SAF Tehnika
Consolidated Interim Report
for 3 months of financial year 2012/13
(July 1, 2012 – September 30, 2012)

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KEY DATA

SAF Tehnika ((hereinafter – 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 covering wide frequency range and providing equipment for both licensed and un-licensed frequencies.

Know-how in modern wireless data transmission technologies, creativity in solutions, accuracy in design, precision in production and logistics make SAF Tehnika a unique designer and manufacturer of point-to-point microwave data transmission equipment. Located in Northern Europe, SAF Tehnika managed to acquire and consolidate valuable locally available intellectual resources of the microelectronics industry and spread its presence to 100 countries, covering all relevant market segments worldwide within just a decade.

The complete product range offers solutions to mobile network operators, data service providers, and government and private companies. Since its establishment in 1999, SAF Tehnika competes with such multinational corporations as Ericsson, Huawei, Alcatel and NEC.

Currently the Group consists of SAF Tehnika JSC (hereinafter – the Parent) operating from Riga, Latvia, a wholly owned subsidiary "SAF North America LLC" and a joint-venture company "SAF Services LLC" where the Parent holds 50% of the company's shares. Both of the mentioned companies are operating from Denver, CO serving North American market.

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

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Share and Shareholdings

SAF Tehnika shareholders (over 5%) as of 30.09.2012

Name	Ownership interest (%)
Didzis Liepkalns	17.05%
Andrejs Grišans	10.03%
Normunds Bergs	9.74%
Juris Ziema	8.71%
Vents Lācars	6.08%

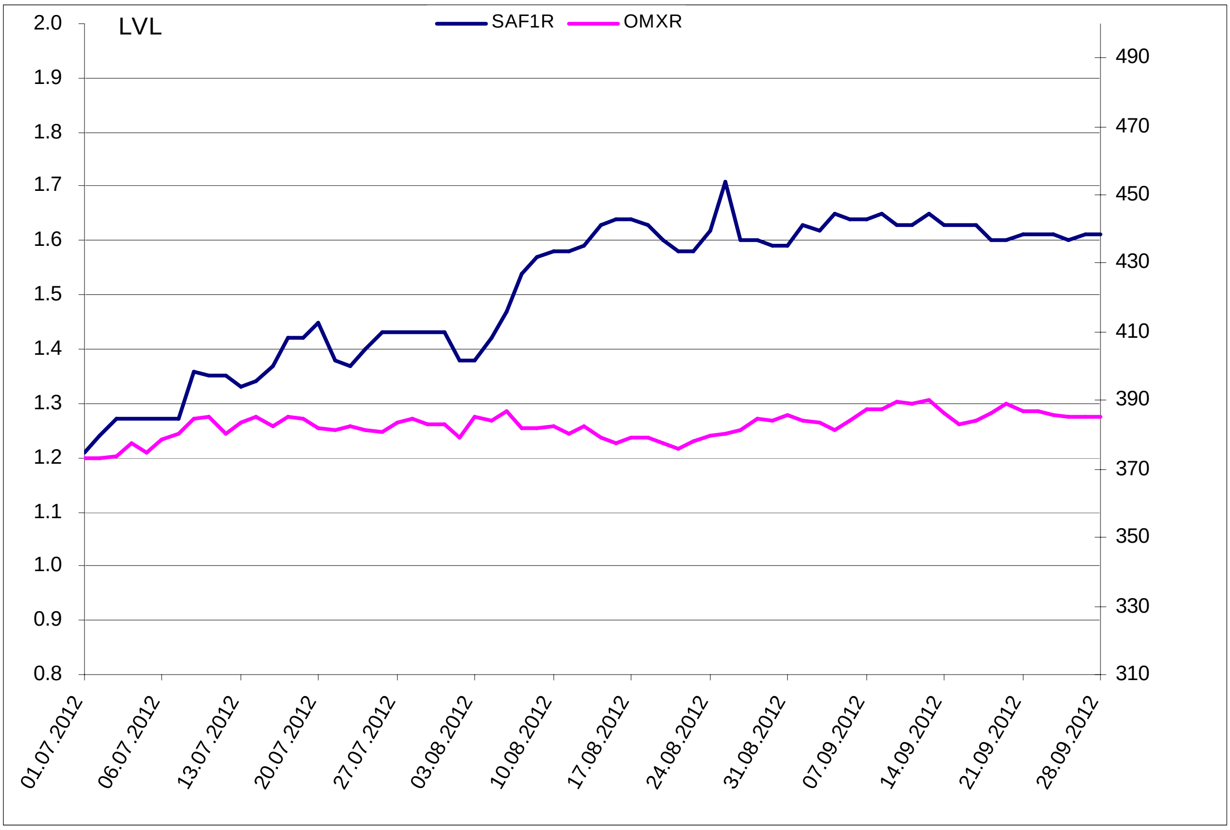
SAF Tehnika share price and OMX Riga index development for the reporting period

