A/S "SAF Tehnika"
Annual Report
for the year ended 30 June 2013

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Information on the Company

Name of the company	A/S SAF Tehnika
Legal status	Joint Stock Company
Number, place and date of registration	40003474109 Riga, Latvia, 27 December 1999 Registered with the Commercial Register on 10 March 2004
Address	Ganību dambis 24a Riga, LV -1005 Latvia
Name of shareholders	Didzis Liepkalns (17.05%) Andrejs Grišāns (10.03%) Normunds Bergs (9.74%) Juris Ziema (8.71%) Vents Lācars (6.08%) Ivars Šenbergs (5.27%) (until 4 September 2013) Koka Zirgs SIA (5.27%) (from 4 September 2013) Other shareholders (43.12%)
Names of the Council members, their positions	Vents Lācars – Chairman of the Council Juris Ziema – Member of the Council Andrejs Grišāns – Member of the Council Ivars Šenbergs – Member of the Council Aivis Olšteins – Member of the Council (from 13 November 2012)
Names of the Board members, their positions	Normunds Bergs – Chairman of the Board Didzis Liepkalns – Member of the Board Aira Loite – Member of the Board Jānis Ennītis – Member of the Board (until 1 March 2013)
Reporting period	1 July 2012 - 30 June 2013
Previous reporting year	1 July 2011 - 30 June 2012
Auditors and address	KPMG Baltics SIA License No 55 Vesetas iela 7 Riga, LV -1013 Latvia Armine Movsisjana Sworn Auditor Certificate No 178

Management report

Line of business

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

Activities during the reporting year

Net turnover of the Company in the 2012 / 2013 financial year was LVL 9.36 million (EUR 13.32 million) which represents a decrease by 3% comparing to the previous financial year. While the reporting year can be characterized by increasing global competition between producers of microwave transmission equipment, the Company managed to keep its customer base, meanwhile also attracting new customers by offering products according to market demands and highest quality standards. In addition, the Company developed customized solutions for particular client needs and provided support during installation and commissioning stages. Delays in the Company's supply chain and customer payments forced certain shipments to be put on hold, thus, affecting expected sales result.

Export represented 98.55% of turnover amounting to LVL 9.23 million (EUR 13.13 million). During the reporting period the products of the Company were exported to 86 countries in the world, three of which received the products of SAF for the first time.

Asia, Africa and Middle East regions has shown a 17% drop in total turnover accounting for comparatively smaller part (24%) for total revenue, whereas the Americas has been the only region that continued to show positive trends growing 20% on year-to-year basis and comprising 42% of the total Company's turnover.Although Europe, CIS region experienced strong results in the middle of FY 2012/2013, the annual revenue decreased by 13% while still retaining a strong portion (34%) from the total revenue. The continuously even split in revenues among the different regions has been the key element for maintaining stable revenue stream. This was achieved with the strong support provided by local partners as well as Company's offices and local SAF product warehouses in USA and Nigeria.

During reporting year the Company's *Lumina* products, apart from main Riga manufacturing site, were also produced at Siemens factory in Brazil, but due to closing of factory the production was ceased in September, 2013, after which the Company continues to make all further product deliveries from Riga factory.

The Company's export activities were supported by State agencies such as Latvian Guarantee Agency (LGA), which provided export credit guarantees committing to provide reimbursement in case foreign buyer does not make a contractual payment for the delivered goods or services in the specified time period. The Company also received support from Investment and Development Agency of Latvia (LIAA) in the form of co-financing for the Company's participation in industry exhibitions and for product development.

AfricaCom 2012 (Republic of South Africa), FutureCom 2012 (Brazil), CTIA Wireless 2013 (USA) and CeBIT 2013 (Germany) have to be mentioned as the most significant exhibitions SAF Tehnika participated in with the aim to strengthen the brand recognition and promote the Company's products in order to expand the customer and partner network. In addition, the Company increasingly introduced training programs on SAF Tehnika products and solutions via webinars and video tutorials, thus, focusing to reach broader audience and be more efficient in terms of receiving feedback and saving costs – both for client and the Company.

We are proud to mention that SAF Tehnika was acknowledged among 25 the best exporting brands of Latvia in the survey held in spring 2013 by branding professionals, Latvia Chamber of Commerce and Industry as well as Ministries of Economics and Foreign Affairs of Latvia.

The main CFIP product line retained the dominant share from total sales of the reporting year. CFIP *Lumina* proved to remain the flagship product, while other product modules, such as *Freemile, CFIP 108, Marathon* and *Phoenix* made a significant contribution to the bottom line. The Company still received orders for older *CFM line* which reflects that these products still can meet the needs of particular clients.

Management report (continued)

The establishment of local warehouse as well as sales EXW USA has been the main reason for increase in transportation and insurance expenses, marketing and various sales expenses reflected investments made into future sales, while delayed customer payments were reason for increased allowances for bad debts; in addition, unfavorable USD to LVL foreign exchange rates resulted in financial loss.

The Company's financial result of 2012/ 2013 was a loss of LVL 14,6 thousand (EUR 20.7 thousand).

Nevertheless, SAF Tehnika has retained financial stability.The audited net cash flow of the Company for 12 months was positive and amounted to LVL 0,618 million (EUR 0,879 million). In December 2012, the Company paid out dividends of LVL 0.1 per share amounting to LVL 297 thousand (EUR 423 thousand) in total.

During the reporting year the Company made investments in the amount of LVL 342 thousand (EUR 486 thousand) to acquire property, plant and equipment such as IT infrastructure, production and research equipment, as well as software and other licenses in order to improve manufacturing, R&D, testing and other company-wide processes. In addition Company invested in products certification.

Research and development

Continuous product development is the main driving force and success factor for the Company. During the reporting year the Company continued developing products for licensed and for the unlicensed frequencies by adding new features and customizing products for specific customer needs. New products are developed and designed not only being feature rich and cost effective in production and usage, but also designed to reduce installation and commissioning costs, which forms the largest part of expansion and operation expenses for communication networks. As a result, *Spectrum Compact* – the world's first powerful handheld microwave spectrum analyzer - and the new *Integra product line* were introduced. With Integra product, the Company was proud to introduce the next generation product characterized by integrated antenna and next-generation microwave radio with industry leading compact form factor. These products are expected to become substantial components of the Company's product portfolio, help acquiring a new customer segment and increase the Company's global market share.

Future perspectives

The Company has diversified its portfolio to become a unique market player among the global point-to-point microwave manufacturers, not only providing equipment and managed services, but also providing solution for radio field engineers with the launch of the SAF Spectrum Compact. The Company sees demand for installation and commissioning and managed services and will broaden its offerings in this direction. Meanwhile, the Company prepares for full market enrolment of the announced Integra product, which is designed to be system optimized for small cell backhaul and other dense urban applications. At the same time the Company continues extensive R&D activities for further developing the new product line and adding new features to the existing products.

The Company will continue the market strategy of focusing on strategic niche markets both for products and regions.

The Company remains financially stable and with positive outlook for the next operating periods; however, the Board of the Company refrains from giving any forward-looking sales and financial result statements.

Management report (continued)

Proposals regarding cover of the Company's losses

The Board of the Company suggests to cover the current year losses with retained earnings of previous years.

Normunds Bergs
Chairman of the Board

Didzis Liepkalns
Member of the Board

Aira Loite
Member of the Board

Riga, 25 October 2013

STATEMENT OF THE BOARD'S RESPONSIBILITIES

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

The financial statements set out on pages 10 to 48 are prepared in accordance with the source documents and present fairly the financial position of the Company as at 30 June 2013 and the results of its financial performance and cash flows for the year then ended.

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

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

On behalf of the Board:

Normunds Bergs
Chairman of the Board

Didzis Liepkalns
Member of the Board

Aira Loite
Member of the Board

Riga, 25 October 2013

KPMG Baltics SIA
Vesetas iela 7
Riga LV 1013
Latvia

Phone +371 670 380 00
Fax +371 670 380 02
Internet: www.kpmg.lv

Independent Auditors' Report

To the shareholders of A/S SAF Tehnika

Report on the Financial Statements

We have audited the accompanying financial statements of A/S SAF Tehnika ("the Company"), which comprise the statement of financial position as at 30 June 2013, the statements of profit and loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory notes, as set out on pages 10 to 48.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 30 June 2013, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on Other Legal and Regulatory Requirements

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

KPMG Baltics SIA
License No 55



Armine Movsisjana
Member of the Board
Sworn Auditor
Certificate No 178
Riga, Latvia
25 October 2013

