# A/S "SAF Tehnika"
# Annual Report

for the year ended 30 June 2012

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## Information on the Company

| | |
|---|---|
| Name of the Company | A/S "SAF Tehnika" |
| Legal status | Joint Stock Company |
| Number, place and date of registration | 40003474109<br>Riga, Latvia, 17 December 1999<br>Registered with the Commercial Register on 10 March 2004 |
| Address | Ganību dambis 24a<br>Rīga, LV -1005<br>Latvia |
| Names of shareholders as at 02.11.2011 | Didzis Liepkalns (17.05%)<br>Andrejs Grišāns (10.03%)<br>Normunds Bergs (9.74%)<br>Skandinaviska Enskilda Banken AB (9.68%)<br>Juris Ziema (8.71%)<br>Vents Lācars (6.08%)<br>Other shareholders (38.71%) |
| Names of the Council members, their positions | Vents Lācars – Chairman of the Council<br>Juris Ziema – Deputy Chairman of the Council<br>Andrejs Grišāns– Council Member<br>Ivars Šenbergs – Council Member<br>Juris Imaks - Council Member (until 11.11.2011) |
| Names of the Board members, their positions | Normunds Bergs – Chairman of the Board<br>Didzis Liepkalns – Deputy Chairman of the Board<br>Aira Loite – Board Member<br>Jānis Ennītis – Board Member |
| Reporting period | 1 July 2011 – 30 June 2012 |
| Previous reporting year | 1 July 2010 – 30 June 2011 |
| Auditors and address | KPMG Baltics SIA<br>License No 55<br>Vesetas iela 7<br>Rīga, LV -1013<br>Latvia<br><br>Armine Movsisjana<br>Sworn Auditor<br>Certificate No 178 |

## Management Report

### Line of business

The core business activity of SAF Tehnika AS (hereinafter – the Company) is the design, production and distribution of digital microwave transmission equipment. The Company offers comprehensive and cost-effective solutions of wireless broadband connections for digital transmission of voice and data to the operators of fixed and mobile networks and providers of data transmission both in the public and private sector as an alternative to cable channels.

### Activities during the reporting year

Net turnover of the Company in the 2011 / 2012 financial year was LVL 9.65 million (EUR 13.73 million) which represents a decrease by 11% comparing to the previous financial year. Export represented 96.16% of turnover amounting to LVL 9.28 million (EUR 13.21 million). During the reporting period the products of the Company were exported to 82 countries in the world, five of which received the products of SAF for the first time.

Americas continue to demonstrate positive trends. Turnover of the region in comparison with the previous financial year increased by 10% reaching LVL 3.3 million (EUR 4.7 million) and representing 34% of the total Company's turnover during the reporting year. SAF North America, the US Subsidiary of SAF Tehnika, provided additional flexibility with regard to the availability of SAF products and cooperation with clients. Nevertheless, despite the fact that the number of SAF equipment units sold was higher than previously, stiff competition was the reason the prices were reduced; this had a direct effect on the growth of the regional turnover making it slower than expected. The manufacture of CFIP Lumina products in Brasil reached the planned optimum amount proving that the strategic decision of establishing the manufacturing arrangement in a promising yet very protected market was correct, as the status of a local manufacturer and the already achieved brand recognition have contributed to an increased interest about the products of SAF in the Brazilian market. During the following quarters, we expect the availability and delivery terms of the CFIP Lumina products to the clients of this region to improve considerably.

At the same time, our turnover in Asia, Middle East and Africa decreased and revenue generated from the region represented only 28% of the total revenue of the Company. It may be explained by the fact that in 2011/2012 the Company did not have such large projects in this region as it did in the financial year 2010 / 2011; however, intensive cooperation with the existing and potential clients continued and there still was interest in the products of SAF Tehnika. This year we had successful cooperation with the two clients from Africa whose payments were delayed due to liquidity problems and the Company was required to recognize a significant amount of allowances for bad debts in the last year. The largest part of the debt was covered and the cooperation is continuing.

The income generated from Europe and the CIS slightly decreased; nevertheless, the sales were material for the Company and amounted to 38% of the annual revenue.

In order to strengthen the brand recognition of SAF, to promote products and develop the network of buyers and partners, SAF Tehnika AS participated in international and regional exhibitions both individually and together with local partners. In particular, we participated in exhibitions and various events in the USA focusing on the segment of data transmission companies (ISP). The following events should be noted: Comptel Plus2011, 4GWorld 2011, ISC West 2012 (Las Vegas, Nevada), CTIA Wireless 2012 (New Orleans, LA), Animal Farm 2012 (Salt Lake City, UT), ISP America 2012 (Lake Buena Vista, FL). The most significant events in other regions include NigeriaCom 2011 (Lagos, Nigeria), AfricaCom 2011 (Cape Town, Republic of South Africa), CeBIT 2012 (Hannover, Germany). SAF Tehnika AS expresses its gratitude to the Latvian Investment and Development Agency and the European Regional Development Fund that co-financed the participation in the exhibitions during the reporting year.

As a testimony to the high quality of SAF products and solutions the Company is the first in the industry sector to provide a five year guarantee period for the CFIP Lumina full outdoors radios and antennas delivered in Europe and North America starting from March 2012.

The Company continued developing various tools useful for the clients' cooperation with SAF and use of SAF products. For example, the internet shop www.saf-lastmile.com that sells SAF FreeMile products, a barcode scanner application for iPhone and Android smart phones in order to identify SAF products quickly, various functional improvements in the Network Management System, updates of the SAF FreeMile path calculator.

## **Management Report** (continued)

The CFIP product line reinforced its position as the main product line in the portfolio of SAF manufactured products. The Company's clients appeared to be strongly interested in the products of unlicensed frequencies, which translated in increased sales of the FeeMile product line. During the reporting year revenues have quintupled compared to the previous year. The demand for the products of the CFM product line continued to decrease confirming that the product line was approaching the phase when the Company would discontinue it.

Assessing the results of 2011 / 2012, in appreciation of the high loyalty of employees, the level of their remuneration and contribution to the financial results of the Company, as well as the situation in the labour market the management decided to pay bonuses to staff.

The financial result of 2011 / 2012 was a profit of LVL 618 thousand (EUR 879 thousand) representing 77% of the profit of the previous year.

SAF Tehnika AS has retained financial stability. The audited net cash flow of the Company for 12 months was positive and amounted to LVL 174 thousand (EUR 247 thousand). In November 2011, the Company paid out dividends of LVL 0.23 per share amounting to LVL 683 thousand in total.

During the reporting year the Company made investments in the amount of LVL 254 thousand (EUR 361 thousand) to acquire production and research equipment, software and IT infrastructure in order to improve the manufacturing, research and testing processes, as well as invested in the products certification. Expenses of staff training were significantly larger than last year in order to acquire or develop competences in various technical areas, management and communication skills, as well as foreign language skills – LVL 41 thousand (EUR 58 thousand).

### Research and development

During the reporting year the Company continued developing its main product line in the licensed frequencies – CFIP where the main sources of income were CFIP Lumina and Phoenix, and CFIP Marathon, the product with the largest product niche potential, as well as the newest product line in the unlicensed frequencies – CFIP FreeMile. The range of frequencies available in each product line was broadened, the performance of products was improved and solutions were offered to improve the production process and reduce the cost of products.

Significant resources were dedicated to the development of new generation products suitable for LTE networks and the goal is to present prototypes of these products in 2013.

The comparatively small but professional, creative and client-oriented engineer team achieved good results developing various modifications of the existing products thus creating solutions for the needs and requirements of specific clients.

## **Management Report** (continued)

### Future perspectives

The strategy of SAF Tehnika AS has not changed. The Company continues working on a number of research and development products focusing on the development of new next generation microwave data transmission equipment and improvement of the functionality of the existing products in order to adapt them to specific requirements of the niche clients.

In order to be closer to the clients in regions and countries with increasing demand for the products of SAF, the Company is considering opening representative offices, establishing joint ventures or subsidiaries.

SAF Tehnika has proved itself to be a financially stable company capable of surviving market fluctuations; however, the results of the next periods will largely depend on external factors such as investments in client networks as well as the situation in global economy.

Although the Company views its market perspective to be rather consistent, due to the continuous instability of the world financial and telecommunication markets, the management feels it appropriate to refrain from providing specific estimates of revenue and net financial results of the Company.

### Distribution of the profit proposed by the Board

The Board of the Company suggests retaining 52% of the reporting year profit for the Company in order to maintain its financial stability and distribute the remaining 48% as dividends.

Normunds Bergs
Chairman of the Board

Didzis Liepkalns
Deputy Chairman of the Board

Aira Loite
Board Member

Jānis Ennītis
Board Member

Riga, 29 October 2012

## STATEMENT OF BOARD'S RESPONSIBILITIES

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

The financial statements set out on pages 10 to 40 are prepared in accordance with the source documents and present fairly the financial position of the Company as at 30 June 2012 and the results of its financial performance and cash flows for the year then ended.

The above mentioned financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the European Union on a going concern basis. Appropriate accounting policies have been applied on a consistent basis. Prudent and reasonable judgements and estimates have been made by the management in the preparation of the financial statements.

The Board of SAF Tehnika A/S is responsible for the maintenance of proper accounting records, the safeguarding of the Company's assets and the prevention and detection of fraud and other irregularities in the Company. The Board is also responsible for the compliance with the Latvian state laws.

On behalf of the Board:

Normunds Bergs
Chairman of the Board

Didzis Liepkalns
Deputy Chairman of the Board

Aira Loite
Board Member

Jānis Ennītis
Board Member

Riga, 29 October 2012

KPMG

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Riga LV 1013
Latvia

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# Independent Auditors' Report

## To the shareholders of A/S "SAF TEHNIKA"

### Report on the Financial Statements

We have audited the accompanying financial statements of A/S "SAF TEHNIKA" ("the Company"), which comprise the statement of financial position as at 30 June 2012, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory notes, as set out on pages 10 to 40.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal controls as management determines are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditors' Responsibility*

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

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

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

KPMG Baltics SIA, a Latvian limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

*Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 30 June 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

*Other Matters*

The corresponding figures presented are based, before corrections, on financial statements of the Company as at and for the year ended 30 June 2011, which were audited by another independent auditors whose report dated 26 October 2011 expressed an unqualified opinion.

**Report on Other Legal and Regulatory Requirements**

In addition, our responsibility is to assess whether the accounting information included in the Management Report, as set out on pages 4 to 6, the preparation of which is the responsibility of management, is consistent with the financial statements. Our work with respect to the Management Report was limited to the aforementioned scope and did not include a review of any information other than drawn from the financial statements of the Company. In our opinion, the Management Report is consistent with the financial statements.