SAF Tehnika (**SAF1R**)

Period: July 1, 2012 – September 30, 2012

Currency: **LVL**

Marketplace: **NASDAQ OMX Riga**



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	owns 0.67% of shares
Aira Loite	Member	owns 0.24% of shares

SAF Tehnika Supervisory Board:

Name	Position	Ownership interest (%)
Vents Lacars	Chairman	owns 6.08% of shares
Juris Ziema	Vice-Chairman	owns 8.71% of shares
Andrejs Grisans	Member	owns 10.03% of shares
Ivars Senbergs	Member	owns 4.79 % of shares

Statement of Board’s Responsibilities

The Board of SAF Tehnika JSC (hereinafter – the Parent) is responsible for preparing the consolidated financial statements of the Parent and its subsidiaries (hereinafter - the Group).
The consolidated financial statements are prepared in accordance with the source documents and present fairly the consolidated financial position of the Group as of 30 September 2012 and the consolidated results of its financial performance and cash flows for the quarter then ended.

The above mentioned financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the European Union, and are prepared 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, 2012.
Prudent and reasonable judgements and estimates have been made by the management in the preparation of the financial statements.

The Board of SAF Tehnika JSC 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 responsible for compliance with the requirements of normative acts of the countries the Group operates in (Latvia and United States of America).

The 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
COO, Member of the Management Board

Management Report

The Group's non-audited net sales for the first quarter of financial year 2012/13 were 1.92 million LVL (2.73 million EUR), dropping by approximately one third compared to the first quarter of the previous financial year and also decreasing 11% from the previous reporting quarter of the current calendar year (Q4 FY 2011/12). The financial results can be attributed to the low industry's activity during the previous and current reporting period as well as fierce price competition in the market with heavy product and business promotion investments made by most of the market players.

The Asia, Middle East and African regions showed recovering signs posting an 11% increase from the previous reporting quarter of the current calendar year, however still reaching only 58% from the sales the Group enjoyed on the respective quarter of the previous financial year. Consequently the region contributed significantly (27%) to the total turnover generated during the reporting quarter.

Although the European, CIS regions regular sales remained stable, due to lack of mid-to-large scale projects the year-to-year turnover decreased 14% or 0.09 million LVL (0.13 million EUR) meanwhile the general region's industry inactivity during the summer period forced the turnover down by 48% compared to the previous reporting quarter. Notwithstanding the drop in volume, the region amounted 29% from the total sales of the reporting quarter, retaining its strategic importance. Group maintains the previous set focus on specific markets as well as is fully prepared to continue to support regions customer's expectations on excellent service and short delivery times that is expected to help regain previous region's results.

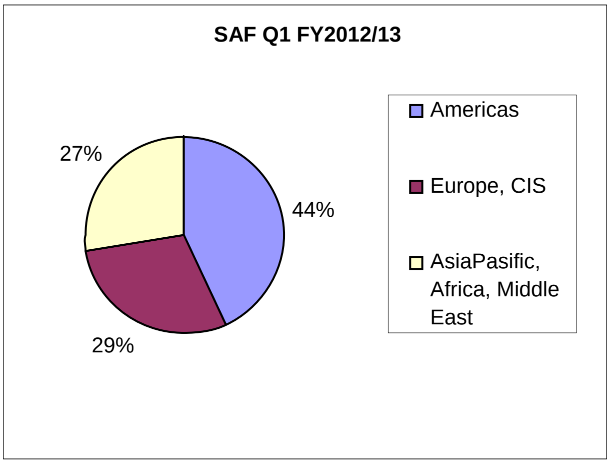
The sound position established in the Americas region where further invigorated as the Group continued active marketing activities and implemented specialized product promotions to re-vitalize the sales of CFIP Lumina products along with the already active sales of FreeMile product line. Consequently the sales increased by 43% or 0.25 million LVL (0.36 million EUR) compared to the previous reporting quarter of the current calendar year. Consequently the region strengthened its strategic position and increased it's turnover share to account for 44% from the total turnover of the reporting quarter. Meanwhile the sales from the region could not reach volumes experienced in the respective reporting quarter of the previous financial year posting a year-to-year decrease by 38% which is directly related to fierce price competition experienced in the region.

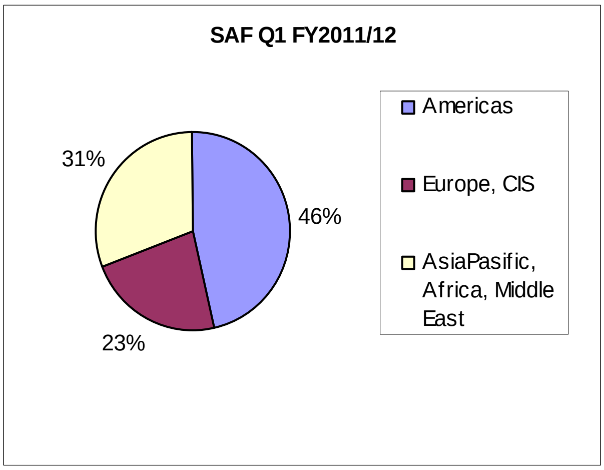
Following the previously mentioned increased interest for SAF products in Brazilian market, The Group was proud to announce that it has been selected as the supplier of wireless equipment for one of the major regional broadcasting projects in Brazil. The Group is actively working on project implementation as well as actively promoting the solution for other regions of the country.