Statement of Financial Position

	Note	30 June 2013 LVL	2012 LVL	30 June 2013 EUR	2012 EUR
ASSETS					
Non-current assets					
Property, plant and equipment	6	489 681	486 153	696 753	691 733
Intangible assets	6	66 664	92 404	94 854	131 479
Other long-term assets	6	77 067	-	109 656	-
Investments in subsidiaries and joint ventures	7	48 115	5 282	68 462	7 516
Investments in other companies	7	835	500	1 188	711
Long term loans		-	1 898	-	2 701
Long term trade receivables	9	45 263	-	64 404	-
Deferred tax asset	13	86 581	92 559	123 194	131 700
Total non-current assets		**814 206**	**678 796**	**1 158 511**	**965 840**
Current assets					
Stock	8	2 988 179	2 968 322	4 251 795	4 223 542
Corporate income tax receivable		115 113	134 630	163 791	191 561
Trade receivables	9	1 834 275	1 257 693	2 609 938	1 789 536
Due from related parties	9	49 552	13 112	70 506	18 657
Other receivables	10	155 120	272 936	220 716	388 353
Prepaid expenses		88 117	125 376	125 380	178 394
Loans	28	253 747	22 772	361 050	32 401
Placements with banks	11	415 063	1 858 393	590 581	2 644 255
Cash and cash equivalents	12	1 939 689	1 321 923	2 759 929	1 880 927
Total current assets		**7 838 855**	**7 975 157**	**11 153 686**	**11 347 626**
Total assets		**8 653 061**	**8 653 953**	**12 312 197**	**12 313 466**
SHAREHOLDERS' EQUITY					
Share capital	14	2 970 180	2 970 180	4 226 185	4 226 185
Share premium		2 004 204	2 004 204	2 851 725	2 851 725
Retained earnings		2 221 583	2 533 172	3 161 028	3 604 379
Total shareholders' equity		**7 195 967**	**7 507 556**	**10 238 938**	**10 682 289**
LIABILITIES					
Current liabilities					
Trade and other payables	15	884 923	732 303	1 259 132	1 041 973
Provisions	15	61 731	15 338	87 836	21 824
Other liabilities	15	299 356	365 798	425 945	520 484
Due to related parties		16 601	-	23 621	-
Loans	16	9 896	5 485	14 081	7 805
Deferred income	17	184 587	27 473	262 644	39 091
Total liabilities		**1 457 094**	**1 146 397**	**2 073 259**	**1 631 177**
Total equity and liabilities		**8 653 061**	**8 653 953**	**12 312 197**	**12 313 466**

The accompanying notes on pages 15 to 48 form an integral part of these financial statements.

Normunds Bergs
Chairman of the Board

Didzis Liepkalns
Member of the Board

Aira Loite
Member of the Board

Riga, 25 October 2013

Statement of Profit or Loss and Other Comprehensive Income

	Note	For the year ended 30 June 2013 LVL	2012 LVL	For the year ended 30 June 2013 EUR	2012 EUR
Net sales	18	9 363 593	9 651 545	13 323 193	13 732 911
Cost of goods sold	19	(7 188 237)	(7 326 382)	(10 227 940)	(10 424 502)
Gross profit		**2 175 356**	**2 325 163**	**3 095 253**	**3 308 409**
Sales and marketing expenses	20	(1 620 276)	(1 474 434)	(2 305 445)	(2 097 931)
Administrative expenses	21	(595 613)	(437 091)	(847 481)	(621 924)
Profit/ (loss) from operating activities		**(40 533)**	**413 638**	**(57 673)**	**588 554**
Other income	22	59 563	67 567	84 750	96 139
Finance income	23	39 201	212 710	55 778	302 659
Finance expenses	24	(62 461)	(649)	(88 874)	(923)
Net finance income/ (costs)		**(23 260)**	**212 061**	**(33 096)**	**301 736**
Profit/ (loss) before taxes		**(4 230)**	**693 266**	**(6 019)**	**986 429**
Corporate income tax	25	(10 341)	(75 426)	(14 714)	(107 322)
Current year's profit/ (loss)		**(14 571)**	**617 840**	**(20 733)**	**879 107**
Other comprehensive income		-	-	-	-
Total comprehensive income		**(14 571)**	**617 840**	**(20 733)**	**879 107**
Earnings per share attributable to the shareholders of the Company (LVL / EUR per share)					
Basic and diluted earnings/ (loss) per share	27	(0.005)	0.208	(0.007)	0.296

The accompanying notes on pages 15 to 48 form an integral part of these financial statements.

Normunds Bergs
Chairman of the Board

Didzis Liepkalns
Member of the Board

Aira Loite
Member of the Board

Riga, 25 October 2013

Statement of Changes to the Shareholders' Equity

	Share capital LVL	Share premium LVL	Retained earnings LVL	Total LVL
Balance as at 30 June 2011	**2 970 180**	**2 004 204**	**2 598 473**	**7 572 857**
Transactions with owners of the Company, recognised directly in Equity	**-**	**-**	**(683 141)**	**(683 141)**
Dividends for 2010/2011	-	-	(683 141)	(683 141)
Total comprehensive income	**-**	**-**	**617 840**	**617 840**
Profit for the year	-	-	617 840	617 840
Other comprehensive income	-	-	-	-
Balance as at 30 June 2012	**2 970 180**	**2 004 204**	**2 533 172**	**7 507 556**
Transactions with owners of the Company, recognised directly in Equity	**-**	**-**	**(297 018)**	**(297 018)**
Dividends for 2011/2012	-	-	(297 018)	(297 018)
Total comprehensive income	**-**	**-**	**(14 571)**	**(14 571)**
Loss for the year	-	-	(14 571)	(14 571)
Other comprehensive income	-	-	-	-
Balance as at 30 June 2013	**2 970 180**	**2 004 204**	**2 221 583**	**7 195 967**

	Share capital EUR	Share premium EUR	Retained earnings EUR	Total EUR
Balance as at 30 June 2011	**4 226 185**	**2 851 725**	**3 697 294**	**10 775 204**
Transactions with owners of the Company, recognised directly in Equity	**-**	**-**	**(972 022)**	**(972 022)**
Dividends for 2010/2011	-	-	(972 022)	(972 022)
Total comprehensive income	**-**	**-**	**879 107**	**879 107**
Profit for the year	-	-	879 107	879 107
Other comprehensive income	-	-	-	-
Balance as at 30 June 2012	**4 226 185**	**2 851 725**	**3 604 379**	**10 682 289**
Transactions with owners of the Company, recognised directly in Equity	**-**	**-**	**(422 618)**	**(422 618)**
Dividends for 2011/2012	-	-	(422 618)	(422 618)
Total comprehensive income	**-**	**-**	**(20 733)**	**(20 733)**
Loss for the year	-	-	(20 733)	(20 733)
Other comprehensive income	-	-	-	-
Balance as at 30 June 2013	**4 226 185**	**2 851 725**	**3 161 028**	**10 238 938**

The accompanying notes on pages 15 to 48 form an integral part of these financial statements.

Normunds Bergs
Chairman of the Board

Didzis Liepkalns
Member of the Board

Aira Loite
Member of the Board

Riga, 25 October 2013

Statement of Cash Flow

	Note	For the year ended 30 June		For the year ended 30 June	
		2013 LVL	2012 LVL	2013 EUR	2012 EUR
Profit/(loss) before taxes		(4 230)	693 266	(6 019)	986 429
Adjustments for:					
- depreciation	6	227 767	184 342	324 083	262 295
- amortisation	6	59 154	62 951	84 169	89 571
- changes in write-down to net realizable value	8	(70 166)	253 681	(99 837)	360 956
- changes in provision for guarantees		(3 607)	(15 546)	(5 132)	(22 120)
- changes in accrued liabilities for unused vacations	15	13 830	(39 232)	19 679	(55 822)
- changes in provisions for bonuses		50 000	-	71 144	-
- changes in doubtful debt allowances	9	60 852	(152 282)	86 585	(216 678)
- interest income	23	(39 201)	(55 047)	(55 778)	(78 325)
- interest expenses	24	-	649	-	923
- government grants	22	(44 538)	(54 141)	(63 372)	(77 036)
- (profit)/loss on disposal of property, plant and equipment		(1 092)	(100)	(1 555)	(142)
Operating profit before changes in current assets		**248 769**	**878 541**	**353 967**	**1 250 051**
(Increase)/decrease of stock		50 309	143 394	71 583	204 031
(Increase)/ decrease in receivables		(583 691)	514 394	(830 517)	731 917
Increase/(decrease) in payables		300 390	(724 161)	427 416	(1 030 388)
Cash from operating activities		**15 777**	**812 168**	**22 449**	**1 155 611**
Government grants	22	49 325	53 747	70 183	76 475
Interest payments		-	(649)	-	(923)
Corporate income tax recovered/ (paid)	26	(31 086)	(410 955)	(44 232)	(584 736)
Other payments related to corporate income tax	25	(2 760)	-	(3 927)	-
Net cash flows from operating activities		**31 256**	**454 311**	**44 473**	**646 427**
Cash flows from investing activities					
Purchase of property, plant and equipment		(308 420)	(166 140)	(438 842)	(236 396)
Proceeds from sales of property, plant and equipment		1 150	100	1 636	142
Purchase of intangible assets		(33 414)	(87 881)	(47 544)	(125 043)
Interest income		47 978	64 130	68 267	91 249
Investments in other companies		(335)	-	(477)	-
Investments in subsidiaries and joint ventures		(42 833)	(5 282)	(60 946)	(7 516)
Loans issued		(281 122)	-	(400 000)	-
Loan repayment received		52 783	22 772	75 103	32 402
Net cash received from placements with banks/ (placed with banks)		1 443 330	579 046	2 053 674	823 907
Net cash flows from investing activities		**879 117**	**406 745**	**1 250 871**	**578 745**

The accompanying notes on pages 15 to 48 form an integral part of these financial statements.

Statement of Cash Flow (continued)

	Note	For the year ended 30 June 2013 LVL	2012 LVL	For the year ended 30 June 2013 EUR	2012 EUR
Cash flows from financing activities					
(Repaid) / received loans		4 411	(4 294)	6 276	(6 110)
Dividends paid		(297 018)	(683 141)	(422 618)	(972 022)
Net cash flows from financing activities		**(292 607)**	**(687 435)**	**(416 342)**	**(978 132)**
Net increase of cash and cash equivalents		**617 766**	**173 621**	**879 002**	**247 040**
Cash and cash equivalents at the beginning of the year		**1 321 923**	**1 148 302**	1 880 927	1 633 887
Cash and cash equivalents at the end of the year	12	**1 939 689**	**1 321 923**	**2 759 929**	**1 880 927**

The accompanying notes on pages 15 to 48 form an integral part of these financial statements.

