



Customized  
Microwave  
Solutions



*SAF Tehnika  
Yearbook 2010/11*

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Legal address:

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Registration No.:

Financial Year:

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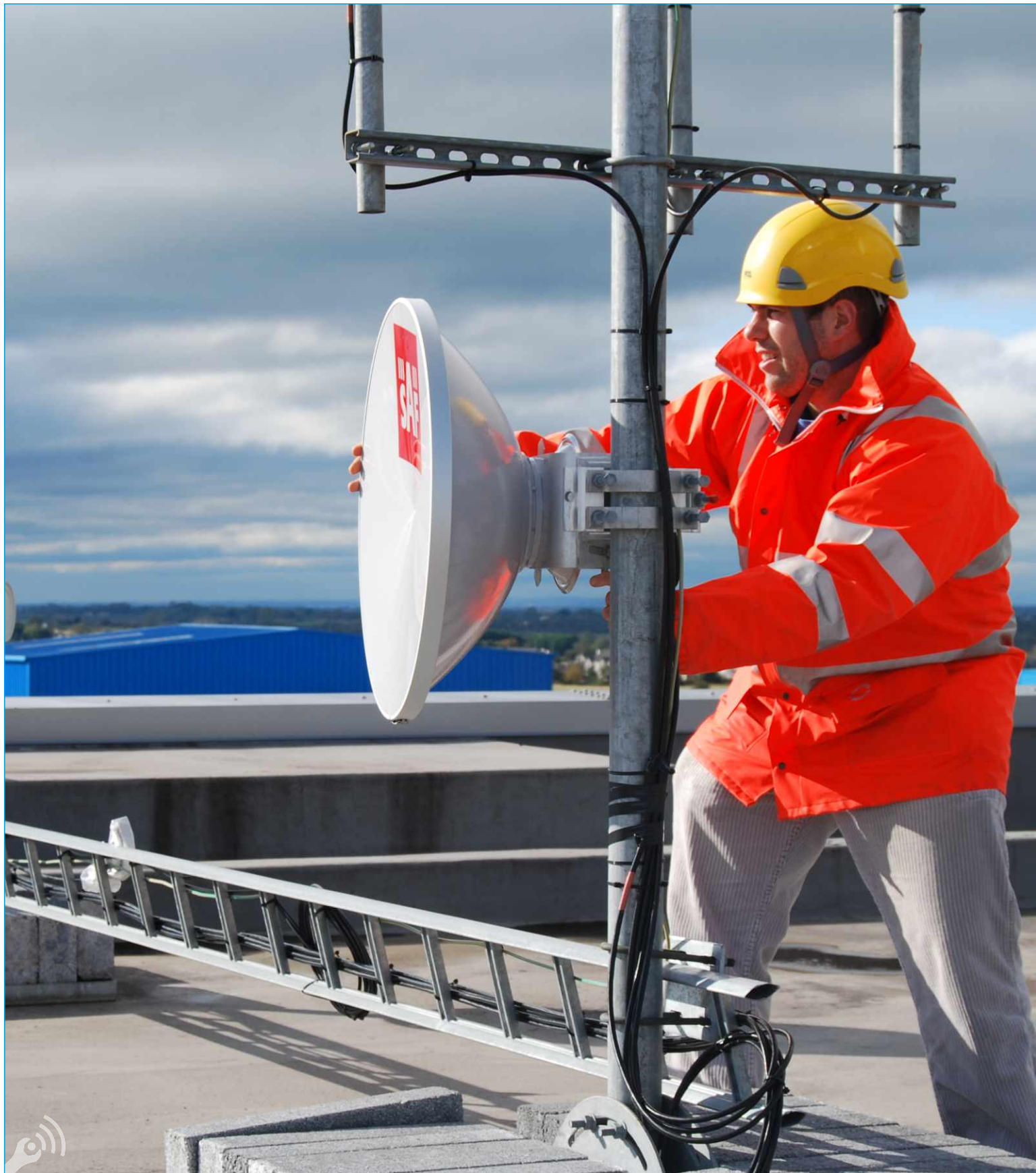
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1st July, 2010 – 30th June, 2011





# *SAF Tehnika overview*





## SAF Tehnika Overview

*SAF Tehnika JSC* is a Latvian (Europe) designer, manufacturer and distributor of digital microwave data transmission equipment. *SAF Tehnika* products provide wireless backhaul solutions for digital voice and data transmission to mobile and fixed network operators, data service providers, governments and private companies.