Armine Movsisjana
Member of the Board
Sworn Auditor
Certificate Nr. 178
Rīga, Latvia
29 October 2012

## Statement of Financial Position

| | Note | As at 30 June 2012 LVL | As at 30 June 2011 LVL | As at 30 June 2012 EUR | As at 30 June 2011 EUR |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 6 | 486 153 | 501 898 | 691 733 | 714 137 |
| Intangible assets | 6 | 92 404 | 67 474 | 131 479 | 96 007 |
| Other long-term assets | 6 | - | 2 457 | - | 3 496 |
| Investment in related companies | 7 | 5 282 | - | 7 516 | - |
| Investments in other companies | 7 | 500 | 500 | 711 | 711 |
| Long term loans | | 1 898 | 24 670 | 2 701 | 35 102 |
| Long-term trade receivables | 9 | - | 65 140 | - | 92 686 |
| Deferred tax asset | 13 | 92 559 | 73 032 | 131 700 | 103 915 |
| **Non-current assets** | | **678 796** | **735 171** | **965 840** | **1 046 054** |
| **Current assets** | | | | | |
| Stock | 8 | 2 968 322 | 3 365 397 | 4 223 542 | 4 788 529 |
| Corporate income tax | | 134 630 | - | 191 561 | - |
| Trade receivables | 9 | 1 257 693 | 1 755 985 | 1 789 536 | 2 498 542 |
| Due from related parties | 9 | 13 112 | - | 18 657 | - |
| Other receivables | 10 | 272 936 | 154 932 | 388 353 | 220 448 |
| Prepaid expenses | | 125 376 | 47 906 | 178 394 | 68 164 |
| Loans | | 22 772 | 22 772 | 32 401 | 32 401 |
| Placements with banks | 11 | 1 858 393 | 2 437 439 | 2 644 255 | 3 468 163 |
| Cash and cash equivalents | 12 | 1 321 923 | 1 148 302 | 1 880 927 | 1 633 887 |
| **Current assets** | | **7 975 157** | **8 932 733** | **11 347 626** | **12 710 134** |
| **Total assets** | | **8 653 953** | **9 667 904** | **12 313 466** | **13 756 188** |
| **SHAREHOLDERS' EQUITY** | | | | | |
| Share capital | 14 | 2 970 180 | 2 970 180 | 4 226 185 | 4 226 185 |
| Share premium | | 2 004 204 | 2 004 204 | 2 851 725 | 2 851 725 |
| Retained earnings | | 2 533 172 | 2 598 473 | 3 604 379 | 3 697 294 |
| **Total shareholders' equity** | | **7 507 556** | **7 572 857** | **10 682 289** | **10 775 204** |
| **LIBILITIES** | | | | | |
| **Current liabilities** | | | | | |
| Liabilities | 15 | 1 098 101 | 2 043 162 | 1 562 457 | 2 907 158 |
| Provisions for guarantees | 15 | 15 338 | 30 884 | 21 824 | 43 944 |
| Loans | 16 | 5 485 | 9 779 | 7 805 | 13 914 |
| Deferred income | | 27 473 | 11 222 | 39 091 | 15 968 |
| **Total liabilities** | | **1 146 397** | **2 095 047** | **1 631 177** | **2 980 984** |
| **Total equity and liabilities** | | **8 653 953** | **9 667 904** | **12 313 466** | **13 756 188** |

The accompanying notes on pages 14 to 40 form an integral part of these financial statements.

Normunds Bergs
Chairman of the Board

Didzis Liepkalns
Deputy Chairman of the Board

Aira Loite
Board Member

Jānis Ennītis
Board Member

Riga, 29 October 2012

## Statement of Profit or Loss and Other Comprehensive Income

| | Note | For year ended 30 June 2012 LVL | For year ended 30 June 2011 LVL | For year ended 30 June 2012 EUR | For year ended 30 June 2011 EUR |
|---|---|---|---|---|---|
| Net sales | 17 | 9 651 545 | 10 896 071 | 13 732 911 | 15 503 712 |
| Cost of goods sold | 18 | (7 326 382) | (7 526 443) | (10 424 502) | (10 709 163) |
| **Gross profit** | | **2 325 163** | **3 369 628** | **3 308 409** | **4 794 549** |
| Sales and marketing expenses | 19 | (1 474 434) | (1 483 842) | (2 097 931) | (2 111 317) |
| Administrative expenses | 20 | (437 091) | (857 295) | (621 924) | (1 219 821) |
| Other income | 21 | 67 567 | 101 610 | 96 139 | 144 578 |
| Finance income | 22 | 212 710 | 100 724 | 302 659 | 143 317 |
| Finance expenses | 23 | (649) | (243 166) | (923) | (345 994) |
| **Profit before taxes** | | **693 266** | **987 659** | **986 429** | **1 405 312** |
| Corporate income tax | 24 | (75 426) | (186 826) | (107 322) | (265 829) |
| **Current year's profit** | | **617 840** | **800 833** | **879 107** | **1 139 483** |
| Other comprehensive income | | - | - | - | - |
| **Total comprehensive income for the year** | | **617 840** | **800 833** | **879 107** | **1 139 483** |
| **Profit attributable to:** | | | | | |
| Shareholders of the Company | | 617 840 | 800 833 | 879 107 | 1 139 483 |
| **Total comprehensive income attributable to:** | | | | | |
| Shareholders of the Company | | 617 840 | 800 833 | 879 107 | 1 139 483 |
| **Earnings per share attributable to the shareholders of the Company** (LVL / EUR per share) | | | | | |
| Basic and diluted earnings per share | 26 | 0.208 | 0.270 | 0.296 | 0.384 |

The accompanying notes on pages 14 to 40 form an integral part of these financial statements.

Normunds Bergs
Chairman of the Board

Didzis Liepkalns
Deputy Chairman of the Board

Aira Loite
Board Member

Jānis Ennītis
Board Member

Riga, 29 October 2012

## Statement of Changes to Shareholders' Equity

| | Share capital LVL | Share premium LVL | Retained earnings for the period LVL | Total LVL |
|---|---|---|---|---|
| **Balance as at 30 June 2010** | **2 970 180** | **2 004 204** | **2 480 781** | **7 455 165** |
| **Transactions with owners of the Company, recognised directly in Equity** | **-** | **-** | **(683 141)** | **(683 141)** |
| Dividends for 2009/ 2010 | - | - | (683 141) | (683 141) |
| **Total comprehensive income for the year** | **-** | **-** | **800 833** | **800 833** |
| Profit for the year | - | - | 800 833 | 800 833 |
| Other comprehensive income | - | - | - | - |
| **Balance as at 30 June 2011** | **2 970 180** | **2 004 204** | **2 598 473** | **7 572 857** |
| **Transactions with owners of the Company, recognised directly in Equity** | **-** | **-** | **(683 141)** | **(683 141)** |
| Dividends for 2010/ 2011 | - | - | (683 141) | (683 141) |
| **Total comprehensive income for the year** | **-** | **-** | **617 840** | **617 840** |
| Profit for the year | - | - | 617 840 | 617 840 |
| Other comprehensive income | - | - | - | - |
| **Balance as at 30 June 2012** | **2 970 180** | **2 004 204** | **2 533 172** | **7 507 556** |

| | Share capital EUR | Share premium EUR | Retained earnings for the period EUR | Total EUR |
|---|---|---|---|---|
| **Balance as at 30 June 2010** | **4 226 185** | **2 851 725** | **3 529 833** | **10 607 743** |
| **Transactions with owners of the Company, recognised directly in Equity** | **-** | **-** | **(972 022)** | **(972 022)** |
| Dividends for 2009 / 2010 | - | - | (972 022) | (972 022) |
| **Total comprehensive income for the year** | **-** | **-** | **1 139 483** | **1 139 483** |
| Profit for the year | - | - | 1 139 483 | 1 139 483 |
| Other comprehensive income | - | - | - | - |
| **Balance as at 30 June 2011** | **4 226 185** | **2 851 725** | **3 697 294** | **10 775 204** |
| **Transactions with owners of the Company, recognised directly in Equity** | **-** | **-** | **(972 022)** | **(972 022)** |
| Dividends for 2010 / 2011 | - | - | (972 022) | (972 022) |
| **Total comprehensive income for the year** | **-** | **-** | **879 107** | **879 107** |
| Profit for the year | - | - | 879 107 | 879 107 |
| Other comprehensive income | - | - | - | - |
| **Balance as at 30 June 2012** | **4 226 185** | **2 851 725** | **3 604 379** | **10 682 289** |

The accompanying notes on pages 14 to 40 form an integral part of these financial statements.

Normunds Bergs
Chairman of the Board

Didzis Liepkalns
Deputy Chairman of the Board

Aira Loite
Board Member

Jānis Ennītis
Board Member

Riga, 29 October 2012

## Statement of Cash Flows

| | Note | For year ended 30 June 2012 LVL | 2011 LVL corrected | For year ended 30 June 2012 EUR | 2011 EUR corrected |
|---|---|---|---|---|---|
| Profit/(loss) before taxes | | 693 266 | 987 659 | 986 429 | 1 405 312 |
| Adjustments for: | | | | | |
| depreciation | 6 | 184 342 | 167 662 | 262 295 | 238 562 |
| amortization | 6 | 62 951 | 31 895 | 89 571 | 45 383 |
| changes in correction for stock valuation | 8 | 253 681 | 110 983 | 360 956 | 157 915 |
| changes in provision for guarantees | | (15 546) | 16 863 | (22 120) | 23 994 |
| changes in accrued liabilities for unused vacations | 15 | (39 232) | 45 724 | (55 822) | 65 059 |
| changes in doubtful debt allowances | 9 | (152 282) | 244 130 | (216 678) | 347 366 |
| interest income | 22 | (55 047) | (100 724) | (78 325) | (143 317) |
| interest expenses | 23 | 649 | - | 923 | - |
| government grants | 21 | (54 141) | (80 526) | (77 036) | (114 578) |
| (profit)/loss on disposal of property, plant and equipment | | (100) | (3 702) | (142) | (5 269) |
| **Operating profit before changes in current assets** | | **878 541** | **1 419 964** | **1 250 051** | **2 020 427** |
| (Increase)/decrease of stock | | 143 394 | (1 258 525) | 204 031 | (1 790 720) |
| (Increase)/ decrease in receivables | | 514 394 | 882 163 | 731 917 | 1 255 205 |
| Increase/(decrease) of payables | | (724 161) | (834 160) | (1 030 388) | (1 186 902) |
| **Cash from operating activities** | | **812 168** | **209 442** | **1 155 611** | **298 010** |
| Government grants | | 53 747 | 106 425 | 76 475 | 151 429 |
| Interest payments | | (649) | - | (923) | - |
| Corporate income tax recovered/(paid) | | (410 955) | (36 866) | (584 736) | (52 456) |
| **Net cash flows from operating activities** | | **454 311** | **279 001** | **646 427** | **396 983** |
| **Cash flows from investing activities** | | | | | |
| Purchase of property, plant and equipment | | (166 140) | (128 257) | (236 396) | (182 493) |
| Proceeds from sales of property, plant and equipment | | 100 | 9 942 | 142 | 14 146 |
| Purchase of intangible assets | | (87 881) | (43 118) | (125 043) | (61 352) |
| Interest income | | 64 130 | 122 082 | 91 249 | 173 707 |
| Investments in other companies | | - | (500) | - | (711) |
| Investments in related companies | | (5 282) | - | (7 516) | - |
| Loans issued | | - | (47 442) | - | (67 504) |
| Loan repayments received | | 22 772 | - | 32 402 | - |
| Net cash received from placements with banks/ (placed with banks) | | 579 046 | (777 550) | 823 907 | (1 106 353) |
| **Net cash flows from investing activities** | | **406 745** | **(864 843)** | **578 745** | **(1 230 560)** |
| **Cash flows from financing activities** | | | | | |
| (Repaid) / received loans | | (4 294) | 3 598 | (6 110) | 5 119 |
| Dividends paid | | (683 141) | (683 141) | (972 022) | (972 022) |
| **Net cash flows from financing activities** | | **(687 435)** | **(679 543)** | **(978 132)** | **(966 903)** |
| Result of fluctuations in the foreign exchange rates | | - | - | - | - |
| **Net increase of cash and cash equivalents** | | **173 621** | **(1 265 385)** | **247 040** | **(1 800 480)** |
| Cash and cash equivalents at the beginning of the year | | 1 148 302 | 2 413 687 | 1 633 887 | 3 434 367 |
| **Cash and cash equivalents at the end of the year** | **12** | **1 321 923** | **1 148 302** | **1 880 927** | **1 633 887** |

The accompanying notes on pages 14 to 40 form an integral part of these financial statements.