Normunds Bergs
Chairman of the Board

Didzis Liepkalns
Member of the Board

Aira Loite
Member of the Board

Riga, 25 October 2013

Notes to the financial statements

1. General information

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

Promotion of the Company's products and services, marketing, market research, attraction of new clients and technical support in North America is provided by a 100% subsidiary SAF North America LLC.

In August 2012 another company began operations in North America - SAF Services LLC, in which the Company holds 50% shares (joint venture arrangement). The objective of establishing SAF Services LLC was to provide local clients with services connected with the creation, long-term maintenance and management of data transmission networks. Both of these companies are registered in the USA and operate in Denver, Colorado.

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

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

These financial statements were approved by the Company's Board on 25 October 2013. The financial statements will be presented for approval to the shareholders' meeting. The shareholders have the power to reject the financial statements prepared and issued by management and the right to request that new financial statements be issued.

2. Summary of accounting principles used

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

These are the Company's separate financial statements reflecting the investments in subsidiaries and joint ventures at their cost less impairment. The consolidated financial statements of the Company will be prepared separately. The previous sets of separate and consolidated financial statements were prepared for the financial year ended 30 June 2012.

A Basis of preparation

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

Notes to the financial statements (continued)

2. Summary of accounting principles used (continued)

A Basis of preparation (continued)

Standards, amendments to standards and interpretations that became effective on or after 1 July 2012 and are applicable to financial statements for year ending on 30 June 2013:

Amendments to IAS 1 Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after 1 July 2012; to be applied retrospectively) The amendments require that that the Company present separately the items of other comprehensive income that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. If items of other comprehensive income are presented before related tax effects, then the aggregated tax amount should be allocated between these sections. The amendments change the title of the Statement of Comprehensive Income to Statement of Profit or Loss and Other Comprehensive Income; however, other titles are also allowed to be used. The Company has adopted these amendments to IAS 1 early, i.e. from 1 July 2011. Prior to the amendments the Company used the name Statement of Profit and Loss which was renamed to the Statement of Profit and Loss and Other Comprehensive Income. The amendments do not have any other impact on the financial statements as the Company does not other comprehensive income.

B Foreign currency revaluation

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

The requirements of Riga Stock Exchange prescribe that all balances should also be reported in EUR. Using EUR as the presentation currency, the statement of profit and loss and other comprehensive income and the related notes were denominated in LVL according to the exchange rates set by the Bank of Latvia at the transaction date, whereas the statement of financial position and the related notes were revalued according to the exchange rates set by the Bank of Latvia at the statement of financial position date. The translation of the financial statements into EUR has not resulted in foreign exchange gains or losses as the Latvian lat is pegged to EUR at the 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 June 2013 LVL	30 June 2012 LVL
1 USD	0.539000	0.562000
1 EUR	0.702804	0.702804
1 GBP	0.827000	0.876000

C Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and 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.

Notes to the financial statements (continued)

2. Summary of accounting principles used (continued)

C Property, plant and equipment (continued)

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

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

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

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

Depreciation is calculated on a straight-line basis to write down each asset to its estimated residual value over its estimated useful life using the 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 reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount exceeds its estimated recoverable amount (see Note F).

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

D Intangible assets

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

(b) Software
The acquired software licenses are capitalised on the basis of the purchase and installation costs. These costs are amortised over their estimated useful lives of three years.

Notes to the financial statements (continued)

2. Summary of accounting principles used (continued)

E Cost of research and development activities

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

F Impairment of non-current assets

Intangible assets that are not put in use or have an indefinite useful life are not subject to amortisation and are reviewed for impairment on an annual basis.
Moreover, the carrying amounts of the Company's property, plant and equipment and intangible assets that are subject to amortisation and depreciation are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, 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.

All Company's assets are allocated to two cash generating units that are identified as Company's operating segments (see note 18). There have been no impairment indicators noted.

In respect of non-current 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. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

G Operating segments

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

Notes to the financial statements (continued)

2. Summary of accounting principles used (continued)

H Government grants

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

I Stock

Stock is stated at the lower of cost or net realizable value. Cost is valued based on the FIFO method. 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, personnel and depreciation.

J Financial instruments

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

Financial instruments except for derivatives are initially recognised at fair value plus directly attributable transaction costs.

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

Financial liabilities are derecognized if the Company's obligations specified in the contract expire or are discharged or cancelled.

Loans, receivables and other debts

Loans and receivables and other debts are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than held for trading. Loans and receivables are stated at their amortized cost after deducting allowance for estimated irrecoverable amounts. Amortized cost is determined using the effective interest rate method, less any impairment losses. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset. When calculating the effective interest rate, the Company estimates future cash flows considering all contractual terms of the financial instruments. An impairment allowance for impairment of loans and receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the loan or trade receivable is impaired. The amount of the allowance 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.

Notes to the financial statements (continued)

2. Summary of accounting principles used (continued)

J Financial instruments (continued)

Available for sale financial investments

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 plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method.

Please see note 3 (2) for the description of accounting policy for derivatives.

K 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.

L 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.

M Corporate income tax and Deferred tax

Corporate income tax comprises current and deferred tax.

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

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

Income taxes are recognized through profit or loss unless they relate to items recognized directly in equity.

N Employee benefits

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

Notes to the financial statements (continued)

2. Summary of accounting principles used (continued)

O Revenue recognition

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

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

(b) Provision of services
Revenue is recognised in the period when the services are rendered.

P Leases

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.

Q Payment of dividends

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

R 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.

S New standards and interpretations not yet adopted

The following new Standards and Interpretations are not yet effective for the annual period beginning 1 July 2012 and have not been applied in preparing these financial statements:

- Amendments to IFRS 7 and IAS 32 on *Offsetting Financial Assets and Financial Liabilities*

  Amendments to IFRS 7 Disclosures (effective for annual periods beginning on or after 1 January 2013; to be applied retrospectively) contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting arrangements or similar agreements.

  Amendments to IAS 32 (effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively) clarify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The Company does not expect the Amendments to have any impact on the financial statements since the Company does not apply offsetting to any of their financial assets and financial liabilities and have not entered into master netting arrangements.

Notes to the financial statements (continued)

2. Summary of accounting principles used (continued)

S New standards and interpretations not yet adopted (continued)

- IFRS 10 *Consolidated Financial Statements,* IFRS 11 *Joint Arrangements,* IFRS 12 *Disclosure of Interests in Other Entities* (effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively). IFRS 10 provides a single model to be applied in the control analysis for all investees, including entities that currently are SPEs in the scope of SIC-12. IFRS 10 introduces new requirements to assess control that are different from the existing requirements in IAS 27 (2008). Under the new single control model, an investor controls an investee when:

  (1) it is exposed or has rights to variable returns from its involvements with the investee;
  (2) it has the ability to affect those returns through its power over that investee; and
  (3) there is a link between power and returns.

  The new IFRS 10 also includes the disclosure requirements and the requirements relating to the preparation of consolidated financial statements.

  Under the new IFRS 11, joint arrangements are divided into two types, each having its own accounting model defined as follows:

  - a joint operation is one whereby the jointly controlling parties, known as the joint operators, have rights to the assets, and obligations for the liabilities, relating to the arrangement.
  - A joint venture is one whereby the jointly controlling parties, known as joint venturers, have rights to the net assets of the arrangement.

  IFRS 11 effectively carves out from IAS 31 jointly controlled entities those cases in which, although there is a separate vehicle for the joint arrangement, separation is ineffective in certain ways. These arrangements are treated similarly to jointly controlled assets/operations under IAS 31, and are now called joint operations. IFRS 11 eliminates the free choice of equity accounting or proportionate consolidation; the equity method must always be used in financial statements.

  IFRS 12 requires additional disclosures relating to significant judgements and assumptions made in determining the nature of interests in an entity or arrangement, interests in subsidiaries, joint arrangements and associates and unconsolidated structured entities.

  The Company did not complete the assessment of the impact of these new standards on the Company's operations.

- IFRS 13 *Fair Value Measurement* (effective prospectively for annual periods beginning on or after 1 January 2013). IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 explains 'how' to measure fair value when it is required or permitted by other IFRSs.

  The Company does not expect IFRS 13 to have a material impact on the financial statements since management considers the methods and assumptions currently used to measure the fair value of assets to be consistent with IFRS 13.

- Amendments to IAS 12: *Deferred Tax: Recovery of Underlying Assets* (effective for annual periods beginning on or after 1 January 2013; to be applied retrospectively). The amendments introduce a rebuttable presumption that the carrying value of investment property measured using the fair value model would be recovered entirely by sale. Management's intention would not be relevant unless the investment property is *depreciable* and held within a business model whose objective is to consume substantially all of the asset's economic benefits over the life of the asset. This is the only instance in which the presumption can be rebutted.

  The amendments are not relevant to the Company's financial statements, since the Company does not have any investment properties measured using the fair value model in IAS 40.

Notes to the financial statements (continued)

2. Summary of accounting principles used (continued)

S New standards and interpretations not yet adopted (continued)

- IAS 19 (2011) *Employee Benefits* (effective for annual periods beginning on or after 1 January 2013; to be applied retrospectively. Transitional provisions apply). The amendment requires actuarial gains and losses to be recognized immediately in other comprehensive income. The amendment removes the corridor method previously applicable to recognizing actuarial gains and losses, and eliminates the ability for entities to recognize 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 recognized in profit or loss to be calculated based on rate used to discount the defined benefit obligation.