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

Flexibility and customer-oriented business philosophy are the core concepts of *SAF Tehnika* research and business development. Our specialists are always following up-to-date industry trends to successfully integrate cutting-edge technologies in our all-inclusive portfolio of modular split-mount and full outdoor systems. Standard to high capacity TDM, Hybrid TDM & Ethernet and 4G/LTE networks-ready Native Ethernet/IP data transmission equipment for licensed and license-free frequencies provides hundreds of supported, customer-tailored product variations, all linked together by a fully featured SAF Network Management System.

Affordable broadband connectivity and mobile communications have become the backbone of the modern world as well as an important business tool providing decisive impact on competitiveness of our customers. In response to these trends we are constantly striving to promote mobility and openness as the defining features of our company. *SAF Tehnika* has proved time and that it can swiftly adapt to the challenges of the changing environment and the ever-increasing pace of technological innovations.

The slogan Customized microwave solutions™ incorporates our commitment to an industry-rare capability to design and implement specific, user-adapted application techniques and features for our products to ensure that they are fit for planned expansion or fine-tuning of existing 3G/HSPA backhaul, complex carrier-grade LTE network migration, deployment of advanced future-proof wireless infrastructure in underserved markets or a redundancy solution in last-mile connections.

Mobile and alternative operators, PTT/fixed operators, broadband access providers, ISPs, government, utility companies and many others across the world have already chosen to work with *SAF Tehnika* as a company of reliable and energy efficient products, unparalleled delivery terms and worldwide warranty service, as well as extremely effective and direct management-level communication. Because broad expertise for a fair price is our proposal for time & money-sensitive customers that value investments in high class service and sustainable solutions to stay fit for the emerging age of green and smart economies.

*SAF Tehnika* team of direct sales representatives in Europe, North and South America, Africa, South and East Asia, together with a broad worldwide network of authorized partners are always ready to assist and provide up-to-date information on the available product options and solutions.



## SAF Mission

We deliver customized microwave radio equipment designed and produced in Europe.

## SAF Vision

SAF is the first choice of the customer looking for a specific microwave solution at a competitive price and good quality.

## Key Company Milestones

- 1999** Company foundation (10 employees)
- 2000** Introduction of PDH (CFM) product line
- 2003** ISO 9001 certification
- 2004** Acquisition of *Viking Microwave AB*, Sweden – *SAF Tehnika Sweden AB* foundation  
IPO - Initial Public Offering
- 2006** SDH (CFQ) product line launch in the market  
Number of *SAF Tehnika* employees reaches 160
- 2007** Implementation of a new automated modern manufacturing line
- 2008** Introduction of CFIP product line – CFIP-108 Mbps FODU  
Buy-out of the capital shares of *SAF Tehnika Sweden AB* by its management
- 2009** *SAF Tehnika* 10 year anniversary  
Release of CFIP Lumina Full Outdoor radio (366Mbps)  
CFIP Phoenix Hybrid Split Mount System (366Mbps) launch
- 2010** Release of license-free SAF FreeMile radio
- 2011** Launch of first long-haul microwave system for industrial applications - CFIP Marathon  
Introduction of CFIP Phoenix Modular Split Mount System for Telecoms  
Signed agreement to found a joint venture *SAF Tehnika Middle East Ltd.*