Normunds Bergs
Chairman of the Board

Didzis Liepkalns
Deputy Chairman of the Board

Aira Loite
Board Member

Jānis Ennītis
Board Member

Riga, 29 October 2012

# Notes to the Financial Statements

## 1. General information

The core business activity of SAF Tehnika A/S (hereinafter – the Company) is the design, production and distribution of microwave radio data transmission equipment offering an alternative to cable channels. The Company offers products to mobile network operators, data service providers (such as Internet service providers and telecommunications companies), as well as state institutions and private companies.

On 13 July 2010 with the aim to attract EU funds for research and development within the sphere of electronics and electrical engineering, the Company, together with other members of the Latvian Electrical Engineering and Electronic Industry Association (LETERA), co-founded a limited liability company "LEO pētījumu centrs" (LEO) investing 500 LVL (711 EUR) in its equity capital and becoming the owner of 10% of its share capital.

In order to provide clients in North America with individual and effective wireless data transmitting solutions, on 19 August 2011 a subsidiary "SAF North America" LLC was established, the Company being the sole shareholder of "SAF North America" LLC. "SAF North America" LLC started active operations – promotion and marketing of products and services provided by SAF, market research, attraction of new clients and technical support – in spring of 2012.

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

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

These financial statements were approved by the Company's Board on 29 October 2012. The financial statements will be presented for approval to the shareholders' meeting. The shareholders have the power to reject the financial statements prepared and issued by management and the right to request that new financial statements be issued.

## 2. Summary of accounting principles used

These financial statements are prepared using the accounting policies and valuation principles set out below. These policies have been applied consistently to all the years presented, unless otherwise stated.

These are the Company's separate financial statements reflecting the investments in subsidiaries at their cost less impairment. Consolidated financial statements of the Company will be prepared separately. The previous set of consolidated accounts was prepared for the year ended 30 June 2009 as in November 2008 subsidiary SAF Tehnika Sweden AB was disposed.

### A Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS as adopted by the EU).

The financial statements have been prepared under the historical cost convention (including financial instruments available-for-sale as it is impracticable to determine their fair value).

The preparation of financial statements in conformity with IFRS as adopted by the EU requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on Management's best knowledge of current events and actions, actual results ultimately may differ from those. Significant accounting estimates are described in the relevant notes to the financial statements.

## Notes to the Financial Statements (continued)

## 2. Summary of accounting principles used (continued)

**A Basis of preparation** (continued)

*Standards, their amendments and Interpretations that became effective on 1 July 2011 and are applicable to financial statements for year ending on 30 June 2012:*

**Amendments to IFRS 7 Disclosures - Transfers of Financial Assets** (effective for annual periods beginning on or after 1 July 2011; to be applied prospectively). The Amendments require disclosure of information that enables users of financial statements:

- to understand the relationship between transferred financial assets that are not derecognised in their entirety and the associated liabilities; and
- to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognised financial assets.

The Amendments define "continuing involvement" for the purposes of applying the disclosure requirements. The amendments to IFRS 7 had no material impact on the Company's financial statements, because of the nature of the Company's operations and the types of financial assets that it holds.

*The following new Standards and Interpretations are not yet effective for the periods beginning on or after 1 July 2012:*

**Amendments to IAS 1 Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income.** The amendments require that an entity presents separately the items of other comprehensive income that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. If items of other comprehensive income are presented before related tax effects, then the aggregated tax amount should be allocated between these sections. The amendments change the title of the Statement of Comprehensive Income to Statement of Profit or Loss and Other Comprehensive Income; however, other titles are also allowed to be used. The Company has early adopted the amendments to IAS 1 from 1 July 2011. Before the amendments the Company used the title Income Statement, which has been changed to Statement of Profit or Loss and Other Comprehensive Income. The amendments had no other impact on the Company's financial statements as the Company has no other comprehensive income.

**Amendments to IAS 19 Employee Benefits** (effective for annual periods beginning on or after 1 January 2013; to be applied retrospectively). The amendment requires actuarial gains and losses to be recognised immediately in other comprehensive income. The amendment removes the corridor method previously applicable to recognising actuarial gains and losses, and eliminates the ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under the requirements of IAS 19. The amendment also requires the expected return on plan assets recognised in profit or loss to be calculated based on rate used to discount the defined benefit obligation. The amendments are not relevant to the Group and Bank's financial statements, since the entity does not have any defined benefit plans.

**B Foreign currency revaluation**

*(a) Functional and reporting currency*

The financial statements are presented in Latvian Lats (LVL), which is the Company's functional currency.

Requirements of Riga Stock Exchange prescribe that all balances are reported also in EUR. Statement of comprehensive income and related notes were denominated in LVL according to exchange rates set by the Bank of Latvia at the transaction date, statement of financial position and related notes were denominated according to exchange rates set by the Bank of Latvia at the financial position date. As a result of denomination in EUR no Foreign exchange gains and losses occurred, as Latvian lat is pegged to EUR at exchange rate of EUR 1 = LVL 0,702804.

## Notes to the Financial Statements (continued)

## 2. Summary of accounting principles used (continued)

### B Foreign currency revaluation (continued)

*(b) Transactions and balances*

Transactions denominated in foreign currency are recorded at functional currency at the transaction date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss. The following Bank of Latvia Exchange rates were effective as at following dates:

| | 30.06.2012. LVL | 30.06.2011. LVL |
|---|---|---|
| 1 USD | 0.562000 | 0.489000 |
| 1 EUR | 0.702804 | 0.702804 |
| 1 GBP | 0.876000 | 0.782000 |

### C Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenses directly related to acquisition of property, plant and equipment. Such cost includes the cost of replacing part of such plant and equipment if the asset recognition criteria are met.

Leasehold improvements are capitalized and disclosed as property, plant and equipment. Depreciation of these assets is calculated over the shorter of the leasehold period or the estimated useful life on a straight line basis.

Where an item of property, plant and equipment has different useful live as the other items of the same property, plant and equipment, they are accounted for as separate items of property, plant and equipment.

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment is recognised in the profit or loss statement as incurred.

Maintenance costs of tangible assets are recognized in the profit and loss statement as incurred.

Depreciation is calculated on a straight-line basis to write down each asset to its estimated residual value over its estimated useful life using following rates:

| | % per year |
|---|---|
| Mobile phones | 50 |
| Equipment | 33.33 |
| Vehicles | 20 |
| Other equipment and machinery | 25 |

Capital repair costs on leased Property, plant and equipment are written off on a straight line basis during the shortest of the useful lifetime of the capital repairs and the period of lease.

The assets residual values, useful lives and methods are reviewed, and adjusted if appropriate, at each financial year-end. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount exceeds its estimated recoverable amount (see Note F).

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

### D Intangible assets

*(a) Trademarks and licenses*

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

*(b) Software*

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

## Notes to the Financial Statements (continued)

## 2. Summary of accounting principles used (continued)

### E Cost of research and development activities

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

### F Impairment of assets

Intangible assets that are not put in use or have an indefinite useful life are not subject to amortisation and are reviewed for impairment on an annual basis.

Moreover, the carrying amounts of the Company's property, plant and equipment and intangible assets that are subject to amortisation and depreciation are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (group of unit) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset in relation to which the future cash flows have not been adjusted.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. Impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### G Segments

Information on Company's segments is disclosed in Note 17. Segment results that are reported to the Chief executive officer include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Company's headquarters), head office expenses, and tax assets and liabilities.

### H Government grants

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

## Notes to the Financial Statements (continued)

## 2. Summary of accounting principles used (continued)

### I Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is stated on a first-in, first-out (FIFO) basis. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale. Costs of finished goods and work-in-progress include cost of materials. During the reporting year the Management reviewed capitalization rates of expenses related with production attributable to the cost. Impact of changes on the next periods cannot be estimated.

### J Financial instruments

The Company's financial instruments consist of trade receivables, investments in other companies' equity (classified as available for sale), other receivables, cash and cash equivalents, borrowings, trade payables and other payables. Investments in other companies' equity are classified as available for sale. All other financial assets are classified as loans and receivables but liabilities – as liabilities at amortised cost.

Financial instruments are initially recognised at fair value adding directly attributable transaction costs.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

Regular way purchases and sales of financial assets are recognized on the trade date at which the Company commits to purchase or sell the asset. Financial liabilities are derecognized if the Company's obligations specified in the contract expire or are discharged or cancelled.

*Loans, receivables and other debts*

Loans and receivables and other debts are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than held for trading. Loans and receivables include trade and other receivables. Accounts receivable are stated at their amortized cost after deducting allowance for estimated irrecoverable amounts. A provision for impairment of loans and receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the loan or trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the profit or loss statement. When a loan, receivables and other debts are uncollectible, it is written off.

*Financial investments available-for-sale*

Financial investments available-for-sale are acquired to be held for an indefinite period of time. Financial investments, whose market value is not determined in an active market and whose fair value cannot be reliably measured, are carried at acquisition cost. All other financial investments available-for-sale are carried at fair value. Gains or losses resulting from the change in fair value of financial investments available-for-sale, except for impairment losses, are recognised in other comprehensive income until the financial asset is derecognised; thereafter, the cumulative gain or loss previously recognised in other comprehensive income is recognised in profit or loss.

*Liabilities*

Liabilities are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

*Interest bearing borrowings*

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in profit and loss over the period of the borrowings on an effective interest basis.

## Notes to the Financial Statements (continued)

## 2. Summary of accounting principles used (continued)

### I Cash and cash equivalents

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

### J Share capital

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

### K Corporate income tax and Deferred tax

Corporate income tax comprises current and deferred tax. Income tax is recognized in the statement of profit or loss and other comprehensive income.