  The amendments are not relevant to the Company's financial statements, since the Company does not have any defined benefit plans. Other amendment impact is still being assessed by the Company.

- IAS 27 (2011) *Separate Financial Statements* (effective for annual periods beginning on or after 1 January 2014) introduces minor clarifications. The Standard no longer addresses the principle of control and requirements relating to the preparation of consolidated financial statements, which have been incorporated into IFRS 10, *Consolidated Financial Statements*. The Company did not complete the assessment of the impact of these new standards on the Company's operations.

- IAS 28 (2011) *Investments in Associates and Joint Ventures* (Amendments effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively). There are limited amendments made to IAS 28 (2008):
  - *Associates and joint ventures held for sale.* IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* applies to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale. For any retained portion of the investment that has not been classified as held for sale, the equity method is applied until disposal of the portion held for sale. After disposal, any retained interest is accounted for using the equity method if the retained interest continues to be an *associate or a joint venture.*
  - *Changes in interests held in associates and joint ventures.* Previously, IAS 28 (2008) and IAS 31 specified that the cessation of significant influence or joint control triggered remeasurement of any retained stake in all cases, even if significant influence was succeeded by joint control. IAS 28 (2011) now requires that in such scenarios the retained interest in the investment is not remeasured.

  The Company did not complete the assessment of the impact of these new standards on the Company's operations.

Notes to the financial statements (continued)

3. Financial risk management (continued)

(1) Financial risk factors

The Company's activities expose it to a variety of financial risks:
(a) foreign currency risk;
(b) credit risk;
(c) liquidity risk;
(d) interest rate risk.

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

(a) Foreign currency risk
The Company operates internationally and is exposed to foreign currency risk arising mainly from fluctuations of the U.S. dollar.

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

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

	30/06/2013 USD expressed in LVL	30/06/2012 USD expressed in LVL	30/06/2013 EUR expressed in LVL	30/06/2012 EUR expressed in LVL
Gross Trade receivables	1 762 028	1 103 063	521 058	439 633
Loans	-	-	253 009	24 670
Placements with banks	161 700	-	253 363	1 708 393
Cash and cash equivalents	577 808	272 758	1 197 281	836 302
Trade payables	(374 626)	(325 736)	(224 220)	(162 218)
Other liabilities	(65 543)	(89 670)	(28 627)	(14 862)
Loans	(4 626)	(1 932)	(4 532)	(282)
Net open positions	**2 056 741**	**958 483**	**1 967 332**	**2 831 636**

	30/06/2013 USD expressed in EUR	30/06/2012 USD expressed in EUR	30/06/2013 EUR expressed in EUR	30/06/2012 EUR expressed in EUR
Gross Trade receivables	2 507 140	1 569 517	741 399	625 542
Loans	-	-	360 000	35 102
Placements with banks	230 078	-	360 503	2 430 824
Cash and cash equivalents	822 147	388 099	1 703 577	1 189 951
Trade payables	(533 045)	(463 481)	(319 037)	(230 815)
Other liabilities	(93 259)	(127 589)	(40 733)	(21 147)
Loans	(6 582)	(2 749)	(6 448)	(401)
Net open positions	**2 926 479**	**1 363 797**	**2 799 261**	**4 029 056**

Notes to the financial statements (continued)

3. Financial risk management (continued)

(1) Financial risk factors (continued)

Sensitivity analysis

A 10 percent weakening of the lat against the USD and a 1 percent weakening of the lat against the EUR on 30 June would have increased (decreased) profit or loss and equity by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis for 2011/2012 was performed on the same basis. The Latvian lat was pegged to Euro as at 30 June 2012 and 30 June 2013.

	2012/ 2013 Effect in LVL	2011/ 2012 Effect in LVL	2012/ 2013 Effect in EUR	2011/ 2012 Effect in EUR
USD	205 674	95 848	292 648	136 380
EUR	19 673	28 316	27 992	40 291
	225 347	**124 164**	**320 640**	**176 671**

(b) Credit risk

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

As at 30 June 2013, the Company's credit risk exposure to a single customer amounted to 13.63% of the total short and long-term receivables (30 June 2012: 14.31%). With respect to credit risk arising from the other financial assets of the Company, which comprise cash and cash equivalents, the Company's exposure to credit risk arises from the default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The Company's maximum credit risk exposure amounts to LVL 4 944 889 or 57.15% of total assets (30 June 2012: LVL 5 014 515 or 57.94% of total assets).

For more information on the Company's exposure to credit risk please refer to note 9.

(c) Liquidity risk

The company follows a prudent liquidity risk management and hence maintains a sufficient quantity of liquid funds. The Company current ratio is 5.4 (30.06.2012: 7), quick ratio is 3.3 (30.06.2012: 4.4).
The Company's management monitors liquidity reserves for the operational forecasting, based on estimated net cash flows. Most of the Company's liabilities are short term.
Management believes that the Company will have sufficient liquidity to be generated from operating activities and does not see significant exposure to credit risk.

For more information on the Company's exposure to liquidity risk please refer to note 15.

(d) Interest rate risk.

As the Company does not have significant interest bearing liabilities, thus the Company's cash flows and net results are largely independent of changes in market interest rates. The Company's cash flows from interest bearing assets are dependent on current market interest rates; however as the Company mainly has short-term interest-bearing assets, the exposure is not significant.

Notes to the financial statements (continued)

3. Financial risk management (continued)

(2) Accounting for derivative financial instruments

The Company uses derivative financial instruments such as forward currency contracts to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are initially recognized at fair value on the date on which derivative contract is entered to and are subsequently remeasured at fair value through profit and loss. 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 2013 the Company did not have any open derivative financial instruments contracts.

(3) Fair value

The carrying amounts of financial assets and liabilities of the Company do not significantly differ from fair value, as the influence of the 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 2013. Fair value of the financial instrument available for sale cannot be measured.

4. Management of the capital structure

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

	30/06/2013 LVL	30/06/2012 LVL	30/06/2013 EUR	30/06/2012 EUR
Debt	1 457 094	1 146 397	2 073 259	1 631 177
Cash	(1 939 689)	(1 321 923)	(2 759 929)	(1 880 927)
Net debt	**(482 595)**	**(175 526)**	**(686 670)**	**(249 750)**
Shareholders' equity	**7 195 967**	**7 507 556**	**10 238 938**	**10 682 289**
Debt to equity ratio	20%	15%	20%	15%
Net debt to equity ratio	-7%	-2%	-7%	-2%

The current year losses will be covered by retained earnings from previous years.

Notes to the financial statements (continued)

5. Key estimates and assumptions

The management 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 and impairment of non-current assets
When the events and circumstances indicate a potential impairment, the Company performs impairment tests for items of property, plant and equipment and intangible assets. According to these tests assets are written down to their recoverable amounts, if necessary. When carrying out impairment tests management uses various estimates for the cash flows arising from the use of the assets, sales, maintenance, and repairs of the assets, as well as in respect of the inflation and growth rates. If the situation changes in the future, either additional impairment could be recognised, or the previously recognised impairment could be partially or fully reversed. See also Note 2F.

Impairment of loans and receivables
The Company recognizes allowances 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. See also Note 2J.

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. See also Note 2C.

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

As at the reporting date, the following provisions were recognized:

- 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 2013 and the average remuneration during the last six months of the reporting year.
- provision for bonuses is calculated in accordance with the procedures approved by management.

Recognition of 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. See also Note 2M.

Notes to the financial statements (continued)

6. Property, plant and equipment and intangible assets

	Intangible assets	Long term investments in leased fixed assets	Equipment and machinery	Other fixed assets	Other long-term assets	Total
	LVL	LVL	LVL	LVL	LVL	LVL
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
Reclassifications	-	-	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**
Reporting year ended 30 June 2013						
Opening balance	**92 404**	**250 984**	**195 948**	**39 221**	**-**	**578 557**
Acquisitions	33 414	30 984	59 511	140 858	77 067	341 834
Disposals	-	-	-	(58)	-	(58)
Charge for the period	(59 154)	(82 945)	(116 889)	(27 933)	-	(286 921)
Closing balance	**66 664**	**199 023**	**138 570**	**152 088**	**77 067**	**633 412**
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**
30 June 2013						
Historical cost	664 745	782 832	2 285 026	518 479	77 067	4 328 149
Accumulated depreciation	(598 081)	(583 809)	(2 146 456)	(366 391)	-	(3 694 737)
Carrying amount	**66 664**	**199 023**	**138 570**	**152 088**	**77 067**	**633 412**

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

Depreciation of LVL 135 586 is included in the profit or loss statement item *Cost of sales* (2011/ 2012: LVL 145 637); depreciation of LVL 111 593 in *Sales and marketing costs* (2011/ 2012: LVL 70 898); and depreciation of LVL 39 742 in *Administrative expenses* (2011/ 2012: LVL 30 758), including depreciation of LVL 742 under *Other administrative expenses* (2011/ 2012: LVL 21).

The acquisition costs of fully depreciated property, plant and equipment that is still in use at the reporting date amounted to LVL 2 711 863 (2011/ 2012: LVL 2 733 318).

The *Equipment and machinery* group includes items bought with EU co-financing and according to the agreement with the EU have restrictions in their usage in operations. In total cost of such items amount to LVL 45 670 (2011/ 2012: LVL 304 043), the carrying amount of PPE as at 30 June 2013 is LVL 10 413 (2011/ 2012: LVL 25 635). The restrictions apply until December 2014.

Other long-term assets include property, plant and equipment under construction.

