SAF Tehnika A/S
Consolidated interim financial statements
for 6 month of financial year 2006/7

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KEY DATA

SAF Tehnika is a telecommunication company engaged in development, production and distribution of digital microwave radio equipment. The functionality of SAF products includes digital voice and data transmission. Company's portfolio consists of approximately 130 products and comprises solutions for mobile network operators, data service providers, state and private companies. Since its establishment in 1999, SAF Tehnika has succeeded in becoming an international player and has been able to compete with such multinational corporations as Ericsson, Nokia, Siemens and NEC. Through the acquisition of Viking Microwave on June 1, 2004, SAF Tehnika has considerably improved its R&D capacity.

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

Legal address:	Ganibu Dambis 24a Riga, LV – 1005 Latvia
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End of financial year:	30.06.2007
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Aleksis Orlovs

Member of the Management Board

February 6, 2007

Share and Shareholdings

SAF Tehnika shareholders (over 5%) as of 01.12.2006

Name	Ownership interest (%)
Hansapank AS Clients Account	25.68%
Didzis Liepkalns	17.05%
Andrejs Grišāns	10.03%
Normunds Bergs	9.74%
Skandinaviska Enskilda Banken AB Clients Account	9.27%
Juris Ziema	8.71%
Vents Lācars	6.08%
Nordea Bank Finland PLC Clients Account	5.94%

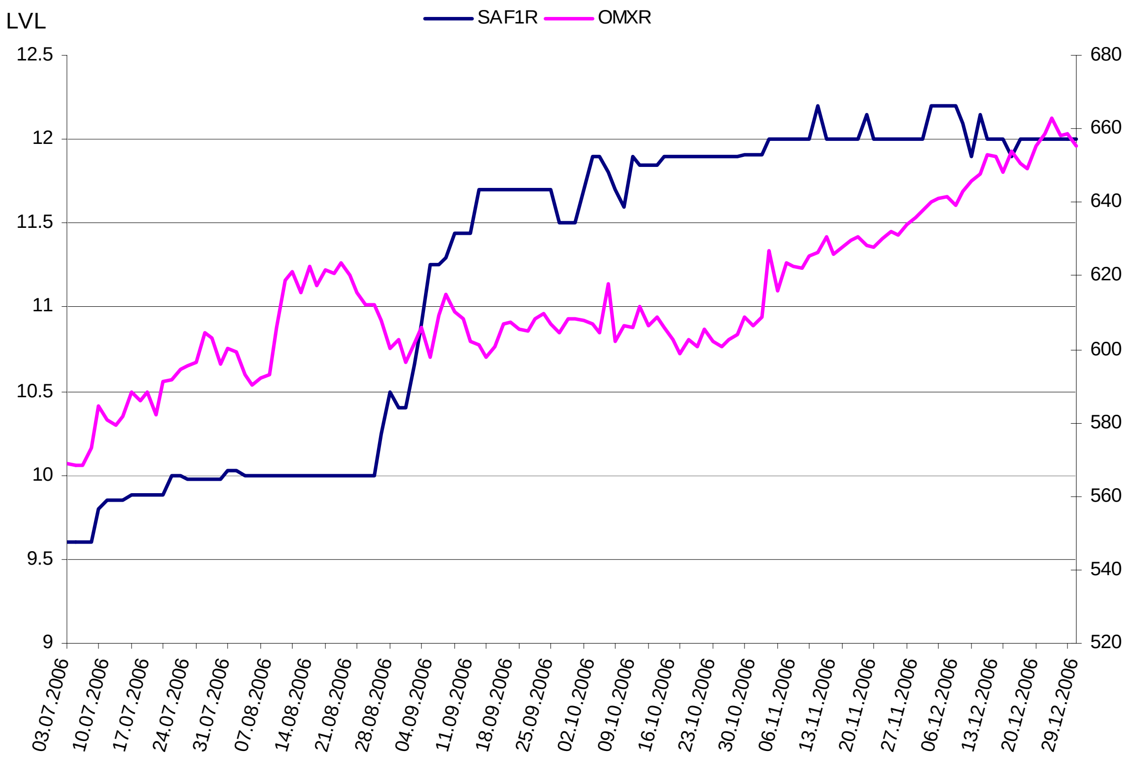
SAF Tehnika share price and OMX Riga index development for the reporting period

SAF Tehnika (**SAF1R**)

Period: **2006-07-01 - 2006-12-31**

Currency: **LVL**

Marketplace: **RSE**



Information on management and supervisory board members

SAF Tehnika Management Board:

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

SAF Tehnika Supervisory Board:

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

Aleksis Orlovs

Aleksis Orlovs, born in 1974, is Board Member and Chief Financial Officer. Prior to joining the Company in 2004, he served as Chief Executive Officer of A/S MicroLink ServIT from 2001 to 2003. From 2000 to 2001 Mr. Orlovs was holding the positions of Chief Executive Officer and Chairman of the Board of Delfi A/S. From 1998 to 2000, he was the Chief Executive Officer of A/S MicroLink Datori. Mr. Orlovs holds a Master of Business Administration (MBA) degree from the Riga Business School which he received in 2004, as well as he holds a Master of Science degree in International Business and Law and a Bachelor degree in Economics from the University of Latvia, which he received in 2000 and 1998, respectively.