The calculated current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred taxation arising from temporary differences between carrying amounts for accounting purposes and for tax purposes is calculated using the liability method. However, if the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business acquisition that at the time of the transaction affects neither accounting, non- taxable profit or loss, it is not accounted for. Deferred tax is determined using tax rates (and laws) that have been enacted by the financial position date and are expected to apply when the related deferred tax asset is realised or the deferred income tax liability is settled. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

### L Benefits to employees

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

### M Revenue recognition

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

*(a) Sales of goods*

Sale of goods is recognised when a Company entity has passed the significant risks and rewards of ownership of the goods to the customer, i.e. delivered products to the customer and the customer has accepted the products in accordance with the contract terms, and it is probable that the economic benefits associated with the transaction will flow to the Company.

*(b) Provision of services*

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

### N Lease

Leases of property, plant and equipment in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit or loss statement on a straight-line basis over the lease period.

### O Dividends payment

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

## Notes to the Financial Statements (continued)

## 2. Summary of accounting principles used (continued)

### P Financial income and expenses

Financial income and expenses comprise interest payable on borrowings calculated using the effective interest rate method, interest receivable on funds invested, and foreign exchange gains and losses. Interest income and expense are recognized in profit or loss as they accrue, taking into account the effective interest rate of the asset/liability. The interest expenses of finance lease payments are recognized in profit or loss using the effective interest rate method.

### 3. Finance risk management

### (1) Financial risk factors

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

(a) foreign currency risk;
(b) credit risk;
(c) liquidity risk;
(d) cash flows and interest rate risk.

The Company's overall risk management focuses on the unpredictability of financial markets and seeks to minimise its potential adverse effects on the Company's financial performance. The Company uses derivative financial instruments to hedge certain risk exposures. The responsibility for risk management lies with the Finance Department. The Finance Department identifies and evaluates risks and seeks for solutions to avoid financial risks in close co-operation with other operating units of the Company.

*(a) Foreign currency risk*

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

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

The following schedule summarises net open positions for currencies other than LVL as at financial position date:

| | 30/06/2012 USD expressed in LVL | 30/06/2011 USD expressed in LVL | 30/06/2012 EUR expressed in LVL | 30/06/2011 EUR expressed in LVL |
|---|---|---|---|---|
| Receivables | 1 103 063 | 1 901 457 | 439 633 | 353 218 |
| Placements with banks | - | - | 1 708 393 | 1 937 439 |
| Cash and cash equivalents | 272 758 | 424 971 | 836 302 | 636 373 |
| Liabilities | (325 736) | (488 499) | (162 218) | (401 905) |
| Other liabilities | (89 670) | (218 484) | (14 862) | (22 259) |
| Loans | (1 932) | (2 564) | (282) | (1 297) |
| **Net open positions** | **958 483** | **1 616 881** | **2 806 966** | **2 501 569** |

*Sensitivity analysis*

A 10 percent weakening of the lat against the following currencies at 30 June would have increased (decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2010/ 2011. The Latvian lat is pegged to Euro as at 30.06.2012 and 30.06.2011.

| *Effect in LVL* | 2011/ 2012 | 2010/ 2011 |
|---|---|---|
| USD | 95 848 | 161 688 |
| EUR | 280 697 | 250 157 |
| | **376 545** | **411 845** |

## Notes to the Financial Statements (continued)

### 3. Financial risk management (continued)

#### (1) Financial risk factors (continued)

*(b) Credit risk*

The Company has significant exposure of credit risk with its customers. The Company's policy is to ensure that wholesale of products is carried out with customers having appropriate credit history. If the customers are residing in countries with high credit risk, then Letters of Credit issued by reputable credit institutions are used as credit risk management instruments. In situations where no Letters of Credit can be obtained from reputable credit institutions, the prepayments from the customers are requested or State Export Guarantees purchased. Customers' financial position is monitored on regular bases and assigned credit limits has been changed based on credit history and customer's paying behaviour.

As at 30 June 2012, the Company's credit risk exposure to a single customer amounted to 14.31 % of the total short and long-term receivables (30.06.2011: 38.11%). With respect to credit risk arising from the other financial assets of the Company, which comprise cash and cash equivalents and derivatives, the Company's exposure to credit risk arises from the default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The Company's maximum credit risk exposure amounts to LVL 5 014 515 or 57.94% to total assets (30.06.2011: LVL 5 657 646 or 58.52% to total assets).

For more information in respect to Company's exposure to liquidity risk, refer to note 9.

*(c) Liquidity risk*

The company follows a prudent liquidity risk management and hence maintain a sufficient quantity of money.

The Company's management monitors liquidity reserves for the operational forecasting, based on estimated cash flows. Most of the Company's liabilities are short term.

Management believes that the Company will have sufficient liquidity to be generated from operating activities.

For more information in respect to Company's exposure to liquidity risk, refer to note 15.

*(d) Cash flows and interest rate risk*

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

#### (2) Accounting for derivative financial instruments

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

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

As at 30 June 2012 the Company did not have any open derivative financial instruments agreements.

#### (3) Fair value

Carrying amount of financial assets and liabilities of the Company does not significantly differ from their fair value, as the influence of discounting factor for short term financial instruments is minor, and as the long term instruments bear no fixed interest rates, or the interest rates of those approximately correspond to the market rates effective 30 June 2012. Fair value of the financial instrument available for sale cannot be estimated.

## Notes to the Financial Statements (continued)

### 4. Management of the capital structure

The Company manages its capital to ensure that the Company will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance. The capital structure indicator of the Company consists of debt, which includes the borrowings disclosed in note 16, cash and cash equivalents and equity, comprising issued capital, retained earnings and share premium. The gearing ratio at the year-end was as follows:

| | 30/06/2012 LVL | 30/06/2011 LVL | 30/06/2012 EUR | 30/06/2011 EUR |
|---|---|---|---|---|
| Debt | 1 146 397 | 2 095 047 | 1 631 177 | 2 980 984 |
| Cash | (1 321 923) | (1 148 302) | (1 880 927) | (1 633 887) |
| **Net debt** | **(175 526)** | **946 745** | **(249 750)** | **1 347 097** |
| **Shareholders' equity** | **7 507 556** | **7 572 857** | **10 682 289** | **10 775 204** |
| Debt to equity ratio | 15% | 28% | 15% | 28% |
| Net debt to equity ratio | -2% | 13% | -2% | 13% |

### 5. Key estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

*Recoverable amount*

When the events and circumstances indicate a potential impairment, the Company performs impairment tests for items of property, plant and equipment and intangible assets. According to these tests assets are written down to their recoverable amounts, if necessary. When carrying out impairment tests management uses various estimates for the cash flows arising from the use of the assets, sales, maintenance, and repairs of the assets, as well as in respect of the inflation and growth rates. If the situation changes in the future, either additional impairment could be recognised, or the previously recognised impairment could be partially or fully reversed.

*Impairment of loans and receivables*

The Company recognizes allowance for doubtful loans and receivables. In order to set unrecoverable amount of receivables, management estimates the basis of which is the historical experience are used. Allowances for doubtful debts are recognized based on an individual management assessment of recoverability of each receivable.

*Useful lives of property, plant and equipment*

Management estimates the expected useful lives of Property, plant and equipment in proportion to the expected duration of use of the asset based on historical experience with similar Property, plant and equipment and based on future plans. Depreciation of property, plant and equipment is charged to the profit or loss statement on a straight-line basis over the estimated useful lives of the individual assets. Depreciation of property, plant and equipment is calculated over the shortest period – lease term or over the useful life. No depreciation is calculated for land.

*Provisions*

Provisions are recognized when the Company has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required from the Company to settle the obligation, and the amount of obligation can be measured reasonably. If the Company foresees that the expenses required for recognizing the provision will be partly or fully repaid, for example, within an insurance contract, the recovery of such expenses is recognized as separate assets only when it is certain that such expenses will be recovered. Expenses connected with any provisions are recognized in the profit or loss statement less recovered amounts.

At the end of the reporting year:

- provisions for potential warranty expenses are recognized based on the management assessment of the risk of expected warranty repairs relating to the concluded contracts.
- accrued liabilities for unused vacations are calculated in accordance with the number of vacation days unused as at 30 June 2012 and the average remuneration during the last six months of the reporting year.

## Notes to the Financial Statements (continued)

### 5. Key estimates and assumptions (continued)

*Deferred tax asset*

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax amounts are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

### 6. Property, plant and equipment and intangible assets

| | Intangible assets | Leasehold improvements | Equipment and machinery | Other property, plant and equipment | Prepayments | Total |
|---|---|---|---|---|---|---|
| | LVL | LVL | LVL | LVL | LVL | LVL |
| **Reporting year ended 30 June 2011** | | | | | | |
| Opening balance | **56 251** | **389 930** | **110 144** | **49 926** | **-** | **606 251** |
| Acquisitions | 43 118 | 310 | 118 449 | 7 041 | 2 457 | 171 375 |
| Charge for the period | (31 895) | (68 818) | (66 000) | (32 844) | - | (199 557) |
| Disposals | - | (2 500) | - | (3 740) | - | (6 240) |
| **Closing balance** | **67 474** | **318 922** | **162 593** | **20 383** | **2 457** | **571 829** |
| **Reporting year ended 30 June 2012** | | | | | | |
| Opening balance | **67 474** | **318 922** | **162 593** | **20 383** | **2 457** | **571 829** |
| Acquisitions | 87 881 | - | 128 016 | 38 124 | - | 254 021 |
| Reclassified | - | - | 2 457 | - | (2 457) | - |
| Charge for the period | (62 951) | (67 938) | (97 118) | (19 286) | - | (247 293) |
| **Closing balance** | **92 404** | **250 984** | **195 948** | **39 221** | **-** | **578 557** |
| **30 June 2010** | | | | | | |
| Historical cost | 552 910 | 759 837 | 2 027 517 | 389 188 | - | 3 729 452 |
| Accumulated depreciation | (496 659) | (369 907) | (1 917 373) | (339 262) | - | (3 123 201) |
| **Carrying amount** | **56 251** | **389 930** | **110 144** | **49 926** | **-** | **606 251** |
| **30 June 2011** | | | | | | |
| Historical cost | 557 459 | 751 848 | 2 129 302 | 363 567 | 2 457 | 3 804 633 |
| Accumulated depreciation | (489 985) | (432 926) | (1 966 709) | (343 184) | - | (3 232 804) |
| **Carrying amount** | **67 474** | **318 922** | **162 593** | **20 383** | **2 457** | **571 829** |
| **30 June 2012** | | | | | | |
| Historical cost | 631 953 | 751 848 | 2 253 630 | 392 864 | - | 4 030 295 |
| Accumulated depreciation | (539 549) | (500 864) | (2 057 682) | (353 643) | - | (3 451 738) |
| **Carrying amount** | **92 404** | **250 984** | **195 948** | **39 221** | **-** | **578 557** |

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

Depreciation of LVL 145 637 is included in the profit or loss statement item *Cost of sales* (2010/ 2011: LVL 112 487); depreciation of LVL 70 898 in *Selling and marketing costs* (2010/ 2011: LVL 57 212); and depreciation of LVL 30 758 in *Administrative expenses* (2010/ 2011: LVL 29 858), including depreciation of LVL 21 under *Other administration expenses* (2010/ 2011: LVL 755).

