarter of financial year 2008/09 were 2 376 181 LVL (3 381 001 EUR), representing 75% of the same quarter of the previous financial year. Comparing sales results with the first quarter of financial year 2007/08, sales increases were achieved in Europe (+26%), Latin America (+16%) and the Middle East(+12%). Sales figures in Africa and Asia were less and results for the CIS were flat. Asian sales decreased by 92% as orders from China were not forthcoming and there were no large orders from India. The Group sold products to 42 countries during the reporting period, compared with 46 in the prior year's corresponding quarter.

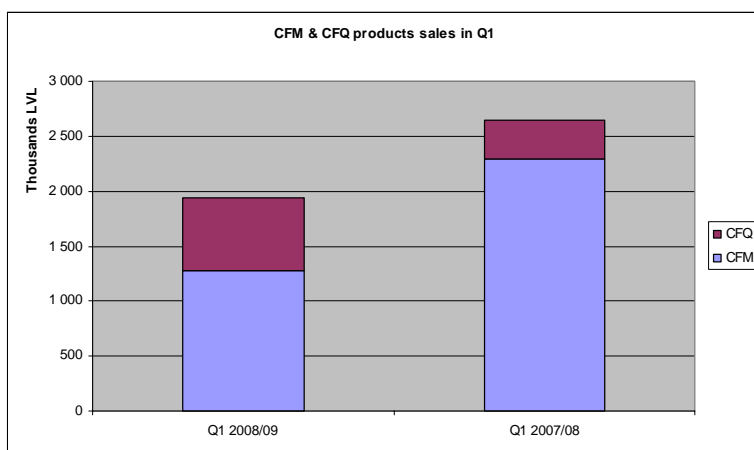
Regions with many customers such as Europe and the CIS are naturally more stable compared with Asia, the Middle East and Latin America (where there are less). The Group's client mix is gradually changing, with less dependence on key accounts.

Chart 1. Quarter 1 revenue breakdown comparative charts:



The SDH (CFQ, or, high capacity product) radio sales for the first quarter reached 32% of the Group's total sales and this proportion is 3 times larger than in the first quarter of the previous financial year. Europe consumes the largest proportion of SDH products due to more developed data networks and operator structures. As a result of technology shifts, the market for the Group's main product line, CFM, continues to shrink. There is heightened interest from customers towards the new product line, CFIP. SAF Tehnika's CFIP products should be fully available during Q2 of financial year 2008/09.

Chart 2. Quarter 1 product sales breakdown.



The consolidated net profit of the Group for the first quarter of financial year 2008/09 was 23 682 LVL (33 696 EUR), by 88 357 LVL (125 721 EUR) less compared with the same period a year earlier. The decrease in net profit mainly reflects lower sales and falling margins due to market consolidation and increasing competition. The sharp appreciation in the US dollar generated unexpected financial income.

Market overview

Due to the current global financial crisis, capital spending in telecoms is slowing in varying amounts across different regions. This is likely to reduce the total market activity in coming quarters. It is therefore likely that price will play an increasing role during customer decision-making. This may bring further consolidation in the market. As expected, demand for high capacity products is growing in Europe, but this is also seen in other regions. This should provide heightened interest for CFIP products.

Guidance

In order to achieve a profit in the 2008/09 financial year, the successful production launch of the new CFIP product line will be necessary. The CFQ product line will continue to be developed according to customers' needs. Sales will continue to be focused on new and mid-size customers in all regions. At the same time the Group is looking at alternative strategies to focus on niche markets with more specific solutions for existing customers.

The Group's net cash flow for the first quarter was a positive 97 909 LVL (139 312 EUR). The Group carried a net cash balance (excluding interest-bearing liabilities) of 2 045 077 LVL (2 909 882 EUR) as at September 30, 2008.