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.

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 1964, 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 1996, Mr. Grišāns was involved in entrepreneurial activities in the field of radio engineering. He served as engineer-constructor at the Institute of Polymer Mechanics from 1989 to 1990 and in SIA Orbita from 1980 to 1984. Mr. Grišāns graduated from the Riga Technical University with a degree in radio engineering in 1980.

Ivars Šenbergs

Ivars Šenbergs, born in 1962, 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 31 December 2006 and the results of its operations and cash flows for the 6 month period ended 31 December 2006.

The consolidated interim financial statements are prepared in accordance with International Financial Reporting Standards as adopted by 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, 2006. 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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Aleksis Orlovs

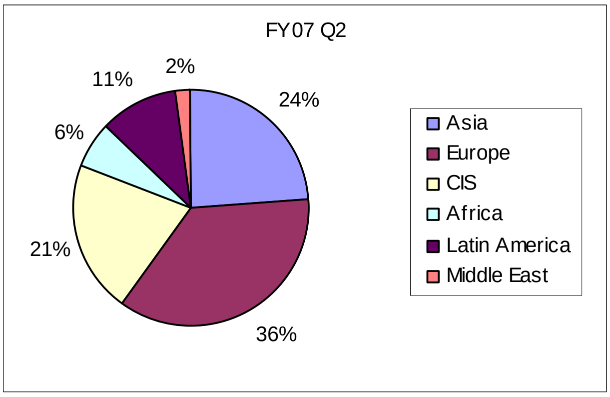
Member of the Management Board

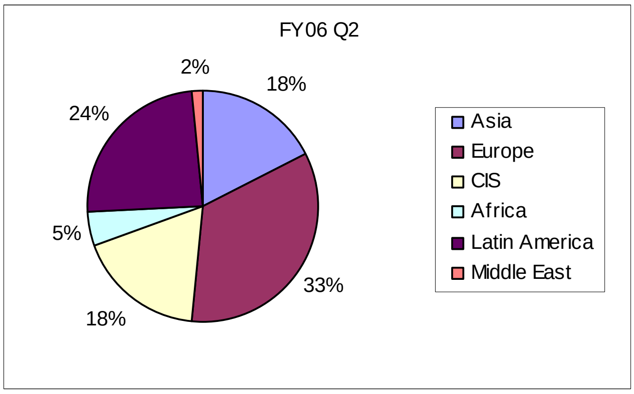
Management Report

The Group's consolidated non-audited net sales for the second quarter of financial year 2006/7 were LVL 3.87mln (EUR 5.50mln), representing a year-on-year increase of 8%. Except for Latin America, all other areas registered increased sales activity.

Good results were achieved in Europe and Africa. Asia is showing good performance for the second consecutive quarter. Sales in Argentina and Ecuador has somewhat offset lower activity in Colombia and Brazil.

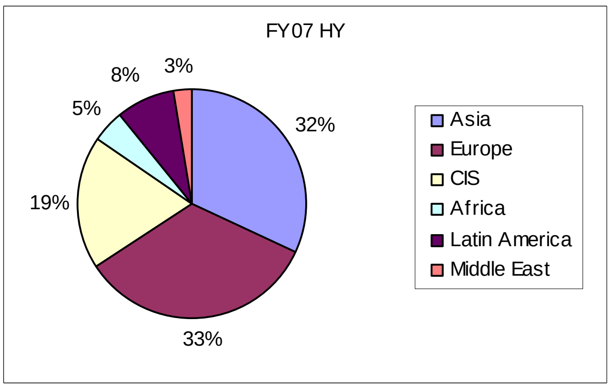
Quarter 2 revenue breakdown comparative charts:

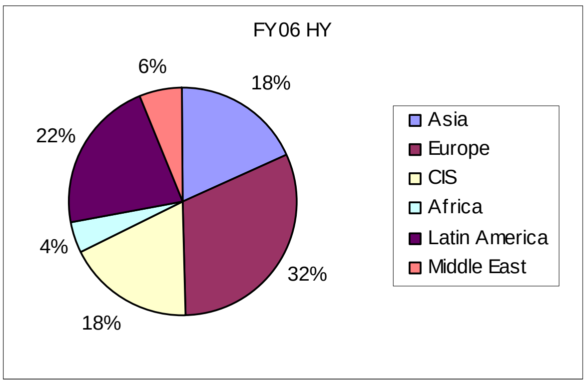




The Group's consolidated non-audited net sales for the 6 month of financial year 2006/7 were LVL 7.88mln (EUR 11.22mln), representing a year-on-year increase of 40%. The main contributing regions were Asia, Europe and the CIS. Sales to the Middle East have been hampered by political-related factors (Iran, Lebanon), as mentioned in the 1Q results commentary. Large project business currently provides more than half of the Group's sales. Therefore significant variability in sales contributions by region is expected to continue.