The acquisition costs of fully depreciated property, plant and equipment that is still in use at the end of financial year amounted to LVL 2 733 318 (2010/ 2011: LVL 2 573 123).

The *Equipment and machinery* group includes items bought with EU co-financing and according to agreement with EU have restrictions in their usage in operations. In total such items amount to LVL 304 043 (2010/ 2011: LVL 304 043), the residual value on LVL 25 635 (2010/ 2011: LVL 49 373). Restrictions are in force till July, 2014.

## Notes to the Financial Statements (continued)

### 6. Property, plant and equipment and intangible assets (continued)

| | Intangible assets | Leasehold improvements | Equipment and machinery | Other property, plant and equipment | Prepayments | Total |
|---|---|---|---|---|---|---|
| | EUR | EUR | EUR | EUR | EUR | EUR |
| **Reporting year ended 30 June 2012** | | | | | | |
| Opening balance | **80 038** | **554 821** | **156 721** | **71 038** | **-** | **862 618** |
| Acquisitions | 61 352 | 441 | 168 538 | 10 018 | 3 496 | 243 845 |
| Charge for the period | (45 383) | (97 919) | (93 910) | (46 733) | - | (283 945) |
| Disposals | - | (3 557) | - | (5 321) | - | (8 878) |
| **Closing balance** | **96 007** | **453 786** | **231 349** | **29 002** | **3 496** | **813 640** |
| **Reporting year ended 30 June 2012** | | | | | | |
| Opening balance | **96 007** | **453 786** | **231 349** | **29 002** | **3 496** | **813 640** |
| Acquisitions | 125 043 | - | 182 151 | 54 246 | - | 361 440 |
| Reclassified | - | - | 3 496 | - | (3 496) | - |
| Charge for the period | (89 571) | (96 668) | (138 187) | (27 442) | - | (351 868) |
| **Closing balance** | **131 479** | **357 118** | **278 809** | **55 806** | **-** | **823 212** |
| **30 June 2010** | | | | | | |
| Historical cost | 786 720 | 1 081 151 | 2 884 897 | 553 764 | - | 5 306 532 |
| Accumulated depreciation | (706 682) | (526 330) | (2 728 176) | (482 726) | - | (4 443 914) |
| **Carrying amount** | **80 038** | **554 821** | **156 721** | **71 038** | **-** | **862 618** |
| **30 June 2011** | | | | | | |
| Historical cost | 793 193 | 1 069 784 | 3 029 723 | 517 309 | 3 496 | 5 413 505 |
| Accumulated depreciation | (697 186) | (615 998) | (2 798 374) | (488 307) | - | (4 599 865) |
| **Carrying amount** | **96 007** | **453 786** | **231 349** | **29 002** | **3 496** | **813 640** |
| **30 June 2012** | | | | | | |
| Historical cost | 899 188 | 1 069 783 | 3 206 627 | 558 995 | - | 5 734 593 |
| Accumulated depreciation | (767 709) | (712 665) | (2 927 818) | (503 189) | - | (4 911 381) |
| **Carrying amount** | **131 479** | **357 118** | **278 809** | **55 806** | **-** | **823 212** |

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

Depreciation of EUR 207 223 is included in the profit or loss statement item *Cost of sales* (2010/ 2011: EUR 160 055); depreciation of EUR 100 879 in *Selling and marketing costs* (2010/ 2011: EUR 81 405); and depreciation of EUR 43 766 in *Administrative expenses* (2010/ 2011: EUR 42 485), including depreciation of EUR 31 under *Other administration expenses* (2010/ 2011: EUR 1 075).

The acquisition costs of fully depreciated property, plant and equipment that is still in use at the end of financial year amounted to EUR 3 889 161 (2010/ 2011: EUR 3 661 224).

The *Equipment and machinery* group includes items bought with EU co-financing and according to agreement with EU have restrictions in their usage in operations. In total such items amount to EUR 432 614 (2010/ 2011: EUR 432 614), the residual value on EUR 36 475 (2010/ 2011: EUR 70 251). Restrictions are in force till July, 2014.

## Notes to the Financial Statements (continued)

### 7. Shares in companies

| Name | | Equity sahres |
|---|---|---|
| | 30/06/2012 | 30/06/2011 |
| | % | % |
| LEO pētījumu centrs SIA | 10 | 10 |
| SAF North America LLC | 100 | - |

On 13 July 2010 with the aim to attract EU funds for research and development within the sphere of electronics and electrical engineering, the Company, together with other members of the Latvian Electrical Engineering and Electronic Industry Association (LETERA), co-founded a limited liability company "LEO pētījumu centrs" (LEO) investing 500 LVL (EUR 711) in its equity capital and becoming the owner of 10% of its share capital.

In order to provide clients of North America with individual and effective wireless data transmitting solutions, on 19 August 2011 a subsidiary "SAF North America" LLS was established, the Company invested LVL 5 282 (EUR 7 516) and became the sole share holder of it. "SAF North America" LLC started active operations – promotion and marketing of products and services provided by SAF, market research, attraction of new clients and technical support – in spring of 2012.

### 8. Inventories

| | 30/06/2012 LVL | 30/06/2011 LVL | 30/06/2012 EUR | 30/06/2011 EUR |
|---|---|---|---|---|
| Raw materials | 1 008 472 | 1 232 033 | 1 434 927 | 1 753 025 |
| Work in progress | 1 306 884 | 1 366 542 | 1 859 528 | 1 944 414 |
| Finished goods | 652 966 | 766 822 | 929 087 | 1 091 090 |
| | **2 968 322** | **3 365 397** | **4 223 542** | **4 788 529** |

During the reporting year, an increase in valuation adjustment for slow-moving items of LVL 253 681 (EUR 360 956) (2010/2011: increase of LVL 110 983 (EUR 157 915)) was recognised and included in cost of sales.

The item *Finished goods* within *Inventories* include property, plant and equipment sent to clients for trial with options to buy or return the equipment and equipment sent to substitute damaged equipment. As at 30 June 2012 the value of equipment sent due to the above reasons amounted to LVL 141 773 (EUR 201 725) (2010/2011: LVL 196 290 (EUR 279 296).

As at 30 June 2012 cost estimates of the attributable costs related to production were reviewed. As a result of estimates capitalized costs have increased by LVL 141 885 (EUR 201 884) at the end of the reporting year. Effect of changes on the next periods cannot be estimated.

Included under inventory positions "Work in Progress" and "Finished goods" are Salary expenses (including accruals for vacation pay) in amount of LVL 11 240 (EUR 15 993), Social insurance (including accruals for vacation pay) in amount of LVL 2 708 (EUR 3 853) and depreciation and amortization expenses in amount of LVL 2 176 (EUR 3 096).

## Notes to the Financial Statements (continued)

### 9. Trade receivables

| | 30/06/2012 LVL | 30/06/2011 LVL | 30/06/2012 EUR | 30/06/2011 EUR |
|---|---|---|---|---|
| **Long-term trade receivables** | **-** | **65 140** | **-** | **92 686** |
| Trade receivables | 1 552 874 | 2 203 448 | 2 209 541 | 3 135 224 |
| Due from related parties | 13 112 | - | 18 657 | - |
| Accruals for bad and doubtful trade receivables | (295 181) | (447 463) | (420 005) | (636 682) |
| **Short-term trade receivables, net** | **1 270 805** | **1 755 985** | **1 808 193** | **2 498 542** |
| **Total trade receivables, net** | **1 270 805** | **1 821 125** | **1 808 193** | **2 591 228** |

Trade receivables include 1 Letter of Credit (2010/2011: 6) with original payment term up to 180 days for the amount of LVL 224 084 (EUR 318 843) (2010/2011: LVL 234 228 (EUR 333 276)). As at 30 June 2012, the fair value of receivables approximated their carrying amount.

In the reporting year, the net increase of allowances for bad and doubtful trade receivables was included in the profit or loss statement caption as administrative expense in the amount of LVL 152 282 (EUR 216 678) (2010/2011 – increase of LVL 348 494 (EUR 495 862)) *(see Note 20)* and receivables amounting to LVL 21 270 (EUR 30 264) written-off.

**Allowances for bad and doubtful trade receivables**

| | LVL | EUR |
|---|---|---|
| Allowances for bad and doubtful trade receivables 30 June 2010 | 203 333 | 289 317 |
| Written-off | (104 364) | (148 496) |
| Additional allowances | 412 430 | 586 835 |
| Recovered debts | (63 936) | (90 974) |
| Allowances for bad and doubtful trade receivables 30 June 2011 | **447 463** | **636 682** |
| Written-off | **(21 270)** | **(30 264)** |
| Additional allowances | **45 616** | **64 906** |
| Recovered debts | **(176 628)** | **(251 319)** |
| Allowances for bad and doubtful trade receivables 30 June 2012 | **295 181** | **420 005** |

**Split of Trade receivables by currencies expressed in LVL**

| | 30/06/2012 LVL | 30/06/2012 % | 30/06/2011 LVL | 30/06/2011 % |
|---|---|---|---|---|
| LVL | 23 290 | 1.49 | 13 913 | 0.61 |
| USD | 1 103 063 | 70.44 | 1 901 457 | 83.82 |
| EUR | 439 633 | 28.07 | 353 218 | 15.57 |
| **Total trade receivables** | **1 565 986** | **100%** | **2 268 588** | **100%** |

## Notes to the Financial Statements (continued)

### 9. Trade receivables (continued)

**Split of Trade receivables by currencies expressed in EUR**

| | 30/06/2012 EUR | 30/06/2012 % | 30/06/2011 EUR | 30/06/2011 % |
|---|---|---|---|---|
| LVL | 33 139 | 1.49 | 19 796 | 0.61 |
| USD | 1 569 517 | 70.44 | 2 705 530 | 83.82 |
| EUR | 625 542 | 28.07 | 502 584 | 15.57 |
| **Total trade receivables** | **2 228 198** | **100%** | **3 227 910** | **100%** |

**Aging analysis of Trade receivables**

| | 30/06/2012 LVL | 30/06/2011 LVL | 30/06/2012 EUR | 30/06/2011 EUR |
|---|---|---|---|---|
| Not due | 1 006 985 | 1 475 115 | 1 432 811 | 2 098 899 |
| Overdue 0 – 89 | 141 441 | 369 797 | 201 252 | 526 174 |
| Overdue 90 and more | 417 560 | 423 676 | 594 135 | 602 837 |
| **Total trade receivables** | **1 565 986** | **2 268 588** | **2 228 198** | **3 227 910** |

### 10. Other receivables

| | 30/06/2012 LVL | 30/06/2011 LVL | 30/06/2012 EUR | 30/06/2011 EUR |
|---|---|---|---|---|
| Government grants* | 42 270 | 35 883 | 60 145 | 51 057 |
| Overpaid value added tax (see Note 25) | 8 316 | 20 760 | 11 833 | 29 538 |
| Advance payments to suppliers | 58 236 | 47 182 | 82 862 | 67 134 |
| Other receivables | 163 775 | 51 107 | 233 031 | 72 719 |
| | **272 597** | **154 932** | **387 871** | **220 448** |

* - Government grants relate to projects on improvement of employees professional skills and on participation in international exhibitions.

