A/S "SAF Tehnika"
Consolidated
Annual Report
for the year ended 30 June 2012

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Information on the Parent company

Name of the Parent company	A/S "SAF Tehnika"
Legal status	Joint Stock Company
Number, place and date of registration	40003474109 Riga, Latvia, 17 December 1999 Registered with the Commercial Register on 10 March 2004
Address	Ganību dambis 24a Rīga, LV -1005 Latvia
Names of shareholders as at 02.11.2011	Didzis Liepkalns (17.05%) Andrejs Grišāns (10.03%) Normunds Bergs (9.74%) Skandinaviska Enskilda Banken AB (9.68%) Juris Ziema (8.71%) Vents Lācars (6.08%) Other shareholders (38.71%)
Names of the Council members, their positions	Vents Lācars – Chairman of the Council Juris Ziema – Deputy Chairman of the Council Andrejs Grišāns– Council Member Ivars Šenbergs – Council Member Juris Imaks - Council Member (until 11.11.2011)
Names of the Board members, their positions	Normunds Bergs – Chairman of the Board Didzis Liepkalns – Deputy Chairman of the Board Aira Loite – Board Member Jānis Ennītis – Board Member
Reporting period	1 July 2011 – 30 June 2012
Previous reporting year	1 July 2010 – 30 June 2011
Subsidiary	100% - SAF North America LLC 7200 East Hampden Avenue, Suite 204 Denver, Colorado 80224, USA
Auditors and address	KPMG Baltics SIA License No 55 Vesetas iela 7 Rīga, LV -1013 Latvia Armine Movsisjana Sworn Auditor Certificate No 178

Management Report

Line of business

The core business activity of SAF Tehnika (hereinafter – the Group) comprises the design, production and distribution of digital microwave transmission equipment. The Group 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 Group in the 2011/ 2012 financial year was LVL 9.64 million (EUR 13.71 million) which represents a decrease by 12% comparing to the previous financial year. Export represented 96.15% of turnover amounting to LVL 9.27 million (EUR 13.19 million). During the reporting period the products of the Group were exported to 82 countries in the world, five of which received the products of SAF for the first time.

The Americas region continues 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 Group'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 Brazil 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 Group. It may be explained by the fact that in 2011/ 2012 the Group 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 Group 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 Group 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 (LasVegas, 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 Group is the first in the industry sector to provide a five year warranty period for the CFIP Lumina full outdoor radios and antennas delivered in Europe and North America starting from March 2012.

The Group 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 Group's clients appeared to be strongly interested in the products of unlicensed frequencies, which translated in increased sales of the FreeMile 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 Group 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 Parent 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 608 thousand (EUR 865 thousand) representing 76% of the profit of the previous year.

SAF Tehnika AS has retained financial stability. The audited net cash flows of the Group for 12 months were positive and amounted to LVL 180 thousand (EUR 257 thousand). In November 2011, the Group paid out dividends of LVL 0.23 per share amounting to LVL 683 thousand in total.

During the reporting year the Group 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 Group 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 Group continues working on a number of research and development projects focusing on the development of new next generation microwave data transmission equipment and improvement of the functionality of the existing products and solutions 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 Group 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 Group 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 its revenue and net financial results.

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 Parent) is responsible for preparing the consolidated financial statements of the Parent and its subsidiaries (hereinafter - the Group).

The consolidated financial statements set out on pages 10 to 41 are prepared in accordance with the source documents and present fairly the consolidated financial position of the Group as at 30 June 2012 and the consolidated 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, and are prepared 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 Group's assets and the prevention and detection of fraud and other irregularities in the Group. The Board is responsible for compliance with the requirements of normative acts of the countries the Group operates in (Latvia and United States of America).

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

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Independent Auditors' Report

To the shareholders of A/S „SAF TEHNIKA"

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of A/S „SAF TEHNIKA" and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 30 June 2012, the consolidated statement of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 10 to 41.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 these 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 consolidated 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 these financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of these financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the Group's preparation and fair presentation of these 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 Group's internal controls. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by the Group management, as well as evaluating the overall presentation of the consolidated 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 consolidated financial statements give a true and fair view of the consolidated financial position of the A/S „SAF TEHNIKA" and its subsidiaries as at 30 June 2012, and of its consolidated financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

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 consolidated 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 consolidated financial statements of the Group. In our opinion, the Management Report is consistent with the consolidated financial statements.