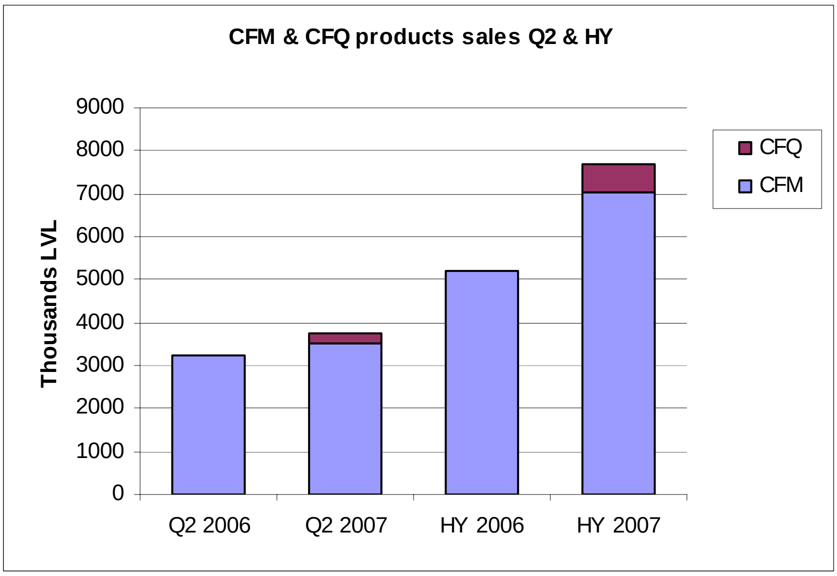
Half year revenue breakdown comparative charts:





CFQ (SDH radios) product line sales for the second quarter were 7% of the Group's total sales (main destination was Europe). Interest in this product line continues to grow and is expected to be reflected in the following quarter's sales activity. CFM (PDH radios) product line sales are slowly moving towards higher transmission capacities. This is driven by ongoing user growth and richer content offered for mobile phone connections.

Quarter 2 and half year product sales breakdown.



The consolidated net profit of the Group for the second quarter of financial year 2006/7 was LVL 0.27mln (EUR 0.38mln), representing 62% from the same quarter of the previous financial year. Although increased costs were observed for salaries, utilities expenses and the like, the largest single cost factor was an increase in production and sales capacities (additional human resources).

The consolidated net profit of the Group for the 6 month of financial year 2006/7 was LVL 0.79mln (EUR 1.13mln), representing a year-on-year increase of 22%.

Market overview

The Point-to-Point wireless radio market in which SAF Tehnika operates showed good growth during 2006. Growth in the range of 15% is expected in 2007. General industry consolidation took place in 2005 and 2006 with announcement about Nokia Networks merging with Siemens Information and Communication Networks and merger announcement of Stratex Networks with a division of Harris Microwave Communications. Wireless data solutions are the next expected step in offering data access mobility using WiMax in densely populated territories and CDMA rural regions.

There is visible trend towards higher capacity products which SAF is following by new CFQ product line.

Guidance:

Management is confident that ongoing growth can be achieved, supported by timely investments in production and organisational structure. The Group has undertaken significant investments to maintain business growth in coming quarters. To mitigate large project dependence the Group plans to develop additional sales partnerships in selected regions.

On December 30, 2006 the Group employed 187 (133 people in FY 2005/06) people. The main operational hiring area has been production.