### 11. Placements with banks

| | 30/06/2012 LVL | 30/06/2011 LVL | 30/06/2012 EUR | 30/06/2011 EUR |
|---|---|---|---|---|
| Deposits | 1 858 393 | 2 437 439 | 2 644 255 | 3 468 163 |
| | **1 858 393** | **2 437 439** | **2 644 255** | **3 468 163** |

As at 30 June 2012 free cash resources were deposited in short term deposits (with maturity exceeding 90 days). The average annual interest rate on deposits in lats is 1.88% (30.06.2011: 1.40%) and other currencies - 2.49% (30.06.2011: 2.94%).

**Split of Deposits by currencies expressed in LVL**

| | 30/06/2012 LVL | 30/06/2012 % | 30/06/2011 LVL | 30/06/2011 % |
|---|---|---|---|---|
| LVL | 150 000 | 8.07 | 500 000 | 20.51 |
| EUR | 1 708 393 | 91.93 | 1 937 439 | 79.49 |
| **Deposits** | **1 858 393** | **100%** | **2 437 439** | **100%** |

## Notes to the Financial Statements (continued)

### 11. Placements with banks (continued)

**Split of Deposits by currencies expressed in EUR**

| | 30/06/2012 EUR | 30/06/2012 % | 30/06/2011 EUR | 30/06/2011 % |
|---|---|---|---|---|
| LVL | 213 431 | 8.07 | 711 436 | 20.51 |
| EUR | 2 430 824 | 91.93 | 2 756 727 | 79.49 |
| **Deposits** | **2 644 255** | **100%** | **3 468 163** | **100%** |

**Split of Deposits by banks**

| | 30/06/2012 LVL | 30/06/2011 LVL | 30/06/2012 EUR | 30/06/2011 EUR |
|---|---|---|---|---|
| Trasta Komercbanka AS | 1 114 017 | 1 839 922 | 1 585 104 | 2 617 973 |
| Nordea Bank Finland plc Latvian branch | - | 235 439 | - | 335 000 |
| PrivatBank AS | 290 561 | - | 413 431 | - |
| Citadele Banka AS | 453 815 | 362 078 | 645 720 | 515 190 |
| **Deposits** | **1 858 393** | **2 437 439** | **2 644 255** | **3 468 163** |

### 12. Cash and cash equivalents

| | 30/06/2012 LVL | 30/06/2011 LVL | 30/06/2012 EUR | 30/06/2011 EUR |
|---|---|---|---|---|
| Cash in bank | 1 209 923 | 1 080 323 | 1 721 566 | 1 537 161 |
| Short-term bank deposits | 112 000 | 67 979 | 159 361 | 96 726 |
| | **1 321 923** | **1 148 302** | **1 880 927** | **1 633 887** |

As at 30 June 2012 free cash resources were deposited in short term deposits (with maturity up to 90 days). The average annual interest rate on short term deposits in lats is 0.48% (30.06.2011: 1.80%), other currencies were not invested (30.06.2011: 2.88%).

As at 30 June 2012 comparatives as at 30 June 2011 were reclassified. Short-term investments in amount of LVL 958 358 (EUR 1 363 620) were reclassified from Cash and cash equivalents to Placements with banks. Respective corrections have been made also in Statement of Cash Flows.

**Split of Cash and cash equivalents by currencies expressed in LVL**

| | 30/06/2012 LVL | 30/06/2012 % | 30/06/2011 LVL | 30/06/2011 % |
|---|---|---|---|---|
| LVL | 212 800 | 16.10 | 86 958 | 7.57 |
| USD | 272 758 | 20.63 | 424 971 | 37.01 |
| EUR | 836 302 | 63.27 | 636 373 | 55.42 |
| GBP | 63 | 0.00 | - | - |
| **Cash and cash equivalents** | **1 321 923** | **100%** | **1 148 302** | **100%** |

**Split of Cash and cash equivalents by currencies expressed in EUR**

| | 30/06/2012 EUR | 30/06/2012 % | 30/06/2011 EUR | 30/06/2011 % |
|---|---|---|---|---|
| LVL | 302 787 | 16.10 | 123 730 | 7.57 |
| USD | 388 099 | 20.63 | 604 680 | 37.01 |
| EUR | 1 189 951 | 63.27 | 905 477 | 55.42 |
| GBP | 90 | 0.00 | - | - |
| **Cash and cash equivalents** | **1 880 927** | **100%** | **1 633 887** | **100%** |

## Notes to the Financial Statements (continued)

### 12. Cash and cash equivalents (continued)

**Split of Cash and cash equivalents by banks**

| | 30/06/2012 LVL | 30/06/2011 LVL | 30/06/2012 EUR | 30/06/2011 EUR |
|---|---|---|---|---|
| Trasta Komercbanka AS | 112 000 | 79 851 | 159 361 | 113 617 |
| Citadele Banka AS | 6 953 | 143 521 | 9 894 | 204 213 |
| Swedbank AS | 445 135 | 212 222 | 633 370 | 301 964 |
| Nordea Bank Finland plc Latvian branch | 700 225 | 569 507 | 996 330 | 810 336 |
| DnB Nord Banka AS | - | 1 265 | - | 1 800 |
| JP Morgan Chase banka | 57 610 | 141 936 | 81 972 | 201 957 |
| | **1 321 923** | **1 148 302** | **1 880 927** | **1 633 887** |

### 13. Deferred tax (assets) / liabilities

| | 01/07/2011-30/06/2012 LVL | 01/07/2010-30/06/2011 LVL | 01/07/2011-30/06/2012 EUR | 01/07/2010-30/06/2011 EUR |
|---|---|---|---|---|
| Deferred tax asset at the beginning of the year | (73 032) | (57 179) | (103 915) | (81 358) |
| (Increase)/ decrease of deferred tax asset during the year (see Note 24) | (19 527) | (15 853) | (27 785) | (22 557) |
| **Deferred tax (assets) at the year-end** | **(92 559)** | **(73 032)** | **(131 700)** | **(103 915)** |

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

| | 30/06/2012 LVL | 30/06/2011 LVL | 30/06/2012 EUR | 30/06/2011 EUR |
|---|---|---|---|---|
| Temporary difference on Property, plant and equipment depreciation and intangible asset amortisation | 9 458 | 650 | 13 458 | 925 |
| Temporary difference in the accrued liabilities for unused vacations | (17 868) | (23 753) | (25 424) | (33 798) |
| Temporary difference on correction of valuation of inventories | (81 848) | (43 796) | (116 460) | (62 316) |
| Temporary difference on provisions for guarantees | (2 301) | (4 633) | (3 274) | (6 592) |
| Temporary difference on provisions for bonuses | - | (1 500) | - | (2 134) |
| **Deferred tax (asset) net** | **(92 559)** | **(73 032)** | **(131 700)** | **(103 915)** |

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

### 14. Share capital

As at 30 June 2012, the registered, issued and paid-up share capital is LVL 2 970 180 (EUR 4 226 185) and consists of 2 970 180 ordinary bearer shares with unlimited voting rights (2010/ 2011: 2 970 180 shares).

## Notes to the Financial Statements (continued)

### 15. Liabilities and Provisions for guarantees

| | 30/06/2012 LVL | 30/06/2011 LVL | 30/06/2012 EUR | 30/06/2011 EUR |
|---|---|---|---|---|
| Trade accounts payable | 533 179 | 1 003 495 | 758 645 | 1 427 845 |
| Accrued liabilities for unused vacations | 119 119 | 158 351 | 169 491 | 225 313 |
| Customer advances | 23 612 | 243 441 | 33 597 | 346 386 |
| Taxes and social security payments (see Note 25) | 78 814 | 257 074 | 112 142 | 365 783 |
| Provisions for guarantees | 15 338 | 30 884 | 21 824 | 43 944 |
| Other liabilities | 343 377 | 380 801 | 488 582 | 541 831 |
| | **1 113 439** | **2 074 046** | **1 584 281** | **2 951 102** |

During the reporting period the decrease in accrued liabilities for unused vacation pay included in profit or loss amounted to LVL 39 232 (EUR 55 822) (2010/2011: increase LVL 45 724 (EUR 65 059)).

**Split of Trade payables by currencies expressed in LVL**

| | 30/06/2012 LVL | 30/06/2012 % | 30/06/2011 LVL | 30/06/2011 % |
|---|---|---|---|---|
| LVL | 45 225 | 8.48 | 110 885 | 11.05 |
| USD | 325 736 | 61.09 | 488 499 | 48.68 |
| EUR | 162 218 | 30.43 | 401 905 | 40.05 |
| GBP | - | - | 2 206 | 0.22 |
| **Trade accounts payable** | **533 179** | **100%** | **1 003 495** | **100%** |

**Split of Trade payables by currencies expressed in EUR**

| | 30/06/2012 EUR | 30/06/2012 % | 30/06/2011 EUR | 30/06/2011 % |
|---|---|---|---|---|
| LVL | 64 349 | 8.48 | 157 775 | 11.05 |
| USD | 463 481 | 61.09 | 695 071 | 48.68 |
| EUR | 230 815 | 30.43 | 571 860 | 40.05 |
| GBP | - | - | 3 139 | 0.22 |
| **Trade accounts payable** | **758 645** | **100%** | **1 427 845** | **100%** |

**Aging analysis of Trade payables**

| | 30/06/2012 LVL | 30/06/2011 LVL | 30/06/2012 EUR | 30/06/2011 EUR |
|---|---|---|---|---|
| Not due | 519 565 | 992 101 | 739 274 | 1 411 633 |
| Overdue 0 – 30 | 13 614 | 11 394 | 19 371 | 16 212 |
| **Trade accounts payable** | **533 179** | **1 003 495** | **758 645** | **1 427 845** |

### 16. Loans

| | 30/06/2012 LVL | 30/06/2011 LVL | 30/06/2012 EUR | 30/06/2011 EUR |
|---|---|---|---|---|
| Credit cards | **5 485** | **9 779** | **7 805** | **13 914** |

## Notes to the Financial Statements (continued)

### 17. Segment information and sales

a) The Company'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 configuration (IDU+ODU) 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.

CFIP 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 was the main type of radio SAF has been supplying to the market over many years, but demand is decreasing. 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.

The amount of CFQ products sold has decreased substantially, therefore as of 2011/2012 financial year CFQ product line has been closed, the results of the previous reporting period of 2010/ 2011 were included in the item *Other*. Instead of CFQ line products, clients are offered CFIP PhoeniX M.