On September 2012, The Group established new office premises in Lagos, Nigeria to offer wider range of services to the West and Central Africa partners and clients. Besides the new office, the Group has also introduced a service centre, a regional warehouse, and a training site. Additionally, following the increased demand from clients for additional services related to network planning, construction, and long-term maintenance The Group also co-founded new joint-venture company "SAF Services LLC" in the North American region (Denver, CO, USA) with an aim to be able to provide managed services to the customers in the region.

During reporting quarter SAF Tehnika participated in several exhibitions in key markets both to present the Group and its product offering, solutions, as well as meeting with current and potential customers. The exhibition "NigeriaCom 2012" (Lagos, Nigeria) gathered the key representatives and decision makers from telecommunication industry of both Nigeria and the nearest markets. "Canadian Wireless Trade Show 2012" (Toronto, Canada) was among the most significant events in North America where SAF Tehnika took part this calendar year.
The Group's products were sold in 59 countries during the reporting quarter.

Chart 1. Quarter 1 revenue breakdown comparative charts:





At present product portfolio of the Group consists of two main product lines: CFIP and FreeMile. There are still some customers demanding the old product line CFM radios however the production quantities of this product line continues to gradually diminish while CFIP product line strengthens itself as the main product line in SAF portfolio reaching 95% from total sales of the reporting quarter. There is a continuous interest from clients towards products in unlicensed frequencies further establishing FreeMile as a strategic product line within Group's portfolio.

The Group is working to continuously improve the existing products. Such activities were made to develop a customized solution for customers in Asian markets, as well as, following one of the product revisions, the Group saw increased demand for Marathon product in international markets. The just announced spectrum analyzer product is intended to bring additional value to services provided by the Group to serve to the customer needs for analyzing frequency coverage and congestion issues directly at the points of equipment deployment that, since now, have not been addressed by any other market player.

Unfavorable USD to LVL, foreign exchange rates made a negative impact on the reporting quarter’s profits. By implementing a strategy of increasing footprint and local presence in specific target markets, the Group saw an increase in both marketing and operating expenses.

The Group ended first quarter of 2012/13 financial year with a net loss of 120 277 LVL (171 139 EUR), which represents a decrease by 597 896 thousand LVL (850 730 thousand EUR) when compared to respective quarter of previous financial year where company posted profit.

The Group’s net cash flow for the 3 month period of the financial year was negative -377 901 thousand LVL (0.54 million EUR). As of September 30, 2012, the Group carried a net cash balance (excluding interest bearing liabilities) of 0.94 million LVL (1.33 million EUR).

Market overview

Mobile operators around the world are continuously facing the challenges of meeting the needs of growing network capacity that is driven by the growing number of mobile subscribers accessing the network from increasing number of broadband access types as well as through mobile devices. Such subscriber growth is mainly evident in emerging markets such as Africa, Latin America and some regions of APAC countries. To fill the gap on areas with insufficient coverage, the operators are constantly expanding the number and geography of their cell locations. All such developments call for next-generation networks capable of delivering high capacity broadband services. Meanwhile due to expansion in internet connectivity and advances in technology, the overall demand for high-speed wireless transmission products has been growing at a higher rate than the wireless industry as a whole. Unfortunately due to market consolidation and new player emergence which has led to fierce competition the tendency of overall price erosion has also remained continuous.

Recognizing the trend and anticipating the future requirements, many mobile operators are modernizing their infrastructure to fully support 3G (HSPA) or even 4G (HSPA+ and LTE) technologies. Additionally to support the higher user bandwidth requirements related to such upgrade, the mobile operators are forced to move from T1/E1 technologies to IP solutions.

With the geographic expansion, advance of technologies and mobility, even such industries as broadcast, financial institutions, utility and public safety are facing increasing demand for higher bandwidth thus driving up the demand for microwave connectivity as a cost effective solution.

These factors are combining to create a range of opportunities for continued growth of microwave technology attractiveness and demand for SAF Tehnika products.

Guidance

The Group is constantly progressing with ongoing research and development projects, designing next generation wireless data transmission devices. Further product launches are expected to be announced on the first half of 2013. Meanwhile company retains its focus on customizing existing solutions to better suit specific niche microwave radio customer requirements and considers offering additional network structure and performance consultations and managed services. Product quality, production efficiency and excellent client support will be centre of attention.