Consolidated balance sheet

ASSETS	Note	31.12.2006	31.12.2005	31.12.2006	31.12.2005
CURRENT ASSETS		**LVL**	**LVL**	**EUR**	**EUR**
Cash and bank		**246 207**	**181 545**	**350 321**	**258 315**
Short-term investments			**797 582**	**0**	**1 134 857**
Customer receivables	**1**				
Accounts receivable		2 168 188	2 910 454	3 085 054	4 141 203
Allowance for uncollectible receivables		-136 254	-277 487	-193 872	-394 828
Total		**2 031 934**	**2 632 967**	**2 891 182**	**3 746 375**
Other receivables					
Other current receivables		15 581	2 850	22 170	4 055
Short-term loans given		1 076	1 115	1 531	1 587
Total		**16 657**	**3 965**	**23 701**	**5 642**
Prepaid expenses	**2**				
Prepaid taxes		566 314	496 454	805 792	706 390
Other prepaid expenses		294 060	103 906	418 410	147 845
Total		**860 374**	**600 360**	**1 224 202**	**854 235**
Inventories	**3**				
Raw materials		2 262 554	1 256 588	3 219 324	1 787 964
Work-in-progress		3 095 199	1 951 100	4 404 071	2 776 165
Finished goods		715 504	448 529	1 018 070	638 199
Prepayments to suppliers		44 248	4 764	62 959	6 779
Total		**6 117 505**	**3 660 981**	**8 704 424**	**5 209 107**
TOTAL CURRENT ASSETS		**9 272 677**	**7 877 400**	**13 193 830**	**11 208 531**
NON-CURRENT ASSETS					
Long-term financial assets					
Deffered income tax		167 246		237 970	0
Other long-term receivable		62 099	15 579	88 359	22 167
Total		**229 345**	**15 579**	**326 329**	**22 167**
NON-CURRENT physical assets	**4**				
Plant and equipment		2 015 336	1 484 379	2 867 565	2 112 081
Other equipment and fixtures		942 968	637 167	1 341 723	906 607
Accumulated depreciation		-1 637 858	-1 209 263	-2 330 462	-1 720 626
Prepayments for noncurrent physical assets		136 635	993	194 413	1 413
Total		**1 457 081**	**913 276**	**2 073 239**	**1 299 475**
Intagible assets					
Purchased licenses, trademarks etc.		114 435	136 932	162 826	194 837
Goodwill		497 293	526 559	707 584	749 226
Prepayments for intangible assets		47 138	24 688	67 073	35 126
Total		**658 866**	**688 179**	**937 483**	**979 189**
TOTAL NON-CURRENT ASSETS		**2 345 292**	**1 617 034**	**3 337 051**	**2 300 831**
TOTAL ASSETS		**11 617 969**	**9 494 434**	**16 530 881**	**13 509 362**

Consolidated balance sheet

	Note	31.12.2006	31.12.2005	31.12.2006	31.12.2005
LIABILITIES AND OWNERS' EQUITY		**LVL**	**LVL**	**EUR**	**EUR**
CURRENT LIABILITIES					
Debt obligations					
Short-term loans from financial institutons	**5**	497 324	9 260	707 628	13 176
Derivative financial instruments		924	12 291	1 315	17 489
Total		**498 248**	**21 551**	**708 943**	**30 665**
Customer prepayments for goods and services		**1 731**	**145 583**	**2 463**	**207 146**
Accounts payable	**6**	**1 202 468**	**917 724**	**1 710 958**	**1 305 804**
Tax liabilities		**123 700**	**117 652**	**176 009**	**167 404**
Salary-related accrued expenses		**462 822**	**266 313**	**658 536**	**378 929**
Provisions					
Deferred income tax			15 082	0	21 460
Other provisions	**7**	303 367	177 374	431 652	252 380
Total		**303 367**	**192 456**	**431 652**	**273 840**
TOTAL CURRENT LIABILITIES		**2 592 336**	**1 661 279**	**3 688 561**	**2 363 788**
OWNERS' EQUITY					
Share capital	**8**	**2 970 180**	**2 970 180**	**4 226 185**	**4 226 185**
Paid in capital over par		**2 004 204**	**2 004 204**	**2 851 725**	**2 851 725**
Restricted personnel incentive shares			**60 000**	**0**	**85 372**
Retained earnings		**3 231 104**	**2 163 009**	**4 597 447**	**3 077 685**
Net profit for the financial year		**791 319**	**647 544**	**1 125 945**	**921 372**
Currency translation reserve		**28 826**	**-11 782**	**41 018**	**-16 765**
TOTAL OWNERS' EQUITY		**9 025 633**	**7 833 155**	**12 842 320**	**11 145 574**
TOTAL LIABILITIES AND OWNERS' EQUITY		**11 617 969**	**9 494 434**	**16 530 881**	**13 509 362**