## Notes to the Financial Statements (continued)

### 17. Segment information and sales (continued)

| | CFM; CFIP; FreeMile | | Other | | Total | |
|---|---|---|---|---|---|---|
| | 2011/12 | 2010/11 | 2011/12 | 2010/11 | 2011/12 | 2010/11 |
| | LVL | LVL | LVL | LVL | LVL | LVL |
| Assets | | | | | | |
| Reportable segment assets | 3 369 913 | 3 910 724 | 1 896 403 | 2 001 231 | 5 266 316 | 5 911 955 |
| Unallocated assets | | | | | 3 387 637 | 3 755 949 |
| **Total assets** | | | | | **8 653 953** | **9 667 904** |
| Segment liabilities | 659 955 | 1 199 255 | 247 847 | 495 376 | 907 802 | 1 694 631 |
| Unallocated liabilities | | | | | 238 595 | 400 416 |
| **Total liabilities** | | | | | **1 146 397** | **2 095 047** |
| Net sales | 6 826 460 | 8 226 627 | 2 825 085 | 2 669 444 | 9 651 545 | 10 896 071 |
| **Segment result** | **1 923 819** | **3 257 197** | **890 427** | **871 632** | **2 814 246** | **4 128 829** |
| Unallocated expenses | | | | | (2 400 608) | (3 100 338) |
| **Profit / (loss) from operating activities** | | | | | **413 638** | **1 028 491** |
| Other income | | | | | 67 567 | 101 610 |
| Financial income/(expenses), net | | | | | 212 061 | (142 442) |
| **Profit/(loss) before taxes** | | | | | **693 266** | **987 659** |
| Corporate income tax | | | | | (75 426) | (186 826) |
| **Current year's profit / (loss)** | | | | | **617 840** | **800 833** |
| Other information | | | | | | |
| Additions of property plant and equipment and intangible assets | 140 364 | 57 062 | 2 360 | 1 340 | 142 724 | 58 402 |
| Unallocated additions of property plant and equipment and intangible assets | | | | | 111 297 | 112 973 |
| **Total additions of property plant and equipment and intangible assets** | | | | | **254 021** | **171 375** |
| Depreciation and amortization | 139 273 | 101 875 | 6 364 | 10 612 | 145 637 | 112 487 |
| Unallocated depreciation and amortization | | | | | 101 656 | 87 070 |
| **Total depreciation and amortisation** | | | | | **247 293** | **199 557** |

## Notes to the Financial Statements (continued)

### 17. Segment information and sales (continued)

| | CFM; CFIP; FreeMile | | Other | | Total | |
|---|---|---|---|---|---|---|
| | 2011/12 | 2010/11 | 2011/12 | 2010/11 | 2011/12 | 2010/11 |
| | EUR | EUR | EUR | EUR | EUR | EUR |
| Assets | | | | | | |
| Reportable segment assets | 4 794 954 | 5 564 459 | 2 698 339 | 2 847 495 | 7 493 293 | 8 411 954 |
| Unallocated assets | | | | | 4 820 173 | 5 344 234 |
| **Total assets** | | | | | **12 313 466** | **13 756 188** |
| Segment liabilities | 939 031 | 1 706 386 | 352 655 | 704 857 | 1 291 686 | 2 411 243 |
| Unallocated liabilities | | | | | 339 491 | 569 741 |
| **Total liabilities** | | | | | **1 631 177** | **2 980 984** |
| Net sales | 9 713 177 | 11 705 436 | 4 019 734 | 3 798 276 | 13 732 911 | 15 503 712 |
| **Segment result** | **2 737 348** | **4 634 574** | **1 266 963** | **1 240 220** | **4 004 311** | **5 874 794** |
| Unallocated expenses | | | | | (3 415 757) | (4 411 383) |
| **Profit / (loss) from operating activities** | | | | | **588 554** | **1 463 411** |
| Other income | | | | | 96 139 | 144 578 |
| Financial income/(expenses), net | | | | | 301 736 | (202 677) |
| **Profit/(loss) before taxes** | | | | | **986 429** | **1 405 312** |
| Corporate income tax | | | | | (107 322) | (265 829) |
| **Current year's profit / (loss)** | | | | | **879 107** | **1 139 483** |
| Other information | | | | | | |
| Additions of property plant and equipment and intangible assets | 199 720 | 81 192 | 3 358 | 1 907 | 203 078 | 83 099 |
| Unallocated additions of property plant and equipment and intangible assets | | | | | 158 362 | 160 746 |
| **Total additions of property plant and equipment and intangible assets** | | | | | **361 440** | **243 845** |
| Depreciation and amortization | 198 168 | 144 955 | 9 055 | 15 100 | 207 223 | 160 055 |
| Unallocated depreciation and amortization | | | | | 144 645 | 123 890 |
| **Total depreciation and amortisation** | | | | | **351 868** | **283 945** |

## Notes to the Financial Statements (continued)

### 17. Segment information and sales (continued)

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

| | Net sales | | Assets | |
|---|---|---|---|---|
| | 2011/2012 LVL | 2010/2011 LVL | 30/06/2012 LVL | 30/06/2011 LVL |
| Americas | 3 303 490 | 3 004 794 | 432 225 | 540 179 |
| Europe, CIS | 3 678 375 | 3 843 472 | 374 110 | 226 705 |
| Asia, Africa, Middle East | 2 669 680 | 4 047 805 | 465 547 | 1 054 241 |
| | **9 651 545** | **10 896 071** | **1 271 882** | **1 821 125** |
| Unallocated assets | - | - | 7 382 071 | 7 846 779 |
| | **9 651 545** | **10 896 071** | **8 653 953** | **9 667 904** |

| | Net sales | | Assets | |
|---|---|---|---|---|
| | 2011/2012 EUR | 2010/2011 EUR | 30/06/2012 EUR | 30/06/2011 EUR |
| Americas | 4 700 442 | 4 275 436 | 615 001 | 768 605 |
| Europe, CIS | 5 233 856 | 5 468 768 | 532 310 | 322 573 |
| Asia, Africa, Middle East | 3 798 613 | 5 759 508 | 662 414 | 1 500 050 |
| | **13 732 911** | **15 503 712** | **1 809 725** | **2 591 228** |
| Unallocated assets | - | - | 10 503 741 | 11 164 960 |
| | **13 732 911** | **15 503 712** | **12 313 466** | **13 756 188** |

### 18. Cost of goods sold

| | 01.07.2011-30.06.2012 LVL | 01.07.2010-30.06.2011 LVL | 01.07.2011-30.06.2012 EUR | 01.07.2010-30.06.2011 EUR |
|---|---|---|---|---|
| Purchases of components and subcontractors services | 5 572 734 | 5 774 632 | 7 929 286 | 8 216 561 |
| Salary expenses (including accruals for vacation pay) | 1 069 574 | 1 094 243 | 1 521 867 | 1 556 968 |
| Depreciation and amortization (see Note 6) | 143 461 | 112 487 | 204 127 | 160 055 |
| Social insurance (including accruals for vacation pay) | 255 880 | 261 130 | 364 083 | 371 555 |
| Rent of premises | 113 049 | 105 113 | 160 854 | 149 562 |
| Public utilities | 69 058 | 67 779 | 98 260 | 96 441 |
| Transport | 24 948 | 20 254 | 35 499 | 28 819 |
| Communication | 11 071 | 10 969 | 15 753 | 15 608 |
| Business trip expenses | 2 935 | 14 444 | 4 176 | 20 552 |
| Low value inventory | 1 634 | 1 810 | 2 325 | 2 576 |
| Other production costs | 62 038 | 63 582 | 88 272 | 90 466 |
| | **7 326 382** | **7 526 443** | **10 424 502** | **10 709 163** |

Research and development related expenses of LVL 666 455 (EUR 948 280) (2010/ 2011: LVL 968 940 (EUR 1 378 677)) are included in the profit or loss statement caption cost of sales.

## Notes to the Financial Statements (continued)

### 19. Sales and marketing expenses

| | 01.07.2011-30.06.2012 LVL | 01.07.2010-30.06.2011 LVL | 01.07.2011-30.06.2012 EUR | 01.07.2010-30.06.2011 EUR |
|---|---|---|---|---|
| Advertisement and marketing expenses | 89 420 | 81 746 | 127 233 | 116 314 |
| Salary expenses (including accruals for vacation pay) | 624 793 | 669 316 | 889 000 | 952 350 |
| Business trip expenses | 253 854 | 235 196 | 361 202 | 334 654 |
| Depreciation and amortization (see Note 6) | 70 898 | 57 212 | 100 879 | 81 405 |
| Delivery costs | 197 867 | 196 799 | 281 539 | 280 019 |
| Social insurance (including accruals for vacation pay) | 150 621 | 161 389 | 214 314 | 229 636 |
| Other selling and distribution costs | 86 981 | 82 184 | 123 764 | 116 939 |
| | **1 474 434** | **1 483 842** | **2 097 931** | **2 111 317** |

### 20. Administrative expenses

| | 01.07.2011-30.06.2012 LVL | 01.07.2010-30.06.2011 LVL | 01.07.2011-30.06.2012 EUR | 01.07.2010-30.06.2011 EUR |
|---|---|---|---|---|
| Salary expenses (including accruals for vacation pay) | 235 462 | 201 308 | 335 032 | 286 435 |
| Depreciation and amortization (see Note 6) | 30 737 | 29 103 | 43 735 | 41 410 |
| Social insurance (including accruals for vacation pay) | 49 186 | 56 225 | 69 985 | 80 001 |
| IT services | 20 647 | 22 060 | 29 378 | 31 389 |
| Expenses on cash turnover | 16 222 | 13 049 | 23 082 | 18 567 |
| Representation expenses | 34 890 | 36 839 | 49 644 | 52 417 |
| Training | 41 050 | 5 718 | 58 409 | 8 136 |
| Public utilities | 8 802 | 9 764 | 12 524 | 13 893 |
| Business trip expenses | 5 246 | 20 | 7 464 | 28 |
| Rent of premises | 14 106 | 12 835 | 20 071 | 18 262 |
| Insurance | 9 936 | 9 830 | 14 138 | 13 987 |
| Office maintenance | 2 665 | 4 120 | 3 792 | 5 862 |
| Sponsorship | 23 525 | 23 915 | 33 473 | 34 028 |
| Communication | 3 546 | 3 353 | 5 045 | 4 771 |
| Allowances for bad and doubtful trade receivables | (131 012) | 348 494 | (186 413) | 495 862 |
| Other administration expense | 72 083 | 80 662 | 102 565 | 114 773 |
| | **437 091** | **857 295** | **621 924** | **1 219 821** |

Other administration expenses include annual audit fee in the amount of LVL 6 817 (year ended 30/06/2010 – LVL 5 060). During the year the Company has not received any other services from the Auditor.