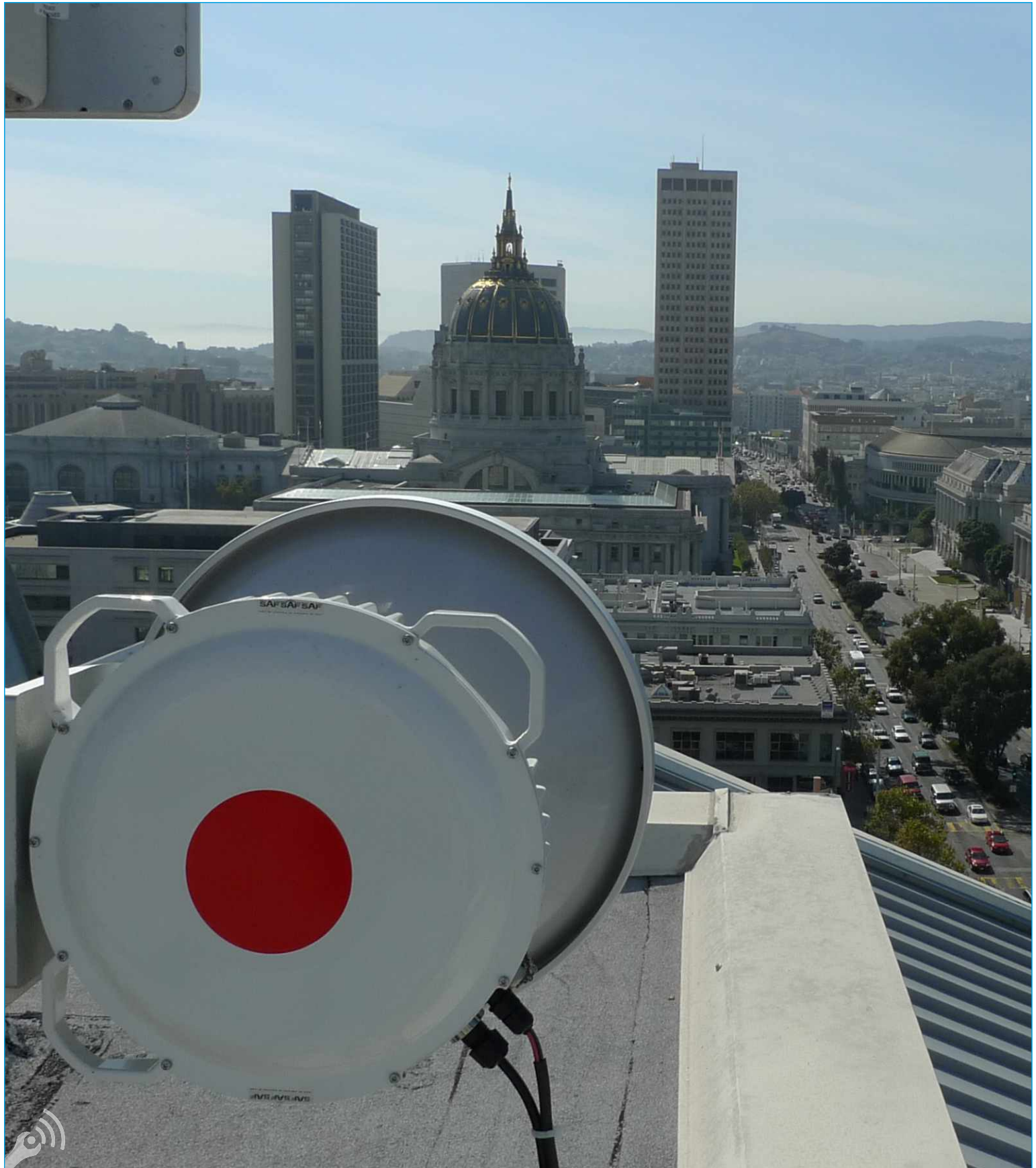
[www.saftehnika.com](http://www.saftehnika.com)  
[www-saf-freemile.com](http://www-saf-freemile.com)

Customized Microwave Solutions





*Product: CFIP Lumina, 24GHz*  
*Place: SanFrancisco, USA*  
*Link distance: ~2km*





### **Normunds Bergs**

Chairman, owns 9.74% of shares

Normunds Bergs, born in 1963, is Chairman of the Board and Chief Executive Officer of *SAF Tehnika*. N. Bergs was one of the founders of Ltd. Fortech (co-founders *SAF Tehnika* JSC) and during the periods from 1990 to 1992 and 1999 to 2000 he acted as Managing Director and General Director, respectively. Following Ltd. Fortech's merger with JSC Microlink in 2000, N. Bergs became Chief Executive Officer of *SAF Tehnika* JSC and Member of the Management Board of JSC Microlink. From 1992 to 1999 N. Bergs worked at World Trade Center Riga, where he held the position of General Director and became Member of the Board of Directors in 1998. N. Bergs has graduated Riga Technical University with a degree in radio engineering in 1986.



### **Didzis Liepkalns**

Vice Chairman, owns 17.05% of shares

Didzis Liepkalns, born in 1962, is Vice-Chairman of the Board and Technical Director of *SAF Tehnika*. D. Liepkalns founded a private enterprise SAF in 1995 and co-founded the company *SAF Tehnika* JSC in 1999. From 1985 to 1990 he worked as an engineer at the Institute of Electronic Engineering and Computer Sciences. D. Liepkalns has graduated Riga Technical University with a degree in radio engineering in 1985.