SAF remains financially stable and capable to withstand periods of lower business activity. Meanwhile the further company's sales results largely depend on external factors such as availability of production components, financing allocation in customer's organization, and overall political and economical state in specific regions and markets, therefore the Board of the Group would like to avoid being specific in predictions of sales and financial result projections.

On September 30, 2012 the Group employed 165 people (164 people on September 30, 2011).

KEY indicators

	Q1 2012/13		Q1 2011/12		Q1 2010/11	
	LVL	EUR	LVL	EUR	LVL	EUR
Turnover	1 916 606	2 727 085	2 892 567	4 115 752	3 158 526	4 494 178
Earnings before interest, taxes and depreciation (EBITDA)	-14 204	-20 210	488 455	695 009	548 888	780 997
share of the turnover %	-1%	-1%	17%	17%	17%	17%
Profit/loss before interest and taxes (EBIT)	-87 427	-124 397	434 367	618 049	497 641	708 079
share of the turnover %	-5%	-5%	15%	15%	16%	16%
Net Profit	-120 277	-171 139	477 619	679 591	276 600	393 566
share of the turnover %	-6%	0%	17%	0%	9%	0%
Total assets	8 615 596	12 258 889	10 038 620	14 283 669	10 195 179	14 506 433
Total Owners equity	7 377 218	10 496 836	8 050 476	11 454 795	7 731 765	11 001 310
Return on equity (ROE) %	-1%	-1%	5%	5%	3%	3%
Return on assets (ROA) %	-2%	-2%	6%	6%	4%	4%
Liquidity ratio		0		0		0
Quick ratio %	77%	77%	142%	142%	153%	153%
Current ratio %	362%	362%	289%	289%	271%	271%

Earnings per share	-0.04	-0.06	0.16	0.23	0.09	0.13
Last share price at the end of period	1.61	2.29	1.82	2.59	3.06	4.35
P/E	-39.76		11.32		32.86	

Number of employees at the end of reporting period	165	164	148

Consolidated Statement of Financial Position

As of September 30, 2012

	Note	30.09.2012	30.09.2011	30.09.2012	30.09.2011
CURRENT ASSETS		**LVL**	**LVL**	**EUR**	**EUR**
Cash and bank		**950 869**	**2 823 797**	**1 352 965**	**4 017 901**
Short-term investments	**1**	**1 866 997**	**470 833**	**2 656 497**	**669 935**
Customer receivables	**2**				
Accounts receivable		1 462 387	2 747 309	2 080 789	3 909 069
Allowance for uncollectible receivables		-292 550	-386 052	-416 261	-549 303
Total		**1 169 837**	**2 361 257**	**1 664 528**	**3 359 767**
Other receivables					
Other current receivables	**3**	219 343	66 312	312 097	94 353
Short-term loans	**4**	271 986	22 772	387 001	32 402
Total		**491 329**	**89 084**	**699 098**	**126 755**
Prepaid expenses					
Prepaid taxes		215 599	18 868	306 770	26 847
Other prepaid expenses		142 101	106 621	202 192	151 708
Total		**357 700**	**125 489**	**508 961**	**178 555**
Inventories	**5**				
Raw materials		421 678	1 148 359	599 994	1 633 968
Work-in-progress		1 695 756	1 431 323	2 412 843	2 036 589
Finished goods		890 358	863 449	1 266 865	1 228 577
Prepayments to suppliers		41 973	37 784	59 722	53 762
Total		**3 049 765**	**3 480 915**	**4 339 425**	**4 952 895**
TOTAL CURRENT ASSETS		**7 886 497**	**9 351 375**	**11 221 474**	**13 305 808**
NON-CURRENT ASSETS					
Long-term financial assets					
Shares in companies		500	500	711	711
Long-term receivables	**2**	49 073	0	69 825	0
Deffered income tax		92 559	73 032	131 700	103 916
Long-term loans	**4**	0	18 977	0	27 002
Total		**142 132**	**92 509**	**202 236**	**131 628**
NON-CURRENT physical assets	**6**				
Plant and equipment		2 256 301	2 160 823	3 210 427	3 074 574
Other equipment and fixtures		1 188 270	1 149 564	1 690 756	1 635 682
Accumulated depreciation		-2 946 846	-2 785 216	-4 192 984	-3 963 005
Prepayments for noncurrent physical assets		14 827	586	21 097	834
Total		**512 552**	**525 757**	**729 296**	**748 085**
Intagible assets	**6**				
Purchased licenses, trademarks etc.		74 415	68 979	105 883	98 148
Total		**74 415**	**68 979**	**105 883**	**98 148**
TOTAL NON-CURRENT ASSETS		**729 099**	**687 245**	**1 037 414**	**977 862**
TOTAL ASSETS		**8 615 596**	**10 038 620**	**12 258 889**	**14 283 669**