KPMG Baltics SIA
Licence Nr. 55

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

Consolidated 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
Investments in other companies		500	500	711	711
Long-term loans		1 898	24 670	2 701	35 102
Long-term trade receivables		-	65 140	-	92 686
Deferred tax asset	12	92 559	73 032	131 700	103 915
Non-current assets		**673 514**	**735 171**	**958 324**	**1 046 054**
Current assets					
Inventories	7	2 975 301	3 365 397	4 233 472	4 788 529
Corporate income tax		134 630	-	191 561	-
Trade receivables	8	1 257 693	1 755 985	1 789 536	2 498 542
Other receivables	9	272 597	154 932	387 871	220 448
Prepaid expenses		125 949	47 906	179 209	68 164
Loans		22 772	22 772	32 402	32 401
Placements with banks	10	1 858 393	2 437 439	2 644 255	3 468 163
Cash and cash equivalents	11	1 328 770	1 148 302	1 890 669	1 633 887
Current assets		**7 976 105**	**8 932 733**	**11 348 975**	**12 710 134**
Total assets		**8 649 619**	**9 667 904**	**12 307 299**	**13 756 188**
SHAREHOLDERS' EQUITY					
Share capital	13	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
Translation reserve		51	-	73	-
Retained earnings		2 523 215	2 598 473	3 590 211	3 697 294
Total shareholders' equity		**7 497 650**	**7 572 857**	**10 668 194**	**10 775 204**
LIBILITIES					
Current liabilities					
Liabilities	14	1 103 673	2 043 162	1 570 385	2 907 158
Provisions for guarantees	14	15 338	30 884	21 824	43 944
Loans	15	5 485	9 779	7 805	13 914
Deferred income		27 473	11 222	39 091	15 968
Total liabilities		**1 151 969**	**2 095 047**	**1 639 105**	**2 980 984**
Total equity and liabilities		**8 649 619**	**9 667 904**	**12 307 299**	**13 756 188**

The accompanying notes on pages 14 to 41 form an integral part of these consolidated 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

Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Note	For year ended 30 June		For year ended 30 June	
		2012 LVL	2011 LVL	2012 EUR	2011 EUR
Net sales	16	9 638 909	10 896 071	13 714 932	15 503 712
Cost of goods sold	17	(7 319 608)	(7 526 443)	(10 414 864)	(10 709 163)
Gross profit		**2 319 301**	**3 369 628**	**3 300 068**	**4 794 549**
Sales and marketing expenses	18	(1 475 838)	(1 483 842)	(2 099 928)	(2 111 317)
Administrative expenses	19	(438 310)	(857 295)	(623 659)	(1 219 821)
Other income	20	67 567	101 610	96 139	144 578
Finance income	21	211 238	100 724	300 564	143 317
Finance expenses	22	(649)	(243 166)	(923)	(345 994)
Profit before taxes		**683 309**	**987 659**	**972 261**	**1 405 312**
Corporate income tax	23	(75 426)	(186 826)	(107 322)	(265 829)
Current year's profit		**607 883**	**800 833**	**864 939**	**1 139 483**
Other comprehensive income					
Foreign currency translation differences for foreign operations		51	-	73	-
Total comprehensive income		**607 934**	**800 833**	**865 012**	**1 139 483**
Profit attributable to:					
Shareholders of the Parent		**607 883**	**800 833**	**864 939**	**1 139 483**
Total comprehensive income attributable to:					
Shareholders of the Parent		**607 934**	**800 833**	**865 012**	**1 139 483**
Earnings per share attributable to the shareholders of the Parent					
(LVL / EUR per share)					
Basic and diluted earnings per share	25	0.205	0.270	0.291	0.384