### **Aira Loite**

Member, owns 0.24% of shares

Aira Loite, born in 1965, Member of the Board and Chief Financial Officer of *SAF Tehnika*. Prior to joining the company in November, 2007, she worked for Ltd. Lattelecom (2006-2007) initially as a Business Performance Director and later as a Director of Business Information and Control division. From 2000 to 2006 she held the position of the Head of Finances and Administration of Ltd. Microlink Latvia being Board Member as well. From 2004 to 2005 she was Chief Financial Officer of Microlink Group. A. Loite has graduated University of Latvia with a degree in applied mathematics in 1988. She holds the degree of Master of Business Administration by the University of Salford (UK) (graduated in 2009).



### **Janis Ennitis**

Member, owns 0.73% of shares

Janis Ennitis, born in 1970, is Member of the Board and he holds the position of COO in the Company. Prior to joining the Company in July 2006, Janis Ennitis was employed by information technology and electronics distribution company GNT Latvia (now ALSO) as Sales and Marketing Director. J. Ennitis holds a Master degree of Microelectronics acquired in Riga Technical University which he graduated in 1996. Post graduate studies during 1996/1997 were held at the Technical University of Lausanne in Switzerland.





## SAF Tehnika Supervisory Council



### **Vents Lacars**

Chairman, owns 6.08% of shares

Vents Lacars, born in 1968, is Chairman of the Supervisory Council and Vice-President Business Development of *SAF Tehnika*. Before co-founding the Company, from 1992 to 1999, he worked for Ltd. Fortech, where throughout his career he held positions of programmer, lead programmer, manager and project manager in the networking department. From 1990 to 1992 V. Lacars worked as a programmer at state electric utility company Latvenergo. V. Lacars has studied in Faculty of Physics and Mathematics, University of Latvia.



### **Andrejs Grisans**

Member, owns 10.03% of shares

Andrejs Grisans, born in 1957, is Member of the Supervisory Council and Production Department Manager. A. Grisans is one of the co-founders of *SAF Tehnika* JSC. Prior to joining the Company, he owned and managed a private company specializing in electronic equipment engineering, production and distribution. From 1992 to 1999 A. Grisans was involved in entrepreneurial activities in the field of radio engineering. He worked as an engineer-constructor at the Institute of Polymer Mechanics from 1984 to 1992 and in the construction bureau Orbita from 1980 to 1984. A. Grisans has graduated Riga Technical University in 1980 with a degree in radio engineering.



### **Juris Ziema**

Vice-Chairman, owns 8.71% of shares

Juris Ziema, born in 1964, co-founder of the Company, is Vice-Chairman of the Supervisory Council and Production Department Director. From 1998 to 1999 he worked as an engineer at Didzis Liepkalns' private enterprise SAF. From 1987 to 1999 J. Ziema worked as an engineer at the Institute of Electronic Engineering and Computer Sciences. J. Ziema has graduated Riga Technical University with a degree in radio engineering in 1987.




**Ivars Senbergs**

Member, owns 0.94% of shares

Ivars Senbergs, born in 1962, Member of the Supervisory Council, also Chairman of the Board of Ltd. Juridiskais Audits, Latnek Ipasumi and Ltd. Namipasumu parvalde, Member of the Supervisory Council of JSC MFS bookkeeping and Member of the Board of Ltd. Hipno. From 1999 till 2000 he worked as Finance and Administrative Director at Ltd. Fortech. I. Senbergs has graduated Faculty of Law, University of Latvia.


**Janis Bergs**

Member till July 11, 2010

Janis Bergs, born in 1970, Member of the Supervisory Council till July 11, 2010, also Chairman of the Board of Ltd. FMS. J. Bergs is a former Chairman of the Board of Ltd. Fortech, later Chairman of the Board of Microlink Group. In 2004 J. Bergs was elected in the Management Board of the Latvian Information Technology and Telecommunications Association. J. Bergs has graduated Riga Technical University in 1993 with a degree in radio engineering. In 2000 he graduated Riga Business School with an MBA degree.