On September 30, 2008 the Group employed 172 people. (161 people on September 30, 2007)

Consolidated balance sheet

ASSETS	Note	30.09.2008	30.09.2007	30.09.2008	30.09.2007
CURRENT ASSETS		LVL	LVL	EUR	EUR
Cash and bank		2 047 944	241 478	2 913 962	343 592
Customer receivables	1				
Accounts receivable		2 522 710	3 180 107	3 589 493	4 524 884
Allowance for uncollectible receivables		-186 402	-144 652	-265 226	-205 821
Total		2 336 308	3 035 455	3 324 267	4 319 063
Other receivables					
Other current receivables		10 683	9 892	15 201	14 075
Short-term loans given		885	885	1 259	1 259
Derivative financial instruments		3 722	13 615	5 296	19 372
Total		15 290	24 392	21 756	34 706
Prepaid expenses					
Prepaid taxes	2	193 866	394 812	275 846	561 767
Other prepaid expenses		70 366	123 318	100 122	175 466
Total		264 232	518 130	375 968	737 233
Inventories	3				
Raw materials		623 220	1 119 043	886 762	1 592 255
Work-in-progress		1 667 491	2 620 363	2 372 626	3 728 441
Finished goods		607 794	492 931	864 813	701 378
Merchandise purchased for resale		134	0	191	0
Prepayments to suppliers		25 928	11 654	36 892	16 582
Total		2 924 567	4 243 991	4 161 284	6 038 656
TOTAL CURRENT ASSETS		7 588 341	8 063 446	10 797 237	11 473 250
NON-CURRENT ASSETS					
Long-term financial assets					
Deferred income tax		98 522	138 559	140 184	197 152
Other long-term receivable		590	590	839	839
Total		99 112	139 149	141 023	197 991
NON-CURRENT physical assets	4				
Plant and equipment		1 996 289	1 976 591	2 840 463	2 812 436
Other equipment and fixtures		1 168 909	1 169 490	1 663 208	1 664 034
Accumulated depreciation		-2 264 436	-1 872 611	-3 222 002	-2 664 485
Prepayments for noncurrent physical assets		29 134	109	41 454	155
Total		929 896	1 273 579	1 323 123	1 812 140
Intangible assets					
Purchased licenses, trademarks etc.		106 048	152 420	150 893	216 874
Product prototypes		377 412	443 469	537 009	631 000
Prepayments for intangible assets		0	18 400	0	26 180
Total		483 460	614 289	687 902	874 054
TOTAL NON-CURRENT ASSETS		1 512 468	2 027 017	2 152 048	2 884 185
TOTAL ASSETS		9 100 809	10 090 463	12 949 285	14 357 435

Consolidated balance sheet

	Note	30.09.2008	30.09.2007	30.09.2008	30.09.2007
LIABILITIES AND OWNERS' EQUITY		LVL	LVL	EUR	EUR
CURRENT LIABILITIES					
Debt obligations					
Short-term loans from financial institutons	5	2 867	579 552	4 080	824 628
Total		2 867	579 552	4 080	824 628
Customer prepayments for goods and services		58 903	51 494	83 812	73 269
Accounts payable	6	782 652	538 177	1 113 614	765 757
Tax liabilities		100 213	101 704	142 590	144 712
Salary-related accrued expenses		251 762	254 976	358 225	362 798
Other accrued expenses		32	0	46	0
Total		251 794	254 976	358 271	362 798
Prepaid revenue	7	0	70 267	0	99 981
TOTAL CURRENT LIABILITIES		1 196 429	1 596 170	1 702 367	2 271 145
OWNERS' EQUITY					
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		2 918 194	3 390 686	4 152 216	4 824 512
Net profit for the financial year		23 682	112 039	33 696	159 417
Currency translation reserve		-11 880	17 184	-16 904	24 451
TOTAL OWNERS' EQUITY		7 904 380	8 494 293	11 246 918	12 086 290
TOTAL LIABILITIES AND OWNERS' EQUITY		9 100 809	10 090 463	12 949 285	14 357 435