Notes to the financial statements (continued)

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

	Intangible assets	Long term investments in leased fixed assets	Equipment and machinery	Other fixed assets	Other long-term assets	Total
	EUR	EUR	EUR	EUR	EUR	EUR
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
Reclassifications	-	-	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**
Reporting year ended 30 June 2013						
Opening balance	**131 479**	**357 118**	**278 809**	**55 806**	**-**	**823 212**
Acquisitions	47 544	44 086	84 676	200 424	109 656	486 386
Disposals	-	-	-	(83)	-	(83)
Charge for the period	(84 169)	(118 020)	(166 318)	(39 745)	-	(408 252)
Closing balance	**94 854**	**283 184**	**197 167**	**216 402**	**109 656**	**901 263**
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**
30 June 2013						
Historical cost	945 847	1 113 869	3 251 299	737 729	109 656	6 158 400
Accumulated depreciation	(850 993)	(830 685)	(3 054 132)	(521 327)	-	(5 257 137)
Carrying amount	**94 854**	**283 184**	**197 167**	**216 402**	**109 656**	**901 263**

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

Depreciation of EUR 192 921 is included in the profit or loss statement item *Cost of sales* (2011/2012: EUR 207 223); depreciation of EUR 158 783 in *Sales and marketing costs* (2011/ 2012: EUR 100 879); and depreciation of EUR 56 548 in *Administrative expenses* (2011/ 2012: EUR 43 766), including depreciation of EUR 1 056 under *Other administration expenses* (2011/ 2012: EUR 31).

The acquisition costs of fully depreciated property, plant and equipment that is still in use at the reporting date amounted to EUR 3 858 633 (2011/ 2012: EUR 3 889 161).

The *Equipment and machinery* group includes items bought with EU co-financing and according to the agreement with the EU have restrictions in their usage in operations. In total cost of such items amount to EUR 64 983 (2011/ 2012: EUR 432 614), the carrying amount of PPE as at 30 June 2013 is EUR 14 816 (2011/ 2012: EUR 36 475). The restrictions apply until December 2014.

Other long-term assets include property, plant and equipment under construction.

Notes to the financial statements (continued)

7. Investments in companies

Name	Equity share 30/06/2013 %	Equity share 30/06/2012 %
LEO pētījumu centrs SIA	10	10
SAF North America LLC	100	100
SAF Sevices LLC	50	-
LEITC SIA	16.75	-

LEO petijumu centrs is a limited liability company established in 2010 by the members of the Latvian Electrical Engineering and Electronic Industry Association (LETERA) and the company's objective is to attract EU funding for research and development of new products in the sphere of electronics and electrical engineering. The Company has invested LVL 500 (EUR 711) in its share capital and has become the owner of 10% of its shares.

SAF North America LLC is a 100% subsidiary of the Company that operates in Denver, USA that started active operations in the spring of 2012 and promotes the Company's products and services, performs marketing, market research, attraction of new clients and provides technical support in North America. During 2012/2013, the Company increased its share of investment in SAF North America LLC by LVL 16 245 (EUR 23 115) and as at 30 June 2013 it amounted to LVL 21 527 (EUR 30 631) (2011/2012: LVL 5 282 (EUR 7 516)).

In August 2012, a joint venture, SAF Services LLC began operations in North America and the Company invested in it LVL 26 588 (EUR 37 831) which is a 50% holding. The objective of establishing SAF Services LLC was to provide local clients with services connected with the creation, long-term maintenance and management of data transmission networks. Joint control is established through equal voting rights and contractual arrangement.

In September 2012, the Company acquired the shares of LEITC SIA (Latvijas Elektronikas iekārtu testēšanas centrs) and became the owner of 16.75% shares through an investment of LVL 335 (EUR 477). The mission of LEITC is to support research of electromagnetic compatibility (EMC) and educational projects that aim to expand the knowledge base, the range of equipment and to set up a group of specialists capable of addressing today's and future EMC issues.

8. Stock

	30/06/2013 LVL	30/06/2012 LVL	30/06/2013 EUR	30/06/2012 EUR
Raw materials	853 659	1 008 472	1 214 647	1 434 927
Work in progress	1 230 765	1 306 884	1 751 221	1 859 528
Finished goods	903 755	652 966	1 285 927	929 087
	2 988 179	**2 968 322**	**4 251 795**	**4 223 542**

During the reporting year, reduction in write-down to net realizable value of LVL 70 166 (EUR 99 837) (2011/2012: increase of LVL 253 681 (EUR 360 956)) was recognised and included in cost of sales.

The item *Finished goods* within *Stock* include property, plant and equipment sent to clients for trial with an option to buy or return the equipment and the equipment sent to substitute damaged equipment. As at 30 June 2013 the value of equipment sent due to the above reasons amounted to LVL 156 201 (EUR 222 254) (2011/2012: LVL 141 773 (EUR 201 725).

Included under stock items "Work in Progress" and "Finished goods" are Salary expenses (including accruals for vacation pay) in amount of LVL 16 388 (EUR 23 318) (2011/2012: LVL 11 240 (EUR 15 993), Social insurance (including accruals for vacation pay) in amount of LVL 3 938 (EUR 5 603) (2011/2012: LVL 2 708 (EUR 3 853)) and depreciation and amortization expenses in amount of LVL 2 862 (EUR 4 072) (2011/2012: LVL 2 176 (EUR 3 096)).

Notes to the financial statements (continued)

9. Trade receivables

	30/06/2013 LVL	30/06/2012 LVL	30/06/2013 EUR	30/06/2012 EUR
Long term trade receivables	**45 263**	**-**	**64 404**	**-**
Trade receivables	2 190 308	1 552 874	3 116 528	2 209 541
Due from related parties	49 552	13 112	70 506	18 657
Allowances for bad and doubtful trade receivables	(356 033)	(295 181)	(506 590)	(420 005)
Short-term trade receivables, net	**1 883 827**	**1 270 805**	**2 680 444**	**1 808 193**
Total trade receivables, net	**1 929 090**	**1 270 805**	**2 744 848**	**1 808 193**

As at 30 June 2013, trade receivables do not include letters of credit (2011/2012: one) with the original payment up to 180 days (2011/2012: LVL 224 084 (EUR 318 843)). As at 30 June 2013, the fair value of receivables approximated their carrying amount.

In the reporting year, included in the profit or loss statement caption Administrative expenses was the net increase of allowances for bad and doubtful trade receivables in the amount of LVL 60 852 (EUR 86 585) (2011/2012 – increase of LVL 152 282 (EUR 216 678)) *(see Note 20)*.

The maturity of long-term receivables is 5 November 2014.

Movement in Allowances for bad and doubtful trade receivables

	LVL	EUR
Allowances for bad and doubtful trade receivables as at 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 as at 30 June 2012	**295 181**	**420 005**
Written-off	(26 294)	(37 413)
Additional allowances	116 283	165 456
Recovered debts	(29 137)	(41 458)
Allowances for bad and doubtful trade receivables as at 30 June 2013	**356 033**	**506 590**

Split of Gross Trade receivables by currencies expressed in LVL

	30/06/2013 LVL	30/06/2013 %	30/06/2012 LVL	30/06/2012 %
LVL	2 775	0.12	23 290	1.49
USD	1 762 028	77.11	1 103 063	70.44
EUR	520 320	22.77	439 633	28.07
Total trade receivables	**2 285 123**	**100%**	**1 565 986**	**100%**

Notes to the financial statements (continued)

9. Trade receivables (continued)

Split of Gross Trade receivables by currencies expressed in EUR

	30/06/2013 EUR	30/06/2013 %	30/06/2012 EUR	30/06/2012 %
LVL	3 948	0.12	33 139	1.49
USD	2 507 140	77.11	1 569 517	70.44
EUR	740 349	22.77	625 542	28.07
Total trade receivables	**3 251 437**	**100%**	**2 228 198**	**100%**

Ageing of Trade receivables at the reporting date

	30/06/2013 Gross LVL	30/06/2013 Impairment LVL	30/06/2012 Gross LVL	30/06/2012 Impairment LVL
Not overdue	1 546 313	(31 150)	1 006 985	-
Overdue by 0 – 89 days	389 098	(1 080)	141 441	(37 106)
Overdue by 90 and more days	349 712	(323 803)	417 560	(258 075)
Total trade receivables	**2 285 123**	**(356 033)**	**1 565 986**	**(295 181)**

	30/06/2013 Gross EUR	30/06/2013 Impairment EUR	30/06/2012 Gross EUR	30/06/2012 Impairment EUR
Not overdue	2 200 205	(44 323)	1 432 811	-
Overdue by 0 – 89 days	553 637	(1 537)	201 252	(52 797)
Overdue by 90 and more days	497 595	(460 730)	594 135	(367 208)
Total trade receivables	**3 251 437**	**(506 590)**	**2 228 198**	**(420 005)**

10. Other receivables

	30/06/2013 LVL	30/06/2012 LVL	30/06/2013 EUR	30/06/2012 EUR
Government grants*	32 156	42 270	45 754	60 145
Overpaid value added tax (refer to Note 25)	31 886	8 316	45 370	11 833
Advance payment to suppliers	17 402	58 236	24 761	82 862
Advance payment to a related company	-	339	-	482
Other receivables	73 676	163 775	104 831	233 031
	155 120	**272 936**	**220 716**	**388 353**

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

Notes to the financial statements (continued)

11. Placements with banks

	30/06/2013 LVL	30/06/2012 LVL	30/06/2013 EUR	30/06/2012 EUR
Deposits	415 063	1 858 393	590 581	2 644 255
	415 063	**1 858 393**	**590 581**	**2 644 255**

As at 30 June 2013 free cash resources were deposited in short term deposits (with maturity exceeding 90 days). The average maturity of deposits as at 30 June 2013 is 11 months (30.06.2012: 6 months). The average annual interest rate on deposits in other currencies was 1.55% (30.06.2012: 2.49%). No placements were made in lats (30.06.2012: 1.88%).