**Juris Imaks**

Member since July 12, 2010

Juris Imaks, born in 1971, worked for Latvijas Hipotēku un zemes banka from 1997 up to 2002 as the Head of the Securities trading department. J. Imaks held the office of the Member of the Supervisory Council in the Regulator of public services of the Riga municipality (2005-2007), Ltd. Rīgas nami (2005-2009), RSK (2007-2009), but in Ltd. Latvijas Garantiju aģentūra he held the office of the Chairman of the Supervisory Council (2008-2009). J. Imaks has graduated University of Latvia, Faculty of Economics and Management in 1994 as the Engineer-Economist, but since 2004 he holds the Master's degree in Business Management in University of Latvia.

## Interest of members of the Management and Supervisory Council in other companies

### Normunds Bergs

- Member of the Board of Latvian Electrical Engineering and Electronics Industry Association (LEtERA)
- Member of the Management Board of SIA "Namīpašumu pārvalde"
- Member of the Supervisory Board of SIA "LEO pētījumu centrs"
- Member of the Management Board of SIA „Real Sound Lab”
- Member of the Management Board Society „Connect Latvija”
- Member of the Management Board Society „Latvian Chamber of Commerce and Industry”
- Shareholder of SIA "CityCredit", owns 40.00% of the shares
- Shareholder of SIA "FMS Group", owns 27.50% of the shares
- Shareholder of SIA "TCon", owns 26.00% of the shares
- Shareholder of UAB "Fortek IT", owns 26.00% of the shares
- Shareholder of SIA "P3B Holdings", owns 18.00% of the shares
- Shareholder of SIA "Real Sound Lab", owns 8.00% of the shares
- Shareholder of SIA "Namīpašumu Pārvalde", owns 40.00% of the shares
- Shareholder of SIA "Complete Payment System", owns 18.00% of the shares

### Janis Ennitis

- Shareholder of SIA "Pakards", owns 33.33% of the shares
- Shareholder of SIA "Auto Mikss", owns 25.00% of the shares

### Ivars Senbergs

- Chairman of the Management Board of SIA "Juridiskais Audits", owns 58.62% of the shares
- Chairman of the Management Board of SIA "Namīpašumu pārvalde", owns 30.00% of the shares
- Member of the Supervisory Council of JSC "MFS bookkeeping"
- Shareholder of SIA "Namservisa Aģentūra", owns 49.00% of the shares
- Shareholder of SIA "Arhitekta K.Rukuta Birojs", owns 5.12% of the shares
- Chairman of the Management Board of SIA "Synergy Consulting", owns 100.00% of the shares
- Chairman of the Management Board of SIA "Dzirnavu centrs", owns 85.71% of the shares
- Chairman of the Management Board of SIA "IŠMU", owns 100.00% of the shares

### Vents Lacars

- Member of the Management Board of Latvian Multihull Association





# *Report of the Board*





## Report of the Board

### Type of activity

*SAF Tehnika* (the Company) is a designer, producer and distributor of wireless microwave data transmission equipment. The Company offers comprehensive and cost-effective hybrid broadband wireless connectivity solutions for digital voice and data transmission to fixed and cellular network operators, data service providers, governments and private enterprises as an alternative to cable communications channels.

### Activity of the Company in the reporting year

The Company's net sales for the financial year 2010/2011 were LVL 10.9 million (EUR 15.5 million) representing a 7% increase compared with the previous financial year's net sales. The aggregate exports for the reporting period was LVL 10.51 million (EUR 14.96 million) comprising 96.51% from total net sales. The Company exported its products to 76 countries all over the world, and 4 out of 76 were new markets.

Sales in Pacific Asia, Africa, Middle East represented the largest part of annual year's turnover (37%) comprising LVL 4.05 million (EUR 5.76 million) although it was 32% less than previous financial year 2009/2010. Sales have increased year-on-year both in Americas, Europe and CIS regions. There was 68% sales increase in Americas reaching 3 million LVL (4.3 million EUR) and 55% increase was recorded for Europe, CIS amounting to 3.8 million LVL (5.5 million EUR).

*SAF Tehnika* had been successful in replacing region-based sales approach with country-based business operations which were adapted according to specific character of business environment in target countries. In order to strengthen presence in the strategic growth markets, opening of local offices was considered and the first joint venture *SAF Tehnika* Middle East Ltd., founded together with NAJAHAT Development & Investment Company (Saudi Arabia), has recently started its operations.