Consolidated Income Statement for 6 month of the financial year 2006/7

	Note	31.12.2006	31.12.2005	31.12.2006	31.12.2005
		LVL	LVL	EUR	EUR
Net sales	9	7 866 928	5 627 905	11 193 630	8 007 787
Other operating income		16 381	1 262	23 308	1 796
Total income		**7 883 309**	**5 629 167**	**11 216 938**	**8 009 583**
Direct cost of goods sold or services rendered		-4 238 909	-2 940 761	-6 031 424	-4 184 326
Marketing, advertising and public relations expenses	10	-379 347	-247 457	-539 762	-352 100
Bad receivables		83 463	8 598	118 757	12 234
Operating expenses	11	-594 897	-446 710	-846 462	-635 611
Salaries, bonuses and social expenses	12	-1 407 132	-816 239	-2 002 168	-1 161 403
Depreciation expense		-281 802	-339 793	-400 968	-483 482
Amortization of product Prototypes		-16 364		-23 284	0
Other expenses		-12 211	-2 715	-17 375	-3 863
Operating expenses		**-6 847 199**	**-4 785 077**	**-9 742 686**	**-6 808 551**
EBIT		**1 036 110**	**844 090**	**1 474 252**	**1 201 032**
Financial income (except ForEx rate difference)		4 951	2 683	7 045	3 818
Financial costs (except ForEx rate difference)		-38 617	-2 336	-54 947	-3 324
Foreign exchange +gain/(loss)		-75 875	-86 797	-107 962	-123 501
Financial items		**-109 541**	**-86 450**	**-155 864**	**-123 007**
EBT		**926 569**	**757 640**	**1 318 388**	**1 078 025**
Provision for taxes		-135 250	-110 096	-192 443	-156 653
Net profit		**791 319**	**647 544**	**1 125 945**	**921 372**

*Earnings per share
EPS 31.12.2006. = 0.27 LVL (0.38 EUR)
EPS 31.12.2005. = 0.21 LVL (0.30 EUR)

Consolidated Income Statement for Q2 of the financial year 2006/7

	31.12.2006	31.12.2005	31.12.2006	31.12.2005
	LVL	LVL	EUR	EUR
Net sales	3 855 250	3 587 773	5 485 527	5 104 941
Other operating income	10 723	704	15 257	1 002
Total income	**3 865 973**	**3 588 477**	**5 500 784**	**5 105 943**
Direct cost of goods sold or services rendered	-2 056 819	-1 930 844	-2 926 590	-2 747 343
Marketing, advertising and public relations expenses	-176 771	-168 526	-251 522	-239 791
Bad receivables	38 609	-9 976	54 936	-14 195
Operating expenses	-328 535	-259 213	-467 463	-368 827
Salaries, bonuses and social expenses	-816 774	-479 097	-1 162 165	-681 694
Depreciation expense	-135 499	-182 241	-192 798	-259 306
Amortization of product Prototypes	-8 423		-11 985	0
Other expenses	-5 414	-1 065	-7 703	-1 515
Operating expenses	**-3 489 626**	**-3 030 962**	**-4 965 290**	**-4 312 671**
EBIT	**376 347**	**557 515**	**535 494**	**793 272**
Financial income (except ForEx rate difference)	2 271	2 430	3 231	3 458
Financial costs (except ForEx rate difference)	-31 056	2 048	-44 189	2 914
Foreign exchange +gain/(loss)	-46 905	-64 363	-66 740	-91 581
Financial items	**-75 690**	**-59 885**	**-107 698**	**-85 209**
EBT	**300 657**	**497 630**	**427 796**	**708 063**
Provision for taxes	-33 202	-66 484	-47 242	-94 598
Net profit	**267 455**	**431 146**	**380 554**	**613 465**

*Earnings per share
EPS 31.12.2006. = 0.09 LVL (0.13 EUR)
EPS 31.12.2005. = 0.14 LVL (0.20 EUR)

Consolidated cash flow statement for 6 months of the financial year 2006/07

	31.12.2006	31.12.2005	30.06.2006.	30.06.2005.
	LVL	LVL	EUR	EUR
CASH GENERATED FROM OPERATIONS (of which)	**521 328**	**1 398 292**	**741 782**	**1 989 590**
Cash received from customers	8 869 916	4 661 881	12 620 753	6 633 259
Cash paid to suppliers and employees	-8 348 588	-2 996 309	-11 878 971	-4 263 364
Paid income tax		-267 280	0	-380 305
NET CASH USED IN INVESTING ACTIVITIES (of which)	**-897 756**	**-1 022 510**	**-1 277 391**	**-1 454 900**
Cash paid for purchasing non-current physical assets	-877 820	-213 198	-1 249 025	-303 353
Cash received from the sale of non-current physical assets	16 378	1 261	23 304	1 794
Loans given	-44 458	-811 306	-63 258	-1 154 384
Interest received	8 144	733	11 588	1 043
NET CASH USED IN FINANCING ACTIVITIES (of which)	**-631 289**	**-299 296**	**-898 243**	**-425 860**
Paid interest	-37 253	-2 278	-53 006	-3 241
Dividends paid	-594 036	-297 018	-845 237	-422 619
Effects of exchange rate changes	**9 291**	**-131**	**13 220**	**-187**
TOTAL CASH FLOW:	**-998 426**	**76 355**	**-1 420 632**	**108 643**
Cash and cash equivalents as at the beginning of period	1 244 633	105 190	1 770 953	149 672
Cash and cash equivalents as at the end of period	246 207	181 545	350 321	258 315
NET INCREASE / DECREASE IN CASH AND CASH EQUIVALENTS	**-998 426**	**76 355**	**-1 420 632**	**108 643**