Split of Deposits by currencies expressed in LVL

	30/06/2013 LVL	30/06/2013 %	30/06/2012 LVL	30/06/2012 %
LVL	-	-	150 000	8.07
EUR	253 363	61.04	1 708 393	91.93
USD	161 700	38.96	-	-
Deposits	**415 063**	**100%**	**1 858 393**	**100%**

Split of Deposits by currencies expressed in EUR

	30/06/2013 EUR	30/06/2013 %	30/06/2012 EUR	30/06/2012 %
LVL	-	-	213 431	8.07
EUR	360 503	61.04	2 430 824	91.93
USD	230 078	38.96	-	-
Deposits	**590 581**	**100%**	**2 644 255**	**100%**

Split of Deposits by banks

	30/06/2013 LVL	30/06/2012 LVL	30/06/2013 EUR	30/06/2012 EUR
Trasta Komercbanka AS	-	1 114 017	-	1 585 104
PrivatBank AS	415 063	290 561	590 581	413 431
Citadele Banka AS	-	453 815	-	645 720
Deposits	**415 063**	**1 858 393**	**590 581**	**2 644 255**

12. Cash and cash equivalents

	30/06/2013 LVL	30/06/2012 LVL	30/06/2013 EUR	30/06/2012 EUR
Cash in bank	1 939 689	1 209 923	2 759 929	1 721 566
Short-term deposits in banks	-	112 000	-	159 361
	1 939 689	**1 321 923**	**2 759 929**	**1 880 927**

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 for short-term placements in lats was 0.48%. As at 30 June 2013 no short-term placements of free cash for a term up to 90 days were made.

Notes to the financial statements (continued)

12. Cash and cash equivalents (continued)

Split of cash and cash equivalents by currencies expressed in LVL

	30/06/2013 LVL	30/06/2013 %	30/06/2012 LVL	30/06/2012 %
LVL	164 600	8.49	212 800	16.10
USD	577 808	29.79	272 758	20.63
EUR	1 197 281	61.72	836 302	63.27
GBP	-	-	63	0.00
Cash and cash equivalents	**1 939 689**	**100%**	**1 321 923**	**100%**

Split of cash and cash equivalents by currencies expressed in EUR

	30/06/2013 EUR	30/06/2013 %	30/06/2012 EUR	30/06/2012 %
LVL	234 205	8.49	302 787	16.10
USD	822 147	29.79	388 099	20.63
EUR	1 703 577	61.72	1 189 951	63.27
GBP	-	-	90	0.00
Cash and cash equivalents	**2 759 929**	**100%**	**1 880 927**	**100%**

Split of cash and cash equivalents by banks

	30/06/2013 LVL	30/06/2012 LVL	30/06/2013 EUR	30/06/2012 EUR
Trasta Komercbanka AS	3	112 000	4	159 361
Citadele Banka AS	11 845	6 953	16 854	9 894
Swedbank AS	679 173	445 135	966 376	633 370
Nordea bank Finland Plc Latvijas filiāle	1 101 599	700 225	1 567 435	996 330
JP Morgan Chase bank	147 069	57 610	209 260	81 972
	1 939 689	**1 321 923**	**2 759 929**	**1 880 927**

Notes to the financial statements (continued)

13. Deferred tax (assets)/ liabilities

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

	Balance at 30/06/2011 LVL	Recognized in profit or loss 2011/ 2012 LVL	Balance at 30/06/2012 LVL	Recognized in profit or loss 2012/ 2013 LVL	Balance at 30/06/2013 LVL
Temporary difference on Property, plant and equipment depreciation and intangible asset amortisation	650	8 808	9 458	4 487	13 945
Temporary difference in the accrued liabilities for unused vacations	(23 753)	5 885	(17 868)	(2 074)	(19 942)
Temporary difference on inventory write-down to net realizable value	(43 796)	(38 052)	(81 848)	10 524	(71 324)
Temporary difference on provisions for guarantees	(4 633)	2 332	(2 301)	541	(1 760)
Temporary difference on provisions for bonuses	(1 500)	1 500	-	(7 500)	(7 500)
Temporary difference on allowance for trade receivables	(67 119)	22 842	(44 277)	(9 128)	(53 405)
Unrecognized temporary differences	67 119	(22 842)	44 277	9 128	53 405
Deferred tax (asset), net	**(73 032)**	**(19 527)**	**(92 559)**	**5 978**	**(86 581)**

	Balance at 30/06/2011 EUR	Recognized in profit or loss 2011/ 2012 EUR	Balance at 30/06/2012 EUR	Recognized in profit or loss 2012/ 2013 EUR	Balance at 30/06/2013 EUR
Temporary difference on Property, plant and equipment depreciation and intangible asset amortisation	925	12 533	13 458	6 384	19 842
Temporary difference in the accrued liabilities for unused vacations	(33 798)	8 374	(25 424)	(2 951)	(28 375)
Temporary difference on correction of valuation of inventories	(62 316)	(54 144)	(116 460)	14 975	(101 485)
Temporary difference on provisions for guarantees	(6 592)	3 318	(3 274)	770	(2 504)
Temporary difference on provisions for bonuses	(2 134)	2 134	-	(10 672)	(10 672)
Temporary difference on allowance for trade receivables	(95 502)	32 502	(63 000)	(12 988)	(75 988)
Unrecognized temporary differences	95 502	(32 502)	63 000	12 988	75 988
Deferred tax (asset), net	**(103 915)**	**(27 785)**	**(131 700)**	**8 506**	**(123 194)**

Deferred income tax asset for the Company is recognised to the extent that the realisation of the related tax benefit through the future taxable profits is probable. Management believes that there is reasonable assurance that taxable profits in the next taxation periods will be sufficient to recover the recognized deferred tax asset in full.

Notes to the financial statements (continued)

14. Share capital

As at 30 June 2013, 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 (2011/ 2012: 2 970 180 shares).

15. Payables, provisions and other liabilities

	30/06/2013 LVL	30/06/2012 LVL	30/06/2013 EUR	30/06/2012 EUR
Trade accounts payable	700 510	533 179	996 737	758 645
Other accounts payable	184 413	199 124	262 395	283 328
Trade and other payables	**884 923**	**732 303**	**1 259 132**	**1 041 973**
Provisions for guarantees	11 731	15 338	16 692	21 824
Provision for bonuses	50 000	-	71 144	-
Provisions	**61 731**	**15 338**	**87 836**	**21 824**
Accrued liabilities for unused vacations	132 949	119 119	189 170	169 491
Customer advances	68 770	23 612	97 849	33 597
Taxes and social security payments (refer to note 26)	75 473	78 814	107 389	112 142
Other liabilities	22 164	144 253	31 537	205 254
Other liabilities	**299 356**	**365 798**	**425 945**	**520 484**
Total Payables, provisions and other liabilities	**1 246 010**	**1 113 439**	**1 772 913**	**1 584 281**

During the reporting period the increase in accrued liabilities for unused vacation pay included in profit or loss amounted to LVL 13 830 (EUR 19 678) (2011/ 2012: decrease of LVL 39 232 (EUR 55 822)).

Movement in Provisions

	Guarantees LVL	Bonuses LVL	Total LVL	Guarantees EUR	Bonuses EUR	Total EUR
Balance at 1 January 2013	15 338	-	15 338	21 824	-	21 824
Provisions made during the year	-	50 000	50 000	-	71 144	71 144
Provisions used during the year	(1 537)	-	(1 537)	(2 187)	-	(2 187)
Provisions reversed during the year	(2 070)	-	(2 070)	(2 945)	-	(2 945)
Balance at 31 December 2013	**11 731**	**50 000**	**61 731**	**16 692**	**71 144**	**87 836**

In the reporting year, movement in Provisions was included in the profit or loss statement.

Notes to the financial statements (continued)

15. Payables, provisions and other liabilities (continued)

Split of trade accounts payable by currencies expressed in LVL

	30/06/2013 LVL	30/06/2013 %	30/06/2012 LVL	30/06/2012 %
LVL	191 907	21.69	139 817	19.09
USD	440 169	49.74	415 406	56.73
EUR	252 847	28.57	177 080	24.18
Trade accounts payable	**884 923**	**100%**	**732 303**	**100%**

Split of trade accounts payable by currencies expressed in EUR

	30/06/2013 EUR	30/06/2013 %	30/06/2012 EUR	30/06/2012 %
LVL	273 059	21.69	198 942	19.09
USD	626 304	49.74	591 069	56.73
EUR	359 769	28.57	251 962	24.18
Trade accounts payable	**1 259 132**	**100%**	**1 041 973**	**100%**

Ageing analysis of trade accounts payable

	30/06/2013 LVL	30/06/2012 LVL	30/06/2013 EUR	30/06/2012 EUR
Not overdue	766 080	718 689	1 090 033	1 022 602
Overdue by 0 – 30 days	118 843	13 614	169 099	19 371
Trade accounts payable	**884 923**	**732 303**	**1 259 132**	**1 041 973**

16. Loans

	30/06/2013 LVL	30/06/2012 LVL	30/06/2013 EUR	30/06/2012 EUR
Credit cards	**9 896**	**5 485**	**14 081**	**7 805**

17. Deferred income

	30/06/2013 LVL	30/06/2012 LVL	30/06/2013 EUR	30/06/2012 EUR
Billing in advance of transfer of goods	164 032	-	233 397	-
Billing in advance for extended guarantee period	16 910	18 501	24 061	26 325
Government grants	3 645	8 972	5 186	12 766
	184 587	**27 473**	**262 644**	**39 091**

Notes to the financial statements (continued)

18. Segment information and sales

a) The Company's operations are divided into two major structural units:

- Operations with 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.