LIABILITIES AND OWNERS' EQUITY	Note	30.09.2012	30.09.2011	30.09.2012	30.09.2011
CURRENT LIABILITIES		**LVL**	**LVL**	**EUR**	**EUR**
Debt obligations					
Short-term loans from financial institutons		13 938	4 476	19 833	6 369
Customer prepayments for goods and services		55 909	37 385	79 551	53 194
Accounts payable	**7**	799 387	1 193 941	1 137 425	1 698 825
Tax liabilities	**8**	114 086	314 146	162 330	446 989
Salary-related accrued expenses	**9**	215 672	396 359	306 874	563 968
Provisions for guarantees		31 746	39 751	45 170	56 561
Prepaid revenue		7 640	2 086	10 872	2 968
TOTAL CURRENT LIABILITIES		**1 238 378**	**1 988 144**	**1 762 056**	**2 828 874**
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		2 523 215	2 598 473	3 590 211	3 697 294
Net profit for the financial year		-120 277	477 619	-171 139	679 591
Currency translation reserve		-104	0	-148	0
TOTAL OWNERS' EQUITY		**7 377 218**	**8 050 476**	**10 496 835**	**11 454 795**
TOTAL LIABILITIES AND OWNERS' EQUITY		**8 615 596**	**10 038 620**	**12 258 889**	**14 283 669**

Consolidated Statement of Profit or Loss for 3 month of the financial year 2012/13

	Note	30.09.2012	30.09.2011	30.09.2012	30.09.2011
		LVL	LVL	EUR	EUR
Net sales	10	1 916 606	2 892 567	2 727 085	4 115 752
Other operating income		7 222	7 052	10 276	10 034
Total income		**1 923 828**	**2 899 619**	**2 737 361**	**4 125 786**
Direct cost of goods sold or services rendered		-1 076 799	-1 525 655	-1 532 147	-2 170 811
Marketing, advertising and public relations expenses		-125 167	-89 940	-178 097	-127 973
Bad receivables	11	2 631	61 411	3 744	87 380
Operating expenses		-189 537	-171 786	-269 687	-244 429
Salaries and social expenses	12	-521 879	-471 815	-742 567	-671 332
Bonuses and social expenses	12	-23 403	-195 930	-33 299	-278 783
Depreciation expense		-73 223	-54 088	-104 187	-76 960
Other expenses		-3 878	-17 449	-5 518	-24 828
Operating expenses		**-2 011 255**	**-2 465 252**	**-2 861 758**	**-3 507 738**
EBIT		**-87 427**	**434 367**	**-124 397**	**618 050**
Financial income (except ForEx rate difference)		4 987	5 966	7 096	8 489
Financial costs (except ForEx rate difference)		0	-649	0	-923
Foreign exchange +gain/(loss)		-36 901	98 637	-52 505	140 348
Financial items		**-31 914**	**103 954**	**-45 410**	**147 912**
EBT		**-119 341**	**538 321**	**-169 807**	**765 961**
Corporate income tax		**-992**	**-60 702**	**-1 411**	**-86 371**
Profit after taxes		**-120 333**	**477 619**	**-171 218**	**679 591**
Minority interest		**56**	**0**	**80**	**0**
Net profit		**-120 277**	**477 619**	**-171 139**	**679 591**

*Earnings per share
EPS 30.09.2012. = -0.04 LVL (-0.06 EUR)
EPS 30.09.2011. = 0.16 LVL (0.23 EUR)

Consolidated cash flow statement for 3 months of the financial year 2012/13

	30.09.2012	30.09.2011	30.09.2012	30.09.2011
	LVL	LVL	EUR	EUR
CASH GENERATED FROM OPERATIONS (of which)	**-57 117**	**-247 696**	**-81 270**	**-352 440**
Cash received from customers	1 897 113	2 302 515	2 699 350	3 276 185
Cash paid to suppliers and employees	-1 897 048	-2 550 627	-2 699 256	-3 629 215
Paid/Received VAT, corporate income tax	-57 182	416	-81 363	592
NET CASH USED IN INVESTING ACTIVITIES (of which)	**-81 587**	**963 768**	**-116 088**	**1 371 318**
Cash paid/received for short-term investments	-8 604	1 008 248	-12 242	1 434 608
Cash paid for purchasing non-current physical assets	-81 633	-61 284	-116 153	-87 199
Interest received	8 650	16 804	12 308	23 910
NET CASH USED IN FINANCING ACTIVITIES (of which)	**-238 863**	**1 065**	**-339 871**	**1 515**
Repayment of short-term loans	8 453	-4 628	12 028	-6 585
Repayment of long-term loans	5 694	5 693	8 102	8 100
Cash paid of short-term loans	-253 010	0	-360 001	0
Effects of exchange rate changes	**-334**	**0**	**-475**	**0**
TOTAL CASH FLOW:	**-377 901**	**717 137**	**-537 705**	**1 020 394**
Cash and cash equivalents as at the beginning of period	1 328 770	2 106 660	1 890 669	2 997 507
Cash and cash equivalents as at the end of period	950 869	2 823 797	1 352 965	4 017 901
NET INCREASE / DECREASE IN CASH AND CASH EQUIVALENTS	**-377 901**	**717 137**	**-537 705**	**1 020 394**