## Notes to the Financial Statements (continued)

### 21. Other income

| | 01.07.2011-30.06.2012 LVL | 01.07.2010-30.06.2011 LVL | 01.07.2011-30.06.2012 EUR | 01.07.2010-30.06.2011 EUR |
|---|---|---|---|---|
| Government grants | 54 141 | 80 526 | 77 036 | 114 578 |
| Other income | 13 426 | 21 084 | 19 103 | 30 000 |
| | **67 567** | **101 610** | **96 139** | **144 578** |

The Company has received cash payment amounting to LVL 53 747 (EUR 76 475) (2010/ 2011: LVL 106 425 (EUR 151 429)) of the government grant.

### 22. Finance income

| | 01.07.2011-30.06.2012 LVL | 01.07.2010-30.06.2011 LVL | 01.07.2011-30.06.2012 EUR | 01.07.2010-30.06.2011 EUR |
|---|---|---|---|---|
| Interest income | 55 047 | 100 724 | 78 325 | 143 317 |
| Net result of currency exchange fluctuations | 157 663 | - | 224 334 | - |
| | **212 710** | **100 724** | **302 659** | **143 317** |

### 23. Finance expenses

| | 01.07.2011-30.06.2012 LVL | 01.07.2010-30.06.2011 LVL | 01.07.2011-30.06.2012 EUR | 01.07.2010-30.06.2011 EUR |
|---|---|---|---|---|
| Interest expenses | 649 | - | 923 | - |
| Net result of currency exchange fluctuations | - | 243 166 | - | 345 994 |
| | **649** | **243 166** | **923** | **345 994** |

### 24. Corporate income tax

| | 01.07.2011-30.06.2012 LVL | 01.07.2010-30.06.2011 LVL | 01.07.2011-30.06.2012 EUR | 01.07.2010-30.06.2011 EUR |
|---|---|---|---|---|
| Change in deferred tax asset (see Note 13) | (19 527) | (15 853) | (27 785) | (22 557) |
| Corporate income tax for the reporting year | 94 657 | 199 328 | 134 686 | 283 618 |
| Corporate income tax for non-resident services | 296 | 4 079 | 421 | 5 803 |
| Adjustments of prior periods | - | (728) | - | (1 035) |
| | **75 426** | **186 826** | **107 322** | **265 829** |

## Notes to the Financial Statements (continued)

### 24. Corporate income tax (continued)

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

| | 01.07.2011-30.06.2012 LVL | 01.07.2010-30.06.2011 LVL | 01.07.2011-30.06.2012 EUR | 01.07.2010-30.06.2011 EUR |
|---|---|---|---|---|
| **Profit before tax** | **693 266** | **987 659** | **986 429** | **1 405 312** |
| Tax rate | 15% | 15% | 15% | 15% |
| Tax calculated theoretically | 103 990 | 148 149 | 147 965 | 210 797 |
| Effect of non-deductible expenses | 16 821 | 16 683 | 23 934 | 23 738 |
| Effect of changes in other unrecognized temporary differences | (19 652) | 52 274 | (27 962) | 74 378 |
| Impact of tax benefit | (25 733) | (29 552) | (36 615) | (42 049) |
| Adjustments of prior periods | - | (728) | - | (1 035) |
| **Corporate income tax** | **75 426** | **186 826** | **107 322** | **265 829** |

The State Revenue Service may inspect the Company's books and records for the last 3 years and impose additional tax charges with penalty interest and penalties. The Company's management is not aware of any circumstances, which may give rise to a potential material liability in this respect. (The State Revenue Service had not performed all-inclusive tax audit at the financial position date).

### 25. Taxes and compulsory state social security contributions

| | VAT LVL | Social contribu-tions LVL | Personal income tax LVL | Corporate income tax LVL | Business risk duty LVL | CIT for services provided by non-residents LVL | Total LVL |
|---|---|---|---|---|---|---|---|
| **Payable as at 30.06.2011** | **-** | **48 048** | **27 181** | **181 751** | **40** | **53** | **257 073** |
| **(Overpaid) 30.06.2011.** | **(20 760)** | **-** | **-** | **-** | **-** | **-** | **(20 760)** |
| Calculated during the reporting period | (162 275) | 656 721 | 421 650 | 94 657 | 488 | 2 726 | 1 013 967 |
| Repaid to SRS | 890 | - | - | - | - | | 890 |
| Transferred to/from other taxes | 173 829 | (173 829) | - | - | - | - | - |
| Paid during the reporting period | - | (481 169) | (419 829) | (410 955) | (487) | (2 862) | (1 315 302) |
| **Payable as at 30.06.2012** | **-** | **49 771** | **29 002** | **-** | **41** | **-** | **78 814** |
| **(Overpaid) 30.06.2012** | **(8 316)** | **-** | **-** | **(134 547)** | **-** | **(83)** | **(142 946)** |

## Notes to the Financial Statements (continued)

### 25. Taxes and compulsory state social security contributions (continued)

| | VAT EUR | Social contribu-tions EUR | Personal income tax EUR | Corporate income tax EUR | Business risk duty EUR | CIT for services provided by non-residents EUR | Total EUR |
|---|---|---|---|---|---|---|---|
| **Payable as at 30.06.2011** | **-** | **68 367** | **38 675** | **258 608** | **58** | **75** | **365 783** |
| **(Overpaid) 30.06.2011.** | **(29 538)** | **-** | **-** | **-** | **-** | **-** | **(29 538)** |
| Calculated during the reporting period | (230 897) | 934 430 | 599 954 | 134 685 | 694 | 3 879 | 1 442 745 |
| Repaid to SRS | 1 266 | - | - | - | - | - | 1 266 |
| Transferred to/from other taxes | 247 336 | (247 336) | - | - | - | - | - |
| Paid during the reporting period | - | (684 643) | (597 363) | (584 736) | (694) | (4 072) | (1 871 508) |
| **Payable as at 30.06.2012** | **-** | **70 818** | **41 266** | **-** | **58** | **-** | **112 142** |
| **(Overpaid) 30.06.2012** | **(11 833)** | **-** | **-** | **(191 443)** | **-** | **(118)** | **(203 394)** |

### 26. Earnings/loss per share

Earnings per share are calculated by dividing the profit by the weighted average number of shares during the year.

| | 01.07.2011-30.06.2012 LVL | 01.07.2010-30.06.2011 LVL | 01.07.2011-30.06.2012 EUR | 01.07.2010-30.06.2011 EUR |
|---|---|---|---|---|
| Profit / (loss) of the reporting year (a) | 617 840 | 800 833 | 879 107 | 1 139 483 |
| Ordinary shares on 1 July (b) | 2 970 180 | 2 970 180 | 2 970 180 | 2 970 180 |
| **Basic and diluted earnings / (losses) per share for the reporting year (a/b)** | **0.208** | **0.270** | **0.296** | **0.384** |

### 27. Remuneration to management

**Information on the remuneration of the members of the Board of Directors and Council**

| | 01.07.2011-30.06.2012 LVL | 01.07.2010-30.06.2011 LVL | 01.07.2011-30.06.2012 EUR | 01.07.2010-30.06.2011 EUR |
|---|---|---|---|---|
| Board members' remuneration | | | | |
| - remuneration for work | 157 501 | 173 749 | 224 104 | 247 223 |
| - social contributions | 37 942 | 41 957 | 53 987 | 59 700 |
| Council members remuneration | | | | |
| - remuneration for work | 81 040 | 107 123 | 115 309 | 152 422 |
| - social contributions | 19 522 | 25 806 | 27 777 | 36 718 |
| **Total** | **296 005** | **348 635** | **421 177** | **496 063** |

## Notes to the Financial Statements (continued)

### 28. Related party transactions

Related parties represent both legal entities and private individuals related to the company in accordance with the following rules.

a) A person or a close member of that person's family is related to a reporting entity if that person:

i) has control or joint control over the reporting entity;
ii) has significant influence over the reporting entity; or
iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

b) An entity is related to a reporting entity if any of the following conditions applies:

i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
iii) Both entities are joint ventures of the same third party.
iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
vi) The entity is controlled, or jointly controlled by a person identified in (a).
vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Related party transaction - A transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

As of 1 July 2011 to 30 June 2012 the Company has sold production to related parties in the amount of LVL 12 842 (EUR 18 272) and provided services in the amount of LVL 270 (EUR 384).

As of 1 July 2011 to 30 June 2012 the Company has received services from related persons in the amount of LVL 22 480 (EUR 31 986).

As at 30 June 2012 the amount due from related parties to the Company amount to LVL 13 450 (EUR 19 138).

### 29. Personnel costs

| | 01.07.2011-30.06.2012 LVL | 01.07.2010-30.06.2011 LVL | 01.07.2011-30.06.2012 EUR | 01.07.2010-30.06.2011 EUR |
|---|---|---|---|---|
| Remuneration to staff | 1 941 069 | 1 964 866 | 2 761 892 | 2 795 753 |
| Social contributions | 458 395 | 478 744 | 652 237 | 681 191 |
| **Total** | **2 399 464** | **2 443 610** | **3 414 129** | **3 476 944** |

### 30. Average number of employees

| | 01.07.2011-30.06.2012 | 01.07.2010-30.06.2011 |
|---|---|---|
| The average number of staff in the reporting year: | **165** | **163** |

## Notes to the Financial Statements (continued)

### 31. Operating lease

Lease agreement No. S-116/02, dated 10 December 2002, was signed with Dambis A/S. According to the agreement, the lessor commissions and SAF Tehnika A/S accepts premises in the total area of 5 851 $m^2$ for consideration until 16.09.2009. Since 17.09.2009 total leased area was decreased to 5 672$m^2$. The premises are located at Ganību dambis 24a. The agreement expires on 1 March 2016. According to the signed agreements, the Company has the following lease payment commitments as at 30 June 2012.

| | LVL | EUR |
|---|---|---|
| 1 year | 144 906 | 206 183 |
| 2- 5 years | 505 016 | 718 573 |
| | **649 922** | **924 756** |

### 32. Contingent liabilities

The Company has given guarantees in the ordinary course of business amounting to LVL 21 728 (EUR 30 916) (2010/2011: LVL 21 728 (EUR 30 916) to the third parties.

### 33. Going concern

The Company closed the reporting year with a positive operating cash flows of LVL 454 thousand (EUR 646 thousand), (2010/ 2011: LVL 279 thousand (EUR 397 thousand)), its cash position amounts to LVL 1 322 thousand (EUR 1 881 thousand), but liquidity ratio was 7 at the end of the reporting year.

Net profit for the reporting period amounted to LVL 618 thousand (EUR 879 thousand).

SAF Tehnika will continue to pursue its established course of business, taking into account its stable financial position, control over the production process and CFIP product development.

### 34. Subsequent events

As of the last day of the reporting year and until the date of signing these financial statements there have been no events which would have any material impact on the financial position of the Company as at 30 June 2012 or its financial performance and cash flows for the year then ended.

As at 18 June 2012 the Company 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. As at the date of signing these financial statements partial repayment in the amount of LVL 28 112 (EUR 40 000) has been received.