Consolidated Income Statement for 3 month of the financial year 2008/09

	Note	30.09.2008	30.09.2007	30.09.2008	30.09.2007
		LVL	LVL	EUR	EUR
Net sales	8	2 376 181	3 156 867	3 381 001	4 491 817
Other operating income		166	8 328	236	11 850
Total income		2 376 347	3 165 195	3 381 237	4 503 667
Direct cost of goods sold or services rendered		-1 419 693	-2 012 381	-2 020 041	-2 863 360
Marketing, advertising and public relations expenses		-89 697	-108 216	-127 627	-153 977
Bad receivables		-40 823	46 786	-58 086	66 570
Operating expenses		-197 818	-210 259	-281 470	-299 172
Salaries, bonuses and social expenses	9	-544 837	-554 259	-775 233	-788 640
Depreciation expense		-117 179	-142 998	-166 731	-203 468
Amortization of product Prototypes		-13 077	-11 654	-18 607	-16 582
Other expenses		-7 316	-8 394	-10 410	-11 943
Operating expenses		-2 430 440	-3 001 375	-3 458 205	-4 270 572
EBIT		-54 093	163 820	-76 968	233 095
Financial income (except ForEx rate difference)		17 713	1 909	25 203	2 716
Financial costs (except ForEx rate difference)		-1 866	-19 245	-2 655	-27 383
Foreign exchange +gain/(loss)		61 928	-11 809	88 116	-16 803
Financial items		77 775	-29 145	110 664	-41 470
EBT		23 682	134 675	33 696	191 625
Provision for taxes		0	-22 636	0	-32 208
Net profit		23 682	112 039	33 696	159 417

*Earnings per share

EPS 30.09.2008. = 0.01 LVL (0.01 EUR)

EPS 30.09.2007. = 0.04 LVL (0.05 EUR)

Consolidated cash flow statement for 3 months of the financial year 2008/09

	30.09.2008	30.09.2007	30.09.2008	30.09.2007
	LVL	LVL	EUR	EUR
CASH GENERATED FROM OPERATIONS (of which)	107 009	675 182	152 260	960 697
Cash received from customers	2 564 069	2 494 442	3 648 342	3 549 271
Cash paid to suppliers and employees	-2 474 700	-1 819 260	-3 521 181	-2 588 574
Received VAT	17 640	0	25 099	0
NET CASH USED IN INVESTING ACTIVITIES (of which)	2 732	-65 878	3 887	-93 736
Cash paid for purchasing non-current physical assets	-14 013	-76 261	-19 939	-108 510
Cash received from the sale of non-current physical assets	0	8 477	0	12 062
Interest received	16 745	1 906	23 826	2 712
NET CASH USED IN FINANCING ACTIVITIES (of which)	-4 157	-668 648	-5 915	-951 400
Repayment of short-term loans	-2 292	-887 864	-3 261	-1 263 317
Paid interest	-1 865	-19 245	-2 654	-27 383
Cash received from ERAF subsidies	0	238 461	0	339 300
Effects of exchange rate changes	-7 675	1 234	-10 921	1 756
TOTAL CASH FLOW:	97 909	-58 110	139 312	-82 683
Cash and cash equivalents as at the beginning of period	1 950 035	299 588	2 774 650	426 275
Cash and cash equivalents as at the end of period	2 047 944	241 478	2 913 962	343 592
NET INCREASE / DECREASE IN CASH AND CASH EQUIVALENTS	97 909	-58 110	139 312	-82 683

**Statement of changes in consolidated equity
for the 3 months period ended September 30 2008**

	Share capital	Share premium	Currency translation rezerves	Retained earnings	Total
	LVL	LVL	LVL	LVL	LVL
As at 30 June 2007	2 970 180	2 004 204	15 968	3 390 686	8 381 038
Currency translation difference	-	-	-10 862	-	-10 862
Profit for the year	-	-	-	-472 492	-472 492
As at 30 June 2008	2 970 180	2 004 204	5 106	2 918 194	7 897 684
Currency translation difference	-	-	-16 986	-	-16 986
Profit for the year	-	-	-	23 682	23 682
As at 30 September 2008	2 970 180	2 004 204	-11 880	2 941 876	7 904 380

	Share capital	Share premium	Currency translation rezerves	Retained earnings	Total
	EUR	EUR	EUR	EUR	EUR
As at 30 June 2007	4 226 185	2 851 725	22 720	4 824 512	11 925 142
Currency translation difference	-	-	-15 455	-	-15 455
Profit for the year	-	-	-	-672 296	-672 296
As at 30 June 2008	4 226 185	2 851 725	7 265	4 152 216	11 237 391
Currency translation difference	-	-	-24 169	-	-24 169
Profit for the year	-	-	-	33 696	33 696
As at 30 September 2008	4 226 185	2 851 725	-16 904	4 185 912	11 246 918

Notes for consolidated interim report

Note 1 Customer receivables

	30.09.2008 LVL	30.09.2007 LVL	30.09.2008 EUR	30.09.2007 EUR
Accounts receivables	2 522 710	3 180 107	3 589 493	4 524 884
Provisions for bad and doubtful accounts receivable	(186 402)	(144 652)	(265 226)	(205 821)
	2 336 308	3 035 455	3 324 267	4 319 063

At the end of reporting period accounts receivable were 21% or LVL 0.66 million lower than on September 30, 2007 reflecting weaker sales results.