Statement of changes in consolidated equity for the 6 months period ended December 31 2006

	Share capital	Share premium	Personnel incentive shares	Other rezerves	Currency translation rezerves	Retained earnings	Total
	Ls	Ls	Ls	Ls	Ls	Ls	Ls
As at 30 June 2005	**2 970 180**	**2 004 204**	**-**	**1 023 402**	**-1 090**	**1 496 625**	**7 493 321**
Issue of share capital	-	-	-	-	-	-	-
Costs of issue of share capital	-	-	-	-	-	-	-
Dividend relating to 2004/2005	-	-	-	-	-	-297 018	**-297 018**
Allocation of profit	-	-	60 000	-1 023 402	-	963 402	-
Currency translation difference	-	-	-	-	-4 454	-	**-4 454**
Profit for the year	-	-	-	-	-	1 602 131	**1 602 131**
As at 30 June 2006	**2 970 180**	**2 004 204**	**60 000**	**-**	**-5 544**	**3 765 140**	**8 793 980**
Cancelation of personnel incentive shares	-	-	-60 000	-	-	60 000	-
Costs of issue of share capital	-	-	-	-	-	-	-
Dividend relating to 2005/2006	-	-	-	-	-	-594 036	**-594 036**
Allocation of profit	-	-	-	-	-	-	-
Currency translation difference	-	-	-	-	34 370	-	**34 370**
Profit for the year	-	-	-	-	-	791 319	**791 319**
As at 31 December 2006	**2 970 180**	**2 004 204**	**-**	**-**	**28 826**	**4 022 423**	**9 025 633**

Statement of changes in consolidated equity for the 6 months period ended December 31 2006

	Share capital	Share premium	Personnel incentive shares	Other rezerves	Currency translation rezerves	Retained earnings	Total
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
As at 30 June 2005	**4 226 185**	**2 851 725**	**-**	**1 456 170**	**-1 551**	**2 129 506**	**10 662 035**
Issue of share capital	-	-	-	-	-	-	-
Costs of issue of share capital	-	-	-	-	-	-	**0**
Dividend relating to 2004/2005	-	-	-	-	-	-422 619	**-422 619**
Allocation of profit	-	-	85 372	-1 456 170	-	1 370 798	-
Currency translation difference	-	-	-	-	-6 337	-	**-6 337**
Profit for the year	-	-	-	-	-	2 279 627	**2 279 627**
As at 30 June 2006	**4 226 185**	**2 851 725**	**85 372**	**-**	**-7 888**	**5 357 312**	**12 512 706**
Cancelation of personnel incentive shares	-	-	-85 372	-	-	85 372	-
Costs of issue of share capital	-	-	-	-	-	-	-
Dividend relating to 2005/2006	-	-	-	-	-	-845 238	-845 238
Allocation of profit	-	-	-	-	-	-	-
Currency translation difference	-	-	-	-	48 906	-	**48 906**
Profit for the year	-	-	-	-	-	1 125 945	**1 125 945**
As at 31 December 2006	**4 226 185**	**2 851 725**	**-**	**-**	**41 018**	**5 723 392**	**12 842 320**

Notes for consolidated interim financial statements

Note 1 Customer receivables

	31.12.2006 Ls	31.12.2005 Ls	31.12.2006 EUR	31.12.2005 EUR
Accounts receivables	2 168 188	2 910 454	3 085 054	4 141 203
Provisions for bad and doubtful accounts receivable	-136 254	-277 487	-193 872	-394 828
	2 031 934	**2 632 967**	**2 891 182**	**3 746 375**

Accounts receivables, in comparison with the 6 month period of the previous financial year 2005/6, decreased due to the discounting of Letters of Credit in order to optimise working capital. Provisions for bad and doubtful accounts receivable, in comparison with the 6 month period of the previous financial year 2005/6, decreased as particular customers paid their overdue debts.

Note 2 Prepaid expenses

	31.12.2006 Ls	31.12.2005 Ls	31.12.2006 EUR	31.12.2005 EUR
Prepaid taxes	566 314	496 454	805 792	706 390
Prepaid participation at exhibition	52 842	34 501	75 187	49 091
Prepaid insurance fees	21 733	18 655	30 923	26 544
Prepaid software maintenance year fees	20 116	23 774	28 622	33 827
Other prepaid expenses	199 369	26 976	283 678	38 383
	860 374	**600 360**	**1 224 202**	**854 235**

Prepaid expenses, in comparison with the 6 month period of the previous financial year 2005/6, increased due to prepaid advances to particular suppliers.