The accompanying notes on pages 14 to 41 form an integral part of these consolidated 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

Consolidated Statement of Changes to Shareholders' Equity

	Share capital LVL	Share premium LVL	Translation reserve 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 Parent, recognised directly in Equity	**-**	**-**	**-**	**(683 141)**	**(683 141)**
Dividends for 2009 / 2010	-	-	-	(683 141)	(683 141)
Total comprehensive income	**-**	**-**	**-**	**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 Parent, recognised directly in Equity	**-**	**-**	**-**	**(683 141)**	**(683 141)**
Dividends for 2010 / 2011	-	-	-	(683 141)	(683 141)
Total comprehensive income	**-**	**-**	**51**	**607 883**	**607 934**
Profit for the year	-	-	-	607 883	607 883
Other comprehensive income	-	-	51	-	51
Balance as at 30 June 2012	**2 970 180**	**2 004 204**	**51**	**2 523 215**	**7 497 650**

	Share capital EUR	Share premium EUR	Translation reserve 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 Parent, recognised directly in Equity	**-**	**-**	**-**	**(972 022)**	**(972 022)**
Dividends for 2009 / 2010	-	-	-	(972 022)	(972 022)
Total comprehensive income	**-**	**-**	**-**	**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 Parent, recognised directly in Equity	**-**	**-**	**-**	**(972 022)**	**(972 022)**
Dividends for 2010 / 2011	-	-	-	(972 022)	(972 022)
Total comprehensive income	**-**	**-**	**73**	**864 939**	**865 012**
Profit for the year	-	-	-	864 939	864 939
Other comprehensive income	-	-	73	-	73
Balance as at 30 June 2012	**4 226 185**	**2 851 725**	**73**	**3 590 211**	**10 668 194**

The accompanying notes on pages 14 to 41 form an integral part of these consolidated 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

Consolidated Statement of Cash Flows

	Note	For year ended 30 June 2012 LVL	2011 LVL	For year ended 30 June 2012 EUR	2011 EUR
Profit/(loss) before taxes		683 309	987 659	972 261	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	7	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	14	(39 232)	45 724	(55 822)	65 059
changes in doubtful debt allowances	8	(152 282)	244 130	(216 678)	347 366
interest income	21	(55 047)	(100 724)	(78 325)	(143 317)
interest expenses	22	649	-	923	-
government grants	20	(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		**868 584**	**1 419 964**	**1 235 883**	**2 020 427**
(Increase)/decrease of stock		136 415	(1 258 525)	194 101	(1 790 720)
(Increase)/ decrease in receivables		527 272	882 163	750 240	1 255 205
Increase/(decrease) of payables		(718 589)	(834 160)	(1 022 460)	(1 186 902)
Cash from operating activities		**813 682**	**209 442**	**1 157 764**	**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		**455 825**	**279 001**	**648 580**	**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)
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		**412 027**	**(864 843)**	**586 261**	**(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)**
Effect of exchange rate fluctuations		51	-	73	-
Net increase of cash and cash equivalents		**180 468**	**(1 265 385)**	**256 782**	**(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	**1 328 770**	**1 148 302**	**1 890 669**	**1 633 887**

The accompanying notes on pages 14 to 41 form an integral part of these consolidated 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 Consolidated Financial Statements

1. General information

The core business activity of SAF Tehnika A/S (hereinafter – the Parent) and its subsidiary (hereinafter together referred to as "the Group") comprises the design, production and distribution of microwave radio data transmission equipment offering an alternative to cable channels. The Group 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 Parent, 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 Parent 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 Parent 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 Parent are listed on NASDAQ OMX Riga Stock Exchange, Latvia.

These consolidated financial statements (hereinafter "financial statements") were approved by the 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 consolidated 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.

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.

Comparable data for 2010/ 2011 include individual financial information of AS SAF Tehnika.

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 Consolidated 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 Group's financial statements, because of the nature of the Group'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 the Group 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 Group has early adopted the amendments to IAS 1 from 1 July 2011. Before the amendments the Group 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 Group financial statements as the Group 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's financial statements, since the entity does not have any defined benefit plans.