Statement of changes in consolidated equity for the 3 months period ended September 30 2012

	Share capital LVL	Share premium LVL	Currency translation reserve LVL	Retained earnings LVL	Total LVL
As at 30 June 2011	**2 970 180**	**2 004 204**	-	**2 598 473**	**7 572 857**
Dividend relating to 2009/2010	-	-	-	**-683 141**	**-683 141**
Currency translation difference	0	0	51	-	**51**
Profit for the year	-	-	-	607 883	**607 883**
As at 30 June 2012	**2 970 180**	**2 004 204**	**51**	**2 523 215**	**7 497 650**
Dividend relating to 2010/2011	-	-	-	**0**	**0**
Currency translation difference	-	-	-155	0	**-155**
Profit for the period	-	-	-	-120 277	**-120 277**
As at 30 September 2012	**2 970 180**	**2 004 204**	**-104**	**2 402 938**	**7 377 218**

Statement of changes in consolidated equity for the 3 months period ended September 30 2012

	Share capital EUR	Share premium EUR	Currency translation reserve EUR	Retained earnings EUR	Total EUR
As at 30 June 2011	**4 226 185**	**2 851 725**	-	**3 697 294**	**10 775 205**
Dividend relating to 2009/2010	-	-	-	**-972 022**	**-972 022**
Currency translation difference	-	-	73	-	**73**
Profit for the year	-	-	-	864 939	**864 939**
As at 30 June 2012	**4 226 185**	**2 851 725**	**73**	**3 590 210**	**10 668 194**
Dividend relating to 2010/2011	-	-	-	**0**	**0**
Currency translation difference	-	-	-221	0	**-221**
Profit for the period	-	-	-	-171 139	**-171 139**
As at 30 September 2012	**4 226 185**	**2 851 725**	**-148**	**3 419 071**	**10 496 835**

Notes for interim report

Note 1 Short-term investments

	30.09.2012 LVL	30.09.2011 LVL	30.09.2012 EUR	30.09.2011 EUR
Short-term investments	**1 866 997**	**470 833**	**2 656 497**	**669 935**

Short-term investments consist of deposits with a maturity period of more than 90 days.

Note 2 Customer receivables

	30.09.2012 LVL	30.09.2011 LVL	30.09.2012 EUR	30.09.2011 EUR
Long-term receivables	**49 073**	**-**	**69 825**	**-**
Accounts receivable	1 462 387	2 747 309	2 080 789	3 909 069
Provisions for bad and doubtful accounts receivable	(292 550)	(386 052)	(416 261)	(549 303)
Total accounts receivable	**1 169 837**	**2 361 257**	**1 664 528**	**3 359 767**
Total receivables	**1 218 910**	**2 361 257**	**1 734 353**	**3 359 767**

Total receivables were by 48% lower compared with the previous year reflecting decreasing sales and a fact that ongoing sales were with shorter payment terms. Provisions for doubtful accounts receivable has decreased by 32% as some long lasting overdue debts has been recovered..

Note 3 Other current receivables

	30.09.2012 LVL	30.09.2011 LVL	30.09.2012 EUR	30.09.2011 EUR
Other current receivables	**219 343**	**66 312**	**312 097**	**94 353**

Three research projects initiated by the Parent are realised in "LEO pētījumu centrs"(LEO) since summer 2011. LEO is the company co-founded by Latvian Electrical Engineering and electronic Industry Association (LETERA) members. The Group has paid-in for LEO 172 thousand LVL (245 thousand EUR) as a deposit for execution of projects.

Note 4 Loans

	30.09.2012 LVL	30.09.2011 LVL	30.09.2012 EUR	30.09.2011 EUR
Short-term loans	**271 986**	**22 772**	**387 001**	**32 402**
Long-term loans	**-**	**18 977**	**-**	**27 002**
	271 986	**41 749**	**387 001**	**59 404**

In order to facilitate the Group's product sales, encourage clients to buy the Group's products and at the same time following tender requirements, financing was assigned for a Belorussian client in 2010. Up to now all payments have been made according to schedule.