Note 3 Inventories

	31.12.2006 Ls	31.12.2005 Ls	31.12.2006 EUR	31.12.2005 EUR
Raw materials	2 262 554	1 256 588	3 219 324	1 787 964
Work-in- progress	3 095 199	1 951 100	4 404 071	2 776 165
Finished goods	715 504	448 529	1 018 070	638 199
Prepayments to suppliers	44 248	4 764	62 959	6 779
	6 117 505	**3 660 981**	**8 704 424**	**5 209 107**

Inventories, in comparison with the 6 month period of the previous financial year 2005/6, increased as the Group created additional reserves for a wider product assortment.

Note 4 Non-current physical assets

	31.12.2006 Ls	31.12.2005 Ls	31.12.2006 EUR	31.12.2005 EUR
Plant and equipment	2 015 336	1 484 379	2 867 565	2 112 081
Other equipment and fixtures	942 968	637 167	1 341 723	906 607
Accumulated depreciation	-1 637 858	-1 209 263	-2 330 462	-1 720 626
Prepayments for non-current physical assets	136 635	993	194 413	1 413
	1 457 081	**913 276**	**2 073 239**	**1 299 475**

Non current physical assets, in comparison with the 6 month period of the previous financial year 2005/6, increased as the Group made substantial investments in a new production facility.

Note 5 Short-term loans from financial institutions

	31.12.2006 Ls	31.12.2005 Ls	31.12.2006 EUR	31.12.2005 EUR
Short-term loans from financial institutions	**497 324**	**9 260**	**707 628**	**13 176**

On December 11, 2006, the Group has signed credit line agreement with Nordea bank Finland Plc Latvian branch for 2M EUR credit line with interest rate 12 month LIBOR + 0.85%

Note 6 Accounts payable

	31.12.2006 Ls	31.12.2005 Ls	31.12.2006 EUR	31.12.2005 EUR
Accounts payable	**1 202 468**	**917 724**	**1 710 958**	**1 305 804**

Supplier payables, in comparison with the 6 month period of the previous financial year 2005/6, increased due to the higher turnover and longer payment terms.

Note 7 Other provisions

	31.12.2006 Ls	31.12.2005 Ls	31.12.2006 EUR	31.12.2005 EUR
Other provisions	**303 367**	**177 374**	**431 652**	**252 380**

Provisions, in comparison with the 6 month period of the previous financial year 2005/6, increased due to the increase in provisions for slow moving items as a result of sales portfolio diversification and new market entry.

Note 8 Share capital

	31.12.2006 Ls	31.12.2005 Ls	31.12.2006 EUR	31.12.2005 EUR
Share capital	2 970 180	2 970 180	4 226 185	4 226 185
Restricted personnel incentive shares		60 000		85 372
	2 970 180	**3 030 180**	**4 226 185**	**4 311 557**

The total number of Company's share capital is LVL 2 970 180 consisting of authorized, issued and fully paid ordinary shares with voting rights. On October 26, 2006 JSC „SAF Tehnika" Annual Shareholder Meeting decided to decrease the share capital of the Company by cancelling 60 000 restricted personnel incentive shares, what was done during the reporting period. The nominal value of one share is Ls 1.

Note 9 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 organized and managed for each product line (CFM and CFQ) separately.

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

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

	CFQ		**CFM**		**Other**		**Total**	
	2006/7	**2005/6**	**2006/7**	**2005/6**	**2006/7**	**2005/6**	**2006/7**	**2005/6**
	Ls	**Ls**	**Ls**	**Ls**	**Ls**	**Ls**	**Ls**	**Ls**
Assets								
Segment assets	1 576 961	777 185	8 011 121	5 912 541	585 230	962 855	10 173 312	7 652 581
Undivided assets							1 444 657	1 841 853
Total assets							**11 617 969**	**9 494 434**
Segment liabilities	265 085	71 598	1 129 986	888 530	176 864	333 381	1 571 935	1 293 509
Undivided liabilities							1 020 401	367 770
Total liabilities							**2 592 336**	**1 661 279**
Net sales	651 925	50 785	6 367 392	4 648 106	847 611	929 014	7 866 928	5 627 905
Segment results	**-209 018**	**-337 504**	**2 298 588**	**2 033 308**	**188 789**	**301 254**	**2 278 359**	**1 997 058**
Undivided expenses							-1 258 630	-1 154 230
Profit from operations							**1 019 729**	**842 828**
Other income							16 381	1 262
Financial expenses, net							-109 541	-86 450
Profit before taxes							**926 569**	**757 640**
Corporate income tax							-135 250	-110 096
Profit for the year							**791 319**	**647 544**
Other information								
Additions of property plant and equipment and intangible asets	35 306	18 294	569 613	130 818	2 133	691	607 052	149 803
Depreciation and amortization	87 645	54 950	107 855	174 664	1 675	1 616	197 175	231 230