Note 2 Prepaid taxes

	30.09.2008 LVL	30.09.2007 LVL	30.09.2008 EUR	30.09.2007 EUR
Prepaid taxes	193 866	394 812	275 846	561 767
	193 866	394 812	275 846	561 767

Prepaid taxes have decreased by LVL 0.2 million. This is mainly due to less paid advance corporate income tax and less VAT.

Note 3 Inventories

	30.09.2008 LVL	30.09.2007 LVL	30.09.2008 EUR	30.09.2007 EUR
Raw materials	847 867	1 587 724	1 474 915	3 091 415
Allowance for slow-moving items	(224 647)	(468 681)	(319 644)	(666 873)
Work-in-progress	1 667 491	2 620 363	2 372 626	3 728 441
Finished goods	607 794	492 931	864 813	701 378
Merchandise purchased for resale	134	0	191	0
Prepayments to suppliers	25 928	11 654	36 892	16 582
	2 924 567	4 243 991	4 161 284	6 038 656

Inventories in comparison with the 3 month period of the previous financial year 2007/08 decreased by 31%. This was when the Group created additional reserves for a wider product assortment and greater manufacturing capacity. As forecasted production volumes were considerably higher than actual volumes in 2007, purchased items were consumed over a much longer period. The current level of inventories is at the same level as of the end of Q4 of 2007/08, reflecting stock levels appropriate to actual production volumes.

Allowance from slow-moving items, in comparison with the 3 month period of the previous financial year 2007/08, have decreased substantially as earlier purchased components have been consumed.

Note 4 Non-current physical assets

	30.09.2008	30.09.2007	30.09.2008	30.09.2007
	LVL	LVL	EUR	EUR
Plant and equipment	1 996 289	1 976 591	2 840 463	2 812 436
Other equipment and fixtures	1 168 909	1 169 490	1 663 208	1 664 034
Accumulated depreciation	(2 264 436)	(1 872 611)	(3 222 002)	(2 664 485)
Prepayments for non-current physical assets	29 134	109	41 454	155
	929 896	1 273 579	1 323 123	1 812 140

Decrease in the value of non-current physical assets, in comparison with the 3 month period of the previous financial year 2007/08, is mainly due to accumulated depreciation.

Note 5 Debt obligations

	30.09.2008	30.09.2007	30.09.2008	30.09.2007
	LVL	LVL	EUR	EUR
Short-term loans from financial institutions	2 867	579 552	4 080	824 628
	2 867	579 552	4 080	824 628

The Group's net debt as of September 30, 2008 was negative, showing a net cash balance exceeding LVL 2 million.

Note 6 Accounts payable

	30.09.2008	30.09.2007	30.09.2008	30.09.2007
	LVL	LVL	EUR	EUR
Accounts payable	782 652	538 177	1 113 614	765 757
	782 652	538 177	1 113 614	765 757

Accounts payable as at September 30, 2008 were higher mostly due to purchases for inventory.

Note 7 Prepaid revenue

	30.09.2008	30.09.2007	30.09.2008	30.09.2007
	LVL	LVL	EUR	EUR
Prepaid revenue	0	70 267	0	99 981
	0	70 267	0	99 981

Note 8 Segment information

a) The Group'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 Group, 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 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.

This note provides information about division of the Group's turnover and balance items by structural units by product type for 3 month of the financial year 2008/09 and financial year 2007/08.