B Consolidation

(a) Subsidiaries

Consolidated subsidiaries are entities in which the Parent directly or indirectly holds more than 50% of voting rights or exercises another type of decision-making power over its operations. The existence and efficiency of the voting rights that are subject to verification or transformation is checked in order to ascertain whether the Parent manages its subsidiaries.

Subsidiaries are fully consolidated as of the date when the control is transferred to the Group. Subsidiaries are excluded from consolidation starting the date when the control ceases.

Subsidiaries controlled by the Parent as at 30 June 2012:

	Country of residence	Number of shares	Subsidiary's equity as at 30.06.2012 LVL	Loss of subsidiary 2011/2012 LVL
SAF North America LLC	United States of America	100%	1 240	(4 380)

As at 30 June 2011 the Parent had no subsidiaries.

The accounting policies of subsidiaries were changed when necessary in order to ensure consistency with those of the Group.

Notes to the Consolidated Financial Statements (continued)

2. Summary of accounting principles used (continued)

B Consolidation (continued)

(b) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

(c) Business transactions involving entities under common control

A business combination involving entities under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the combination and that control is not transitory. A group of individuals is regarded as controlling an entity when, as a result of contractual arrangements, they collectively have the power to govern its financial and operating policies so as to obtain benefits from its activities.

Acquisition of a subsidiary from an entity under common control is accounted for by recognizing the interest acquired at the carrying amount of the net assets acquired (i.e., at the amounts the assets and liabilities were carried in the acquiree's statement of financial position). Any difference between the cost of the business combination and the carrying amount of the net assets acquired is recognized as a reduction or increase in the acquirer's equity through retained earnings.

C Foreign currency revaluation

(a) Functional and reporting currency

Items of each structural unit of the Group included in the financial statements are measured using the currency of the primary economic environment in which the structural unit operates ('the functional currency'). The financial statements are presented in Latvian Lats (LVL), which is the Group'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.

(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

Notes to the Consolidated Financial Statements

2. Summary of accounting principles used (continued)

C Foreign currency evaluation (continued)

(c) Group companies

The results of operations and the financial position of the Group companies (none of which are operating in hyperinflation economics) that operate with functional currencies other than the reporting currency are translated to the reporting currency as follows:

(i) Assets and liabilities are translated according to the exchange rate effective as at the date of the statement of financial position;

(ii) Transactions on the profit and loss statement and the statement of comprehensive income are translated at the exchange rate effective as at the transaction date; and

(iii) all currency exchange differences are recognized as a separate item of equity.

D 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 Group 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 G).

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

E 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 Consolidated Financial Statements (continued)

2. Summary of accounting principles used (continued)

F 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 Group 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.

G 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 Group'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.

H Segments

Information on Group's segments is disclosed in Note 16. 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 Group's headquarters), head office expenses, and tax assets and liabilities.

I 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.

J 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.

Notes to the Consolidated Financial Statements (continued)

2. Summary of accounting principles used (continued)

K Financial instruments

The Group'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 Group 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 Group commits to purchase or sell the asset. Financial liabilities are derecognized if the Group'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 Group 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.

L 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.

M 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.

Notes to the Consolidated Financial Statements (continued)

2. Summary of accounting principles used (continued)

N 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.

O Employee benefits

The Group 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 Group 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.

P 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:

Sales of goods

Sale of goods is recognised when a Group 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 Group.

(b) Provision of services

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

Q 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.

R Dividend payments

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

S 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.

Notes to the Consolidated Financial Statements (continued)

3. Finance risk management

(1) Financial risk factors

The Group'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 Group's overall risk management focuses on the unpredictability of financial markets and seeks to minimise its potential adverse effects on the Group's financial performance. The Group 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 Group.