Another strategic decision was to start production of CFIP Lumina outside Latvia in Curitiba (Brazil) with the aim to facilitate the Company's product availability in Brazil, one of the largest and fastest growing telecommunication markets in South America. Full Outdoor Technology developed by SAF engineers has been especially tailored for manufacturing purposes at the SIEMENS Communications factory in Brazil and local partner wi2be Tecnologia S.A. will take care of sales and marketing activities as well as distribution and local support. The CFIP Lumina inauguration event with attendance of Vice President of Brazil and the Prime Minister of Latvia has helped to raise the Company's visibility in Latvia as well as build and reinforce brand recognition in South America. It is planned that mass production of CFIP Lumina will be commenced in autumn, 2011.

In order to strengthen SAF brand internationally, meet current and potential clients and exhibit the latest products and solutions, the Company participated in several important international and regional exhibitions such as NigeriaCom 2010 (Lagos, Nigeria), AfricaCom 2010 (Cape Town, Republic of South Africa), CeBIT 2011 (Hannover, Germany), SVIAZ-ExpoComm 2011 (Moscow, Russia) and CommunicAsia 2011 (Singapore). During this financial year the Company also started to focus on smaller local exhibitions and conferences participating together with local partners.

As earnings in the first three quarters of the financial year had exceeded the targets, *SAF Tehnika* had paid out the bonuses to employees, thus appraising their input. Sales in the fourth quarter dropped substantially as various long-term projects were finalized in the third quarter and there were no similar scale projects in Q4. Moreover, net result was impacted by substantial provisions made for doubtful accounts receivables as payment delays for two Africa customers outrun accepted delay limits. Representatives of both customers explained delays with temporal liquidity problems.

Net profit of the Company for the financial year 2010/2011 was LVL 801 thousand (EUR 1.14 million) representing 52% of the net profit of previous financial year 2009/2010.



## Report of the Board

### Activity of the Company in the reporting year

SAF Tehnika's financial position remains stable. Although, the Company's net cash flow for the 12 month period of the financial year was negative LVL -307 thousand (EUR 436 thousand), cash generated from operating and investing activities was positive. A negative cash flow from financing activities was due to the payment of dividends of LVL 0.23 (twenty three santimes) per share or LVL 683 thousand in November 2010.

During the reporting year the Company had invested LVL 171 thousand (EUR 244 thousand) where the largest part - LVL 118 thousand (EUR 169 thousand) or 69% were invested in production equipment and IT infrastructure thus improving production capacity, quality and the Company's overall efficiency, but 25% or LVL 43 thousand (EUR 61 thousand) were invested in product certification.

Moreover, the Company was supported by Latvia State and European Regional Development fund as during reporting year co-financing amounting to LVL 106 thousand (EUR 151 thousand) was granted for purchase of production equipment, support for product development and participation in international exhibitions.

### Research and development

During the reporting financial year new products like low frequency point-to-point microwave system CFIP Marathon, unlicensed All Outdoor radio SAF FreeMile and new modular split mount system CFIP Phoenix M were launched by the Company. CFIP Marathon 1.4 GHz Full Indoor unit is an ideal solution for industrial applications while SAF FreeMile is unlicensed All Outdoor radio for Ethernet packet data and E1 voice transmission. The new modular split mount system CFIP Phoenix M due to the XPIC technology and built-in add-drop functionality is the best solution for high-capacity data, voice and video transmission - mobile and fixed telecoms as well as for all ISPs.

With the aim to involve EU funds for research and development within the sphere of electronics and electrical engineering, the Company, together with other members of the Latvian Electrical Engineering and electronic Industry Association (LETERA), co-founded a limited liability company LEO kompetences centrs (LEO) in summer 2010. The expected co-financing was granted by Europe Regional and Development Fund in late spring 2011 and already in June 2011 two research projects initiated by the Company were started. The Company sees LEO as a valuable complementary resource for industrial research, new product and technology development.

The Company has recently completed a long-term product development strategy as well and is going to introduce new products in licensed and non-licensed frequencies.

As demand for CFQ products has decreased substantially, it has been decided to phase out the entire CFQ product line, providing the CFQ basic functionality with CFIP Phoenix M split mount system. The clients' requirements will be covered by full spectrum of CFIP and CFM products.