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

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

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

  CFIP Phoenix radio represents the type of microwave radio which is taking the commanding role on the market at present.

  Full Outdoor units of Lumina and 108 modifications are of growing and developing radio type 'all-in-one' which has biggest potential as part of future data/packet networks.

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

  CFM microwave radio product line was the main type of radio SAF has been supplying to the market over many years, but demand is decreasing. Nevertheless, 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.

- Operations related to sales of products purchased from other suppliers, like Antennas, cables, in SAF name renamed (OEMed) products and different accessories - as the second unit.

Notes to the financial statements (continued)

18. Segment information and sales (continued)

	CFM; CFIP; FreeMile		Other		Total	
	2012/13	2011/12	2012/13	2011/12	2012/13	2011/12
	LVL	LVL	LVL	LVL	LVL	LVL
Assets						
Reportable segment assets	4 173 048	3 369 913	1 535 655	1 896 403	5 708 703	5 266 316
Unallocated assets					2 944 358	3 387 637
Total assets					**8 653 061**	**8 653 953**
Segment liabilities	756 698	659 955	233 632	247 847	990 330	907 802
Unallocated liabilities					466 764	238 595
Total liabilities					**1 457 094**	**1 146 397**
Net sales	6 918 041	6 826 460	2 445 552	2 825 085	9 363 593	9 651 545
Segment result	**1 687 156**	**1 923 819**	**979 017**	**890 427**	**2 666 173**	**2 814 246**
Unallocated expenses					(2 706 706)	(2 400 608)
Profit/ (loss) from operating activities					**(40 533)**	**413 638**
Other income					59 563	67 567
Financial income/(expenses), net					(23 260)	212 061
Profit/(loss) before taxes					**(4 230)**	**693 266**
Corporate income tax					(10 341)	(75 426)
Current year's profit/ (loss)					**(14 571)**	**617 840**
Other information						
Additions of property plant and equipment and intangible assets	84 439	140 364	-	2 360	84 439	142 724
Unallocated additions of property plant and equipment and intangible assets					257 395	111 297
Total additions of property plant and equipment and intangible assets					**341 834**	**254 021**
Depreciation and amortization	134 467	139 273	1 809	6 364	136 276	145 637
Unallocated depreciation and amortization					150 645	101 656
Total depreciation and amortisation					**286 921**	**247 293**

Notes to the financial statements (continued)

18. Segment information and sales (continued)

	CFM; CFIP; FreeMile		Other		Total	
	2012/13	2011/12	2012/13	2011/12	2012/13	2011/12
	EUR	EUR	EUR	EUR	EUR	EUR
Assets						
Reportable segment assets	5 937 712	4 794 954	2 185 040	2 698 339	8 122 752	7 493 293
Unallocated assets					4 189 445	4 820 173
Total assets					**12 312 197**	**12 313 466**
Segment liabilities	1 076 684	939 031	332 429	352 655	1 409 113	1 291 686
Unallocated liabilities					664 146	339 491
Total liabilities					**2 073 259**	**1 631 177**
Net sales	9 843 486	9 713 177	3 479 707	4 019 734	13 323 193	13 732 911
Segment result	**2 400 607**	**2 737 348**	**1 393 016**	**1 266 963**	**3 793 623**	**4 004 311**
Unallocated expenses					(3 851 296)	(3 415 757)
Profit/ (loss) from operating activities					**(57 673)**	**588 554**
Other income					84 750	96 139
Financial income/(expenses), net					(33 096)	301 736
Profit/(loss) before taxes					**(6 019)**	**986 429**
Corporate income tax					(14 714)	(107 322)
Profit / (loss) of reporting year					**(20 733)**	**879 107**
Other information						
Additions of property plant and equipment and intangible assets	120 146	199 720	-	3 358	120 146	203 078
Unallocated additions of property plant and equipment and intangible assets					366 240	158 362
Total additions of property plant and equipment and intangible assets					**486 386**	**361 440**
Depreciation and amortization	191 329	198 168	2 574	9 055	193 903	207 223
Unallocated depreciation and amortization					214 349	144 645
Total depreciation and amortisation					**408 252**	**351 868**

Notes to the financial statements (continued)

18. Segment information and sales (continued)

b) This note provides information on division of the Company's net sales and assets by geographical segments (only trade receivables are allocated to regions based on customer residency, all other assets remain unallocated).

	Net sales		Assets	
	2012/2013 LVL	2011/2012 LVL	30/06/2013 LVL	30/06/2012 LVL
USA	3 961 229	3 303 490	915 000	432 225
Europe, CIS	3 188 757	3 678 375	458 937	374 110
Asia, Africa, Middle East	2 213 607	2 669 680	555 891	465 547
	9 363 593	**9 651 545**	**1 929 828**	**1 271 882**
Unallocated assets	-	-	6 723 233	7 382 071
	9 363 593	**9 651 545**	**8 653 061**	**8 653 953**

	Net sales		Assets	
	2012/2013 EUR	2011/2012 EUR	30/06/2013 EUR	30/06/2012 EUR
USA	5 636 321	4 700 442	1 301 928	615 001
Europe, CIS	4 537 193	5 233 856	653 008	532 310
Asia, Africa, Middle East	3 149 679	3 798 613	790 963	662 414
	13 323 193	**13 732 911**	**2 745 899**	**1 809 725**
Unallocated assets	-	-	9 566 298	10 503 741
	13 323 193	**13 732 911**	**12 312 197**	**12 313 466**

Please also refer to note 3 (1b) for the description of dependence on individual customers.

19. Cost of goods sold

	01.07.2012-30.06.2013 LVL	01.07.2011-30.06.2012 LVL	01.07.2012-30.06.2013 EUR	01.07.2011-30.06.2012 EUR
Purchases of components and subcontractors services	5 505 692	5 572 734	7 833 894	7 929 286
Salary expenses (including accruals for vacation pay)	1 017 724	1 069 574	1 448 091	1 521 867
Depreciation and amortization (refer to note 6)	132 724	143 461	188 849	204 127
Social insurance (including accruals for vacation pay)	243 074	255 880	345 863	364 083
Rent of premises	126 298	113 049	179 706	160 854
Public utilities	74 723	69 058	106 321	98 260
Transport	18 682	24 948	26 582	35 499
Communication expenses	10 261	11 071	14 600	15 753
Business trip expenses	4 045	2 935	5 756	4 176
Low value articles	2 708	1 634	3 853	2 325
Other production costs	52 306	62 038	74 425	88 272
	7 188 237	**7 326 382**	**10 227 940**	**10 424 502**

Research and development related expenses of LVL 725 080 (EUR 1 031 696) (2011/ 2012: LVL 666 455 (EUR 948 280)) are included in the profit or loss statement caption Purchases of components and subcontractors services.

Notes to the financial statements (continued)

20. Sales and marketing expenses

	01.07.2012-30.06.2013 LVL	01.07.2011-30.06.2012 LVL	01.07.2012-30.06.2013 EUR	01.07.2011-30.06.2012 EUR
Advertisement and marketing expenses	99 716	89 420	141 883	127 233
Salary expenses (including accruals for vacation pay)	565 145	624 793	804 129	889 000
Business trip expenses	242 754	253 854	345 408	361 202
Depreciation and amortization (refer to note 6)	111 593	70 898	158 783	100 879
Delivery costs	298 446	197 867	424 650	281 539
Social contributions (including accruals for vacation pay)	136 453	150 621	194 155	214 314
Other selling and distribution costs	166 169	86 981	236 437	123 764
	1 620 276	**1 474 434**	**2 305 445**	**2 097 931**

21. Administrative expenses

	01.07.2012-30.06.2013 LVL	01.07.2011-30.06.2012 LVL	01.07.2012-30.06.2013 EUR	01.07.2011-30.06.2012 EUR
Salary expenses (including accruals for vacation pay)	216 245	235 462	307 689	335 032
Depreciation and amortization (refer to note 6)	39 000	30 737	55 492	43 735
Social insurance (including accruals for vacation pay)	52 093	49 186	74 122	69 985
IT services	22 253	20 647	31 663	29 378
Expenses on cash turnover	10 872	16 222	15 469	23 082
Representation expenses	32 992	34 890	46 943	49 644
Training	23 214	41 050	33 031	58 409
Public utilities	9 887	8 802	14 068	12 524
Business trip expenses	40	5 246	57	7 464
Rent of premises	15 499	14 106	22 053	20 071
Insurance	16 876	9 936	24 012	14 138
Office maintenance	1 936	2 665	2 755	3 792
Sponsorship	1 910	23 525	2 718	33 473
Communication expenses	3 058	3 546	4 351	5 045
Allowances for bad and doubtful trade receivables	87 146	(131 012)	123 998	(186 413)
Other administrative expenses	62 592	72 083	89 060	102 565
	595 613	**437 091**	**847 481**	**621 924**

Other administrative expenses include the annual statutory audit fee in the amount of LVL 6 817 (year ended 30/06/2012 – LVL 6 817). During the year the Company did not receive any other services from the auditor.