(a) Foreign currency risk

The Group 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 Group 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 Group 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	1 089 951	1 901 457	439 633	353 218
Placements with banks	-	-	1 708 393	1 937 439
Cash and cash equivalents	279 605	424 971	836 302	636 373
Liabilities	(326 226)	(488 499)	(162 218)	(401 905)
Other liabilities	(94 751)	(218 484)	(14 862)	(22 259)
Loans	(1 932)	(2 564)	(282)	(1 297)
Net open positions	**946 647**	**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	94 665	161 688
EUR	280 697	250 157
	375 362	**411 845**

Notes to the Consolidated Financial Statements (continued)

3. Financial risk management (continued)

(1) Financial risk factors (continued)

(b) Credit risk

The Group has significant exposure of credit risk with its customers. The Group'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 Group's credit risk exposure to a single customer amounted to 14.43% of the total short and long-term receivables (30.06.2011: 38.07%). With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents and derivatives, the Group'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 Group's maximum credit risk exposure amounts to LVL 5 003 202 or 57.84% to total assets (30.06.2011: LVL 5 657 646 or 58.52% to total assets).

For more information in respect to Group's exposure to liquidity risk, refer to note 8.

(c) Liquidity risk

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

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

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

For more information in respect to Group's exposure to liquidity risk, refer to Note 14.

(d) Cash flows and interest rate risk

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

Accounting for derivative financial instruments

The Group 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 Group did not have any open derivative financial instruments agreements.

Fair value

Carrying amount of financial assets and liabilities of the Group 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 Consolidated Financial Statements (continued)

4. Management of the capital structure

The Group manages its capital to ensure that the Group 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 Group consists of debt, which includes the borrowings disclosed in Note 15, 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	1 151 969	2 095 047	1 639 105	2 980 984
Cash	(1 328 770)	(1 148 302)	(1 890 669)	(1 633 887)
Net debt	**(176 801)**	**946 745**	**(251 564)**	**1 347 097**
Shareholders' equity	**7 497 650**	**7 572 857**	**10 668 194**	**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 Group 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 Group 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 Group 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.

Notes to the Consolidated Financial Statements (continued)

5. Key estimates and assumptions (continued)

Provisions

Provisions are recognized when the Group 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 Group to settle the obligation, and the amount of obligation can be measured reasonably. If the Group 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 a 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.

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.

Notes to the Consolidated Financial Statements (continued)

6. Property, plant and equipment and intangible assets

	Intangible assets LVL	Leasehold improvements LVL	Equipment and machinery LVL	Other property, plant and equipment LVL	Prepayments LVL	Total 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 Group 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 as at 30 June 2012 amounts to LVL 25 635 (2010/ 2011: LVL 49 373). Restrictions are in force till July, 2014.

Notes to the Consolidated Financial Statements (continued)

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

	Intangible assets EUR	Leasehold improvements EUR	Equipment and machinery EUR	Other property, plant and equipment EUR	Prepayments EUR	Total EUR
Reporting year ended 30 June 2011						
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 Group 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 as at 30 June 2012 amounts to EUR 36 475 (2010/ 2011: EUR 70 251). Restrictions are in force till July, 2014.

Notes to the Consolidated Financial Statements (continued)

7. 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	659 945	766 822	939 017	1 091 090
	2 975 301	**3 365 397**	**4 233 472**	**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).

8. 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
Accruals for bad and doubtful trade receivables	(295 181)	(447 463)	(420 005)	(636 682)
Short-term trade receivables, net	**1 257 693**	**1 755 985**	**1 789 536**	**2 498 542**
Total trade receivables, net	**1 257 693**	**1 821 125**	**1 789 536**	**2 591 228**

Trade receivables include one 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 19) and receivables amounting to LVL 21 270 (EUR 30 264) written-off.

Notes to the Consolidated Financial Statements (continued)

8. Trade receivables (continued)

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	1.50	13 913	0.61
USD	1 089 951	70.19	1 901 457	83.82
EUR	439 633	28.31	353 218	15.57
Total trade receivables	**1 552 874**	**100%**	**2 268 588**	**100%**

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	1.50	19 796	0.61
USD	1 550 860	70.19	2 705 530	83.82
EUR	625 542	28.31	502 584	15.57
Total trade receivables	**2 209 541**	**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	994 143	1 475 115	1 414 538	2 098 899
Overdue 0 – 89	141 171	369 797	200 868	526 174
Overdue 90 and more	417 560	423 676	594 135	602 837
Total trade receivables	**1 552 874**	**2 268 588**	**2 209 541**	**3 227 910**

Notes to the Consolidated Financial Statements (continued)

9. 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.