	CFQ		CFM		Other		Total	
	2008/9 LVL	2007/8 LVL	2008/9 LVL	2007/8 LVL	2008/9 LVL	2007/8 LVL	2008/9 LVL	2007/8 LVL
Segment assets	2 221 975	1 571 033	3 903 346	7 213 616	564 171	852 740	6 689 492	9 637 389
Undivided assets							2 411 317	453 074
Total assets							9 100 809	10 090 463
Segment liabilities	378 812	156 768	572 578	546 612	138 215	113 978	1 089 605	817 358
Undivided liabilities							106 824	778 812
Total liabilities							1 196 429	1 596 170
Net sales	757 141	380 780	1 302 908	2 306 071	316 132	470 016	2 376 181	3 156 867
Segment results	113 285	-39 387	246 482	538 887	67 969	68 564	427 736	568 064
Undivided expenses							-481 995	-412 572
Profit from operations							-54 259	155 492
Other income							166	8 328
Financial expenses, net							77 775	-29 145
Profit before taxes							23 682	134 675
Corporate income tax							0	-22 636
Net profit							23 682	112 039
Other information								
equipment and intangible assets	673	964	11 193	51 993	0	0	11 866	52 957
Undivided additions							13 193	25 557
Total additions of property plant and equipment and intangible assets							25 059	78 514
Depreciation and amortization	24 546	24 461	58 259	75 233	545	980	83 350	100 674
Undivided depreciation							46 906	53 978
Total depreciation and amortization							130 256	154 652

	CFQ		CFM		Other		Total	
	2008/9 EUR	2007/8 EUR	2008/9 EUR	2007/8 EUR	2008/9 EUR	2007/8 EUR	2008/9 EUR	2007/8 EUR
Segment assets	3 161 586	2 235 379	5 553 961	10 264 051	802 742	1 213 340	9 518 290	13 712 769
Undivided assets							3 430 995	644 666
Total assets							12 949 285	14 357 435
Segment liabilities	539 001	223 061	814 705	777 759	196 662	162 176	1 550 368	1 162 996
Undivided liabilities							151 996	1 108 150
Total liabilities							1 702 364	2 271 146
Net sales	1 077 315	541 801	1 853 871	3 281 243	449 815	668 773	3 381 001	4 491 817
Segment results	161 190	-56 043	350 712	766 767	96 711	97 559	608 613	808 282
Undivided expenses							-685 817	-587 037
Profit from operations							-77 204	221 245
Other income							236	11 850
Financial expenses, net							110 664	-41 470
Profit before taxes							33 696	191 625
Corporate income tax							0	-32 208
Net profit							33 696	159 417
Other information								
Additions of property plant and equipment and intangible assets	958	1 372	15 926	73 979	0	0	16 884	75 351
Undivided additions							18 772	36 364
Total additions of property plant and equipment and intangible assets							35 656	111 715
Depreciation and amortization	34 926	34 805	82 895	107 047	775	1 394	118 596	143 246
Undivided depreciation							66 741	76 804
Total depreciation and amortization							185 337	220 050

The CFQ segment generated a profit for the first time in the quarter ended September 30, 2008.

b) This note provides information about division of the Group's turnover and assets by geographical regions (customer location) for 3 month of the financial year 2008/09 and financial year 2007/08.

	Net sales		Assets		Net sales		Assets	
	2008/9 LVL	2007/8 LVL	30.09.2008 LVL	30.09.2007 LVL	2008/9 EUR	2007/8 EUR	30.09.2008 EUR	30.09.2007 EUR
Asia	80 672	1 026 001	300 655	1 520 544	114 786	1 459 868	427 794	2 163 539
America	310 829	268 663	271 835	283 582	442 270	382 273	386 786	403 501
Africa	148 112	224 632	112 125	117 831	210 744	319 623	159 540	167 658
Europe	852 519	676 567	708 382	390 537	1 213 026	962 668	1 007 937	555 684
CIS	773 793	772 466	466 205	452 968	1 101 008	1 099 120	663 350	644 515
Middle East	210 256	188 538	477 107	269 993	299 167	268 265	678 862	384 166
	2 376 181	3 156 867	2 336 308	3 035 455	3 381 001	4 491 817	3 324 267	4 319 063
Unallocated assets	-	-	6 764 501	7 055 008	-	-	9 625 018	10 038 372
	2 376 181	3 156 867	9 100 809	10 090 463	3 381 001	4 491 817	12 949 285	14 357 435

Note 9 Salaries, bonuses and social expenses

	30.09.2008 LVL	30.09.2007 LVL	30.09.2008 EUR	30.09.2007 EUR
Salaries, bonuses and social expenses	544 837	554 259	775 233	788 640
	544 837	554 259	775 233	788 640

The decrease in salaries, bonuses and social expenses were lower mainly due to vacations which were compensated from accrued provisions and a decrease for bonuses which reduced proportionally with sales.