The Parent has signed a loan agreement with related party SIA Namīpašumu pārvalde on issuance of loan in the amount of LVL 281 122 (EUR 400 000). The loan has been transferred to borrower's account as at 2 July 2012. The annual interest rate is 3.5%. The maturity of loan is set on 30 June 2012 with annual extension right. Partial repayment in the amount of LVL 28 112 (EUR 40 000) has been received and outstanding loan amounts to 253 009 LVL (EUR 360 000)

***Note 5* Inventories**

	30.09.2012 LVL	30.09.2011 LVL	30.09.2012 EUR	30.09.2011 EUR
Raw materials	1 019 437	1 443 243	1 450 528	2 053 549
Allowance for slow-moving items	(597 759)	(294 884)	(850 534)	(419 582)
Work-in- progress	1 695 756	1 431 323	2 412 843	2 036 589
Finished goods	890 358	863 449	1 266 865	1 228 577
Prepayments to suppliers	41 973	37 784	59 722	53 762
	3 049 765	**3 480 915**	**4 339 425**	**4 952 895**

Inventories in comparison with September 30, 2011 decreased by 12% reflecting sales decrease.

During Q1 additional allowances for slow-moving items was recorded and in total doubled year-to-year as components were consumed slower due to turnover decrease. The Group is keeping inventory reserves in order to be able to produce large scale orders in competitive terms for all kind of products currently being in the Group's product list. Group also keeps components for previously produced and sold product types for repair and maintenance purpose.

***Note 6* Non-current assets**

	30.09.2012 LVL	30.09.2011 LVL	30.09.2012 EUR	30.09.2011 EUR
Plant and equipment	2 256 301	2 160 823	3 210 427	3 074 574
Other equipment and fixtures	1 188 270	1 149 564	1 690 756	1 635 682
Accumulated depreciation	(2 946 846)	(2 785 216)	(4 192 984)	(3 963 005)
Prepayments for noncurrent physical assets	14 827	586	21 097	834
	512 552	**525 757**	**729 296**	**748 085**
Purchased licences, trademarks etc.	**74 415**	**68 979**	**105 883**	**98 148**

The Group invested 66 thousand LVL (93 thousand EUR) – mainly in production equipment, IT and in Nigeria office maintenance in Q1 FY 2012/13.

***Note 7* Accounts payable**

	30.09.2012 LVL	30.09.2011 LVL	30.09.2012 EUR	30.09.2011 EUR
Accounts payable	**799 387**	**1 193 941**	**1 137 425**	**1 698 825**

Decreased sales influences accounts payable which decrased by 33% comparing with September 30, 2011.

***Note 8* Tax liabilities**

	30.09.2012 LVL	30.09.2011 LVL	30.09.2012 EUR	30.09.2011 EUR
Tax liabilities	**114 086**	**314 146**	**162 330**	**446 989**

Actually 74% out of all tax liabilities are regular liabilities for social tax, but the remaining part was personal income tax.

Note 9 Salary-related accrued expenses

	30.09.2012 LVL	30.09.2011 LVL	30.09.2012 EUR	30.09.2011 EUR
Salary-related accrued expenses	**215 672**	**396 359**	**306 874**	**563 968**

Salary–related accrued expenses were decreased by 46% in comparison with September 30, 2011. As financial targets were no reached lower individual bonus amounts were accrued.

Note 10 Segment information

a) The Group's operations are divided into two major structural units – SAF branded equipment designed and produced in-house – CFM (Hybrid/ PDH Radios), CFIP (Etherent/Hybrid/ superPDH systems) and FreeMile (Hybrid Radios for unlicensed frequency bands) as the first structural unit and 3rd party products for resale, like Antennas, cables, some OEMed products and accessories as the second unit.

CFIP – the major product line is represented by 4 respectable models:

- a split mount PhoeniX hybrid radio system with Gigabit Ethernet + 20 E1 interfaces;
- Lumina high capacity Full Outdoor all-in-one radio with Gigabit Ethernet traffic interface;
- CFIP-108 entry level radio - perfect for upgrade of E1 networks into packet data networks;
- Marathon FIDU low frequency low capacity system for servicing rural and industrial applications.

All CFIP radios are offered in most widely used frequency bands from 1.4 to 38 GHz, thus enabling the use of CFIP radios all across the globe.

PhoeniX radio represents the type of microwave radio which is taking the commanding role on the market at present. Full Outdoor units of Lumina and 108 modifications are of growing and developing radio type 'all-in-one' which has biggest potential as part of future data/packet networks.

SAF Tehnika was one of the first companies offering Full Outdoor radios from 2003, thus is well positioned to use the past experience for development of next generation product.

CFM microwave radio product line has been the main type of radio SAF has been supplying to the market over many years and is still demanded. Such medium capacity, mature, yet extremely reliable and feature rich radio is still required to deploy telecom networks in developing markets.

FreeMile product line is represented by 3 models covering unlicensed frequency bands in 5.8, 17 and 24 GHz, which are made available for use in a growing number of countries around the globe.

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 2012/13 and financial year 2011/12.