Notes to the financial statements (continued)

22. Other income

	01.07.2012-30.06.2013 LVL	01.07.2011-30.06.2012 LVL	01.07.2012-30.06.2013 EUR	01.07.2011-30.06.2012 EUR
Government grants	44 538	54 141	63 372	77 036
Other income	15 025	13 426	21 378	19 103
	59 563	**67 567**	**84 750**	**96 139**

During the reporting year, the Company received a government grant of LVL 49 325 (EUR 70 183) (2011/ 2012: LVL 53 747 (EUR 76 475)).

23. Finance income

	01.07.2012-30.06.2013 LVL	01.07.2011-30.06.2012 LVL	01.07.2012-30.06.2013 EUR	01.07.2011-30.06.2012 EUR
Interest income	39 201	55 047	55 778	78 325
Net result of currency exchange fluctuations	-	157 663	-	224 334
	39 201	**212 710**	**55 778**	**302 659**

24. Finance expenses

	01.07.2012-30.06.2013 LVL	01.07.2011-30.06.2012 LVL	01.07.2012-30.06.2013 EUR	01.07.2011-30.06.2012 EUR
Interest expenses	-	649	-	923
Net result of currency exchange fluctuations	62 461	-	88 874	-
	62 461	**649**	**88 874**	**923**

25. Corporate income tax

	01.07.2012-30.06.2013 LVL	01.07.2011-30.06.2012 LVL	01.07.2012-30.06.2013 EUR	01.07.2011-30.06.2012 EUR
Change in deferred tax asset (see Note 13)	5 978	(19 527)	8 506	(27 785)
Corporate income tax for the reporting year	1 603	94 657	2 281	134 686
Other charges related to corporate income tax	2 760	296	3 927	421
	10 341	**75 426**	**14 714**	**107 322**

Notes to the financial statements (continued)

25. Corporate income tax (continued)

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

	01.07.2012-30.06.2013 LVL	01.07.2011-30.06.2012 LVL	01.07.2012-30.06.2013 EUR	01.07.2011-30.06.2012 EUR
Profit before tax	**(4 230)**	**693 266**	**(6 019)**	**986 429**
Tax rate	15%	15%	15%	15%
Tax calculated theoretically	(635)	103 990	(904)	147 965
Effect of non-deductible expenses	10 357	16 821	14 737	23 934
Effect of changes in unrecognized temporary differences	13 072	(19 652)	18 600	(27 962)
Impact of tax benefit	(12 453)	(25 733)	(17 719)	(36 615)
Corporate income tax	**10 341**	**75 426**	**14 714**	**107 322**

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

26. Taxes and compulsory state social security contributions

	VAT LVL	Social contributions LVL	Resident income tax LVL	Corporate income tax LVL	Business risk duty LVL	CIT for services provided by non-residents LVL	Total LVL
Payable as at 30.06.2012	**-**	**49 771**	**29 002**	**-**	**41**	**-**	**78 814**
(Overpaid) as at 30.06.2012	**(8 316)**	**-**	**-**	**(134 547)**	**-**	**(83)**	**(142 946)**
Calculated during the reporting period	(209 257)	647 259	386 830	1 603	497	733	827 665
Refund from the SRS	60 460	-	-	79 508	-		139 968
Transferred to/from other taxes	125 227	(174 227)	-	49 000	-	-	-
Paid during the reporting period	-	(473 415)	(389 789)	(110 594)	(496)	(733)	(975 027)
Payable as at 30.06.2013	**-**	**49 388**	**26 043**	**-**	**42**	**-**	**75 473**
(Overpaid) as at 30.06.2013	**(31 886)**	**-**	**-**	**(115 030)**	**-**	**(83)**	**(146 999)**

Notes to the financial statements (continued)

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

	VAT EUR	Social contributions EUR	Resident income tax EUR	Corporate income tax EUR	Business risk duty EUR	CIT for services provided by non-residents EUR	Total EUR
Payable as at 30.06.2012	**-**	**70 818**	**41 266**	**-**	**58**	**-**	**112 142**
(Overpaid) as at 30.06.2012	**(11 833)**	**-**	**-**	**(191 443)**	**-**	**(118)**	**(203 394)**
Calculated during the reporting period	(297 746)	920 967	550 410	2 281	708	1 043	1 177 663
Refund from the SRS	86 027	-	-	113 129	-	-	199 156
Transferred to/from other taxes	178 182	(247 903)	-	69 721	-	-	-
Paid during the reporting period	-	(673 609)	(554 620)	(157 361)	(706)	(1 043)	(1 387 339)
Payable as at 30.06.2012	**-**	**70 273**	**37 056**	**-**	**60**	**-**	**107 389**
(Overpaid) as at 30.06.2012	**(45 370)**	**-**	**-**	**(163 673)**	**-**	**(118)**	**(209 161)**

27. Earnings/ loss per share

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

	01.07.2012-30.06.2013 LVL	01.07.2011-30.06.2012 LVL	01.07.2012-30.06.2013 EUR	01.07.2011-30.06.2012 EUR
Profit / (loss) of the reporting year (a)	(14 571)	617 840	(20 733)	879 107
Ordinary shares as at 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)	**-0.005**	**0.208**	**-0.007**	**0.296**

28. Remuneration to management

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

	01.07.2012-30.06.2013 LVL	01.07.2011-30.06.2012 LVL	01.07.2012-30.06.2013 EUR	01.07.2011-30.06.2012 EUR
Remuneration of the Board members salary	148 850	157 501	211 794	224 104
- social contributions	35 822	37 942	50 970	53 987
Remuneration of the Council members salary	80 853	81 040	115 043	115 309
- social contributions	19 477	19 522	27 713	27 777
Total	**285 002**	**296 005**	**405 520**	**421 177**

Notes to the financial statements (continued)

29. Related party transactions

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

a) A person or a close member of that person's family is related to a reporting entity if that person:
   i. has control or joint control over the reporting entity;
   ii. has a significant influence over the reporting entity; or
   iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

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

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

	Transaction values for the year ended 30 June		Balance outstanding as at 30 June	
	2013 LVL	2012 LVL	2013 LVL	2012 LVL
Sale of goods and services				
Subsidiary	62 527	13 112	14 661	13 451
Joint venture	35 064	-	34 891	-
Purchase of goods and services				
Subsidiary	103 020	22 480	16 170	-
Joint venture	2 086	-	431	-
Loans issued and related interest				
Other related parties	290 062	-	253 747	-

	Transaction values for the year ended 30 June		Balance outstanding as at 30 June	
	2013 EUR	2012 EUR	2013 EUR	2012 EUR
Sale of goods and services				
Subsidiary	88 968	18 657	20 861	19 139
Joint venture	49 892	-	49 645	-
Purchase of goods and services				
Subsidiary	146 584	31 986	23 008	-
Joint venture	2 968	-	613	-
Loans issued and related interest				
Other related parties	412 721	-	361 050	-

Notes to the financial statements (continued)

29. Related party transactions (continued)

On 18 June 2012 the Company signed a loan agreement with the related party SIA Namīpašumu pārvalde regarding the issuance of a loan of LVL 281 122 (EUR 400 000). The loan has been transferred to borrower's account as at 2 July 2012. In the reporting year, a share of the loan was repaid amounting to LVL 28 112 (EUR 40 000) and the outstanding loan balance as at 30 June 2013 was LVL 253 747 (EUR 361 050), including principal of LVL 253 009 (EUR 360 000) and unpaid interest of LVL 738 (EUR 1 050). The annual interest rate of the loan is 3.5%. The loan matures on 31 December 2013. The loan is secured with a mortgage of real estate.

All outstanding balances with these related parties are priced on an arm's length basis and are to be settled in cash. None of the balances apart from the loan issued is secured. No expense has been recognized in the current year or prior year for bad or doubtful debts in respect of amounts owed by related parties.

30. Personnel costs

	01.07.2012-30.06.2013 LVL	01.07.2011-30.06.2012 LVL	01.07.2012-30.06.2013 EUR	01.07.2011-30.06.2012 EUR
Remuneration to staff	1 799 114	1 941 069	2 559 909	2 761 892
Social contributions	431 620	458 395	614 140	652 237
Total	**2 230 734**	**2 399 464**	**3 174 049**	**3 414 129**

31. Average number of employees

	01.07.2012-30.06.2013	01.07.2011-30.06.2012
Average number of staff in the reporting year:	**167**	**165**

32. Operating lease

On 10 December 2002 the Company signed the rent agreement Nr. S-116/02 with AS Dambis on the rent of premises with the total area of 5 851 m^2 until 16 September 2009. Starting 17 September 2009 the total leased area reduced to 5 672 m^2. The premises are located at 24a Ganibu dambis. The agreement expires on 1 March 2016. According to the signed agreements, the Company has the following lease payment commitments as at 30 June 2013.

	LVL	EUR
1 year	175 311	249 445
2- 5 years	505 007	718 560
	680 318	**968 005**

33. Contingent liabilities

As part of its primary activities, the Company has issued performance guarantees to third parties amounting to LVL 9 132 (EUR 12 994) (2011/2012: LVL 21 728 (EUR 30 916).

Notes to the financial statements (continued)

34. Going concern

The Company's cash flows from operating activities in the reporting year amount to LVL 32 thousand (EUR 45 thousand) (2011/ 2012: LVL 454 thousand (EUR 646 thousand)), cash position is LVL 1 940 thousand (EUR 2 760 thousand) and the liquidity ratio at the reporting date is 5.

SAF Tehnika will continue pursuing its strategy to develop new competitive wireless data transmission products and solutions for export markets, maintain the current sound financial position and control over the production process with the aim to increase sales and profitability.

35. Subsequent events

No significant subsequent events have occurred in the period from the year-end to the date of these financial statements that would have a material impact on the Company's financial position as at 30 June 2013 or its performance and cash flows for the year then ended.