10. 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%**

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**

Notes to the Consolidated Financial Statements (continued)

11. Cash and cash equivalents

	30/06/2012 LVL	30/06/2011 LVL	30/06/2012 EUR	30/06/2011 EUR
Cash in bank	1 216 770	1 080 323	1 731 308	1 537 161
Short-term bank deposits	112 000	67 979	159 361	96 726
	1 328 770	**1 148 302**	**1 890 669**	**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%).

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	16.01	86 958	7.57
USD	279 605	21.04	424 971	37.01
EUR	836 302	62.95	636 373	55.42
GBP	63	0.00	-	-
Cash and cash equivalents	**1 328 770**	**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	16.01	123 730	7.57
USD	397 841	21.04	604 680	37.01
EUR	1 189 951	62.95	905 477	55.42
GBP	90	0.00	-	-
Cash and cash equivalents	**1 890 669**	**100%**	**1 633 887**	**100%**

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	113 618
Citadele Banka AS	6 953	143 521	9 894	204 212
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 bank	64 457	141 936	91 714	201 957
	1 328 770	**1 148 302**	**1 890 669**	**1 633 887**

Notes to the Consolidated Financial Statements (continued)

12. 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 23)	(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 Group is recognised to the extent that the realisation of the related tax benefit through the future taxable profits is probable.

13. 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).

14. Liabilities and Provisions for guarantees

	30/06/2012 LVL	30/06/2011 LVL	30/06/2012 EUR	30/06/2011 EUR
Trade accounts payable	533 669	1 003 495	759 343	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 24)	79 750	257 074	113 474	365 783
Provisions for guarantees	15 338	30 884	21 824	43 944
Other liabilities	347 523	380 801	494 480	541 831
	1 119 011	**2 074 046**	**1 592 209**	**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)).

Notes to the Consolidated Financial Statements (continued)

14. Liabilities and Provisions for guarantees (continued)

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	8.47	110 885	11.05
USD	326 226	61.13	488 499	48.68
EUR	162 218	30.40	401 905	40.05
GBP	-	-	2 206	0.22
Trade accounts payable	**533 669**	**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	8.47	157 775	11.05
USD	464 179	61.13	695 071	48.68
EUR	230 815	30.40	571 860	40.05
GBP	-	-	3 139	0.22
Trade accounts payable	**759 343**	**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	520 055	992 101	739 971	1 411 633
Overdue 0 – 30	13 614	11 394	19 372	16 212
Trade accounts payable	**533 669**	**1 003 495**	**759 343**	**1 427 845**

15. 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**

16. 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.

Notes to the Consolidated Financial Statements (continued)

16. Segment information and sales (continued)

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.

	CFM; CFIP; FreeMile		Other		Total	
	2011/12 LVL	2010/11 LVL	2011/12 LVL	2010/11 LVL	2011/12 LVL	2010/11 LVL
Assets						
Reportable segment assets	3 369 019	3 910 724	1 891 737	2 001 231	5 260 756	5 911 955
Unallocated assets					3 388 863	3 755 949
Total assets					**8 649 619**	**9 667 904**
Segment liabilities	660 445	1 199 255	247 847	495 376	908 292	1 694 631
Unallocated liabilities					243 677	400 416
Total liabilities					**1 151 969**	**2 095 047**
Net sales	6 813 824	8 226 627	2 825 085	2 669 444	9 638 909	10 896 071
Segment result	**1 917 956**	**3 257 197**	**912 907**	**871 632**	**2 830 863**	**4 128 829**
Unallocated expenses					(2 425 710)	(3 100 338)
Profit / (loss) from operating activities					**405 153**	**1 028 491**
Other income					67 567	101 610
Financial income/(expenses), net					210 589	(142 442)
Profit/(loss) before taxes					**683 309**	**987 659**
Corporate income tax					(75 426)	(186 826)
Current year's profit / (loss)					**607 883**	**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 Consolidated Financial Statements (continued)