	CFM; CFIP; FreeMile		Other		Total	
	2012/13 LVL	2011/12 LVL	2012/13 LVL	2011/12 LVL	2012/13 LVL	2011/12 LVL
Segment assets	**3 968 466**	4 526 625	**1 542 132**	2 037 038	**5 510 598**	**6 563 663**
Undivided assets					**3 104 998**	**3 474 957**
Total assets					**8 615 596**	**10 038 620**
Segment liabilities	**885 498**	1 042 150	**190 324**	360 367	**1 075 822**	**1 402 517**
Undivided liabilities					**162 556**	**585 627**
Total liabilities					**1 238 378**	**1 988 144**
Net sales	**1 481 705**	**2 186 695**	**434 901**	**705 872**	**1 916 606**	**2 892 567**
Segment results	**310 318**	**763 739**	**212 572**	**277 304**	**522 890**	**1 041 043**
Undivided expenses					-617 476	-613 785
Profit from operations					**-94 586**	**427 258**
Other income					12 116	13 071
Financial expenses, net					-36 871	97 992
Profit before taxes					**-119 341**	**538 321**
Corporate income tax					-992	-60 702
Profit after taxes					**-120 333**	**477 619**
Minority interest					**56**	**0**
Net profit					**-120 277**	**477 619**
Other information						
Additions of property plant and equipment and intangible asets	28 980	28 551	0	2 359	28 980	30 910
Undivided additions					36 523	48 389
Total additions of property plant and equipment and intangible asets					**65 503**	**79 299**
Depreciation and amortization	39 571	27 488	457	2 601	40 028	30 089
Undivided depreciation					33 195	23 999
Total depreciation and amortization					**73 223**	**54 088**

	CFM; CFIP; FreeMile		Other		Total	
	2012/13	2011/12	2012/13	2011/12	2012/13	2011/12
	EUR	EUR	EUR	EUR	EUR	EUR
Segment assets	5 646 618	6 440 807	2 194 255	2 898 444	7 840 873	9 339 251
Undivided assets					4 418 016	4 944 418
Total assets					**12 258 889**	**14 283 669**
Segment liabilities	1 259 950	1 482 846	270 807	512 756	1 530 757	1 995 602
Undivided liabilities					231 296	833 275
Total liabilities					**1 762 053**	**2 828 877**
Net sales	**2 108 276**	**3 111 387**	**618 808**	**1 004 365**	**2 727 085**	**4 115 752**
Segment results	**441 543**	**1 086 703**	**302 463**	**394 569**	**744 005**	**1 481 271**
Undivided expenses					-878 588	-873 337
Profit from operations					**-134 584**	**607 933**
Other income					17 240	18 598
Financial expenses, net					-52 463	139 430
Profit before taxes					**-169 807**	**765 962**
Corporate income tax					-1 411	-86 371
Profit after taxes					**-171 218**	**679 591**
Minority interest					**80**	**0**
Net profit					**-171 139**	**679 591**
Other information						
Additions of property plant and equipment and intangible asets	41 235	40 624	0	3 357	41 235	43 981
Undivided additions					51 968	68 851
Total additions of property plant and equipment and intangible asets					**93 203**	**112 832**
Depreciation and amortization	56 304	39 112	650	3 701	56 955	42 813
Undivided depreciation					47 231	34 147
Total depreciation and amortization					**104 186**	**76 960**

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 2012/13 and financial year 2011/12.

	Net sales		Assets		Net sales		Assets	
	2012/13	2011/12	30.09.2012	30.09.2011	2012/13	2011/12	30.09.2012	30.09.2011
	LVL	LVL	LVL	LVL	EUR	EUR	EUR	EUR
Americas	825 704	1 338 993	399 678	794 609	1 174 871	1 905 215	568 691	1 130 627
Europe, CIS	564 285	653 183	208 056	368 894	802 905	929 396	296 037	524 889
Asia, Africa, Middle East	526 616	900 391	562 103	1 197 754	749 309	1 281 141	799 800	1 704 251
	1 916 606	**2 892 567**	**1 169 837**	**2 361 257**	**2 727 085**	**4 115 752**	**1 664 528**	**3 359 767**
Unallocatted assets	-	-	7 445 759	7 677 363	-	-	10 594 361	10 923 902
	1 916 606	**2 892 567**	**8 615 596**	**10 038 620**	**2 727 085**	**4 115 752**	**12 258 889**	**14 283 669**

Note 11 Bad receivables

	30.09.2012 LVL	30.09.2011 LVL	30.09.2012 EUR	30.09.2011 EUR
Bad receivables	**2 631**	**61 411**	**3 744**	**87 380**

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

	30.09.2012 LVL	30.09.2011 LVL	30.09.2012 EUR	30.09.2011 EUR
Salaries and social expenses	(521 879)	(471 815)	(742 567)	(671 332)
Bonuses and social expenses	(23 403)	(195 930)	(33 299)	(278 783)
	(545 282)	**(667 745)**	**(775 866)**	**(950 116)**

Salaries and social expenses, in comparison with the 3 month period of the previous financial year increased due to changes in fixed salaries for some groups of specialists.

As the Group's financial targets for Q1 were not fulfilled - Bonuses for Q1 were much lower than for Q1 FY 2010/11.