	CFQ		CFM		Other		Total	
	2006/7	**2005/6**	**2006/7**	**2005/6**	**2006/7**	**2005/6**	**2006/7**	**2005/6**
	EUR	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**
Assets								
Segment assets	2 243 813	1 105 835	11 398 798	8 412 788	832 708	1 370 019	14 475 319	10 888 642
Undivided assets							2 055 562	2 620 720
Total assets							**16 530 881**	**13 509 362**
Segment liabilities							2 236 662	1 840 497
Undivided liabilities							1 451 899	523 291
Total liabilities							**3 688 561**	**2 363 788**
Net sales	927 606	72 261	9 059 983	6 613 659	1 206 041	1 321 867	11 193 630	8 007 787
Segment results	**-297 406**	**-480 225**	**3 270 596**	**2 893 137**	**268 623**	**428 645**	**3 241 813**	**2 841 557**
Undivided expenses							-1 790 869	-1 642 321
Profit from operations							**1 450 944**	**1 199 236**
Other income							23 308	1 796
Financial expenses, net							-155 864	-123 007
Profit before taxes							**1 318 388**	**1 078 025**
Corporate income tax							-192 443	-156 653
Profit for the year							**1 125 945**	**921 372**
Other information								
Additions of property plant and equipment and intangible asets	50 236	26 030	810 486	186 137	3 035	983	863 757	213 150
Depreciation and amortization	124 708	78 187	153 464	248 524	2 383	2 300	280 555	329 011

b) This note provides information about division of the Group's turnover and assets by geographical regions (customer location) for 6 month of the financial year 2006/7 and financial year 2005/6

	Net sales		Assets		Net sales		Assets	
	2006/7	**2005/6**	**31.12.2006**	**31.12.2005**	**2006/7**	**2005/6**	**31.12.2006**	**31.12.2005**
	Ls	**Ls**	**Ls**	**Ls**	**EUR**	**EUR**	**EUR**	**EUR**
Asia	2 514 213	1 024 243	311 799	850 456	3 577 403	1 457 366	443 650	1 210 090
America	645 939	1 244 632	321 272	588 668	919 088	1 770 952	457 129	837 599
Africa	382 174	244 807	87 894	10 945	543 785	348 329	125 062	15 573
Europe	2 666 145	1 758 318	855 450	764 390	3 793 583	2 501 861	1 217 196	1 087 629
CIS	1 456 253	1 013 798	393 464	320 333	2 072 061	1 442 505	559 849	455 793
Middle East	202 204	342 107	62 055	98 175	287 710	486 774	88 296	139 691
	7 866 928	**5 627 905**	**2 031 934**	**2 632 967**	**11 193 630**	**8 007 787**	**2 891 182**	**3 746 375**
Unallocatted assets	-	-	9 586 035	6 861 467	-	-	13 639 699	9 762 987
	7 866 928	**5 627 905**	**11 617 969**	**9 494 434**	**11 193 630**	**8 007 787**	**16 530 881**	**13 509 362**

*Note 10 Marketing, advertising and public relations expense*s

	31.12.2006	**31.12.2005**	**31.12.2006**	**31.12.2005**
	Ls	**Ls**	**EUR**	**EUR**
Marketing, advertising and public relations expenses	**379 347**	**247 457**	**539 762**	**352 100**

Marketing, advertising and public relations expenses, in comparison with the 6 month period of the previous financial year 2005/6, increased as the group is participating in more exhibitions and an increase in sales commissions.

Note 11 Operating expenses

	31.12.2006 Ls	31.12.2005 Ls	31.12.2006 EUR	31.12.2005 EUR
Operating expenses	**594 897**	**446 710**	**846 462**	**635 611**

Operating expenses, in comparison with the 6 month period of the previous financial year 2005/6, increased due to the increase in utility/maintenance, travelling, personal and training expenses.

Note 12 Salaries, bonuses and social expenses

	31.12.2006 Ls	31.12.2005 Ls	31.12.2006 EUR	31.12.2005 EUR
Salaries, bonuses and social expenses	**1 407 132**	**816 239**	**2 002 168**	**1 161 403**

Salaries, bonuses and social expenses, in comparison with the 6 month period of the previous financial year 2005/6, increased due to the substantial hiring of additional staff.