16. Segment information and sales (continued)

	CFM; CFIP; FreeMile		Other		Total	
	2011/12 EUR	2010/11 EUR	2011/12 EUR	2010/11 EUR	2011/12 EUR	2010/11 EUR
Assets						
Reportable segment assets	4 793 682	5 564 459	2 691 699	2 847 495	7 485 381	8 411 954
Unallocated assets					4 821 918	5 344 234
Total assets					**12 307 299**	**13 756 188**
Segment liabilities	939 729	1 706 386	352 655	704 857	1 292 384	2 411 243
Unallocated liabilities					346 721	569 741
Total liabilities					**1 639 105**	**2 980 984**
Net sales	9 695 198	11 705 436	4 019 734	3 798 276	13 714 932	15 503 712
Segment result	**2 729 006**	**4 634 574**	**1 298 950**	**1 240 220**	**4 027 956**	**5 874 794**
Unallocated expenses					(3 451 475)	(4 411 383)
Profit / (loss) from operating activities					**576 481**	**1 463 411**
Other income					96 139	144 578
Financial income/(expenses), net					299 641	(202 677)
Profit/(loss) before taxes					**972 261**	**1 405 312**
Corporate income tax					(107 322)	(265 829)
Current year's profit / (loss)					**864 939**	**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					144 644	123 890
Total depreciation and amortisation					**351 867**	**283 945**

Notes to the Consolidated Financial Statements (continued)

16. Segment information and sales (continued)

b) This note provides information on division of the Group'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
America	3 290 854	3 004 794	418 036	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
	9 638 909	**10 896 071**	**1 257 693**	**1 821 125**
Unallocated assets	-	-	7 391 926	7 846 779
	9 638 909	**10 896 071**	**8 649 619**	**9 667 904**

	Net sales		Assets	
	2011/2012 EUR	2010/2011 EUR	30/06/2012 EUR	30/06/2011 EUR
America	4 682 463	4 275 436	594 812	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
	13 714 932	**15 503 712**	**1 789 536**	**2 591 228**
Unallocated assets	-	-	10 517 763	11 164 960
	13 714 932	**15 503 712**	**12 307 299**	**13 756 188**

17. 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	5 565 960	5 774 632	7 919 648	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	364 084	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	35 498	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
	7 319 608	**7 526 443**	**10 414 864**	**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 Consolidated Financial Statements (continued)

18. 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	66 939	81 746	95 246	116 314
Salary expenses (including accruals for vacation pay)	638 454	669 316	908 438	952 350
Business trip expenses	260 847	235 196	371 152	334 654
Depreciation and amortization (see Note 6)	70 898	57 212	100 879	81 405
Delivery costs	197 867	196 799	281 539	280 020
Social insurance (including accruals for vacation pay)	151 911	161 389	216 150	229 636
Other selling and distribution costs	88 922	82 184	126 524	116 938
	1 475 838	**1 483 842**	**2 099 928**	**2 111 317**

19. 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	16 339	13 049	23 248	18 567
Representation expenses	35 074	36 839	49 906	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	5 046	4 771
Allowances for bad and doubtful trade receivables	(131 012)	348 494	(186 413)	495 862
Other administration expense	73 001	80 662	103 871	114 773
	438 310	**857 295**	**623 659**	**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 Group has not received any other services from the Auditor.

Notes to the Consolidated Financial Statements (continued)

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

21. 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	156 191	-	222 239	-
	211 238	**100 724**	**300 564**	**143 317**

22. 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**

23. 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 12)	(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 Consolidated Financial Statements (continued)

23. Corporate income tax (continued)

Corporate income tax differs from the theoretically calculated tax amount that would arise applying the Parent's domestic tax rate of 15% to the Group'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	**683 309**	**987 659**	**972 261**	**1 405 312**
Tax rate	15%	15%	15%	15%
Tax calculated theoretically	102 496	148 149	145 839	210 797
Effect of non-deductible expenses	16 821	16 683	23 934	23 738
Effect of changes in other unrecognized temporary differences	(18 158)	52 274	(25 836)	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 Group's books and records for the last 3 years and impose additional tax charges with penalty interest and penalties. The Group'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).

24. Taxes and compulsory state social security contributions

	VAT LVL	Social contributions 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)	658 664	423 227	94 657	749	2 726	1 017 748
Repaid to SRS	890	-	-	-	-	-	890
Transferred to/from other taxes	173 829	(173 829)	-	-	-	-	-
Paid during the reporting period	-	(482 614)	(420 993)	(410 955)	(723)	(2 862)	(1 318 147)
Payable as at 30.06.2012	**-**	**50 269**	**29 415**	**-**	**66**	**-**	**79 750**
(Overpaid) 30.06.2012	**(8 316)**	**-**	**-**	**(134 547)**	**-**	**(83)**	**(142 946)**

Notes to the Consolidated Financial Statements (continued)

24. Taxes and compulsory state social security contributions (continued)

	VAT EUR	Social contributions 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)	937 194	602 198	134 685	1 065	3 879	1 448 124
Repaid to SRS	1 266	-	-	-	-	-	1 266
Transferred to/from other taxes	247 336	(247 336)	-	-	-	-	-
Paid during the reporting period	-	(686 699)	(599 019)	(584 736)	(1 029)	(4 072)	(1 875 555)
Payable as at 30.06.2012	**-**	**71 526**	**41 854**	**-**	**94**	**-**	**113 474**
(Overpaid) 30.06.2012	**(11 833)**	**-**	**-**	**(191 443)**	**-**	**(118)**	**(203 394)**

25. 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)	607 883	800 833	864 939	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)	**0.205**	**0.270**	**0.291**	**0.384**

26. 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 Consolidated Financial Statements (continued)

27. Related party transactions

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

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

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

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

i. The entity and the reporting group 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 group 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 group entity and a related party, regardless of whether a price is charged.

As of 1 July 2011 to 30 June 2012 the Group did not have any transactions with related parties.

28. 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	1 954 730	1 964 866	2 781 330	2 795 753
Social contributions	459 685	478 744	654 073	681 191
Total	**2 414 415**	**2 443 610**	**3 435 403**	**3 476 944**

29. 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 Consolidated Financial Statements (continued)

30. 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 m2 for consideration until 16.09.2009. Since 17.09.2009 total leased area was decreased to 5 672m2. The premises are located at Ganību dambis 24a. The agreement expires on 1 March 2016.

Lease agreement No. SAFNA-2011-002 was concluded on 18 October 2011 with Columbine Valley Corporation. According to the agreement the lessor commissions and SAF North America LLC accepts premises in the total area of 844 ft2. The premises are located at 7200 East Hampden Avenue, Suite 204 Denver, Colorado 80224, USA. The agreement expires on 31 May 2013.

According to the signed agreements, the Group has the following lease payment commitments as at 30 June 2012.

	LVL	EUR
1 year	151 507	215 575
2- 5 years	505 589	719 388
	657 096	**934 963**

31. Contingent liabilities

The Group 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.

32. Going concern

The Group closed the reporting year with a positive operating cash flows of LVL 456 thousand (EUR 649 thousand), (2010/ 2011: LVL 279 thousand (EUR 379 thousand)), its cash position amounts to LVL 1 329 thousand (EUR 1 891 thousand), but liquidity ratio was 7 at the end of the reporting year.

Net profit for the reporting period amounted to LVL 608 thousand (EUR 865 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.

33. Subsequent events

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

As at 18 June 2012 the Parent has signed a loan agreement with related party SIA Namīpašumu pārvalde on issuance of loan in the amount of LVL 281 122 (EUR 400 000). The loan has been transferred to borrower's account as at 2 July 2012. The annual interest rate is 3.5%. The maturity of loan is set on 30 June 2012 with annual extension right. As at the date of signing these financial statements partial repayment in the amount of LVL 28 112 (EUR 40 000) has been received.