## Report of the Board

### Future prospects


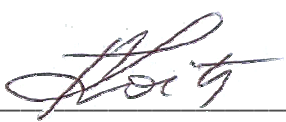

SAF Tehnika's resources are strongly focused on product development in Hybrid Microwave field, product quality, client satisfaction and improvement of management processes in that way building a platform for sustainable revenue growth, efficiency and profitability. Diversified sales strategies will be a competitive advantage in attracting new clients and satisfying existing ones.

The Company is planning to penetrate new markets using niche products and individual sales approach, providing more specialized services in cooperation with local partners. In order to establish presence in regions and run the local business activities more efficiently opening of local offices is under consideration.

As uncertainty in the global telecommunication market continues, the Board of the Company cannot provide certain prognosis for sales figures despite positive results of the reporting financial year.

### Distribution of profit proposed by the Board

The Board is proposing to retain 15% of current year's profits in order to preserve the Company's financial stability and to pay out remaining 85% as dividends.

  
\_\_\_\_\_  
Normunds Bergs  
Chairman of the Board  
\_\_\_\_\_  
Didzis Liepkalns  
Deputy Chairman of the Board  
\_\_\_\_\_  
Aira Loite  
Board Member  
\_\_\_\_\_  
Janis Ennitis  
Board Member

Riga, 26 October 2011



## Statement of the Board's responsibilities


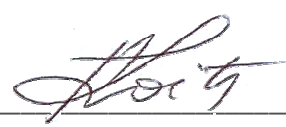
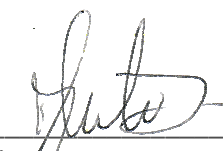
The Board of *SAF Tehnika* JSC (hereinafter – the Company) is responsible for preparing the financial statements of the Company.

The financial statements set out on pages 27 to 60 are prepared in accordance with the source documents and present fairly the financial position of the Company as at 30 June 2011 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 EU on a going concern basis. Appropriate accounting policies have been applied on a consistent basis. Prudent and reasonable judgements and estimates have been made by the management in the preparation of the financial statements.

The Board of *SAF Tehnika* JSC 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.

For the Board,

  
\_\_\_\_\_  
Normunds Bergs  
Chairman of the Board  
\_\_\_\_\_  
Didzis Liepkalns  
Deputy Chairman of the Board  
\_\_\_\_\_  
Aira Loite  
Board Member  
\_\_\_\_\_  
Janis Ennitis  
Board Member

Riga, 26 October 2011

## Supervisory Council report

JSC SAF Tehnika (hereinafter the Company) during the financial year 2010/2011 successfully continued its operations in line with the defined plans and goals. Significant effort was spent building on high quality throughout design and production processes to ensure optimal balance of product quality, features and production costs, this way achieving noteworthy results.

Supervisory Council wants to express satisfaction about the results achieved over the reporting period in practically all directions of activity by company.

Thus flagship CFIP product line has been appropriately expanded and modernized, sales channels developed further to reach more diverse customer base than before, in this assisted by marketing activities. The process of optimization in production and operations apparently was a success.

For the financial year 2011/2012, Supervisory Board would like to encourage the Management Board of the company to continue the expansion of CFIP product line, actively create new next generation radio products and continue the diversification of sales channels.

During financial year 2010/2011 Supervisory Board exercised the functions of Revision Committee according to the laws in force and after completion of all the tasks can come to the following conclusions:

- Preparation of the financial statement was performed in accordance with the present International Financial Reporting Standards and International Accounting Standards;
- Systems of internal control and risk management operate in line with Company's defined requirements for business operations;
- Examination of annual report was made in accordance with the present Auditing Standards. Correction of drawbacks established during the examination was performed accordingly;
- Supervisory Council has not established any facts which would allow to doubt the impartiality of the auditor selected for the examination of annual report from FY 2010/2011.

Vents Lacars  
Chairman of the Supervisory Council



Riga, 26th October 2011





## Personnel

Our professional employees are the Company's success factor and the biggest value. At the beginning of this financial year JSC *SAF Tehnika* numbered 150 employees and the number increased up to 165 by the end of the year, proving that the Company has successfully overcome the global financial crisis and is geared for further growth and development. This year *SAF Tehnika* has also been open to young talents, who are ready to generate and implement innovative ideas.

*SAF Tehnika* is the company that cares about its employee's motivation, growth, workplace safety and maintaining the company's culture.

We are a socially responsible, environmentally friendly and growth-oriented company.

***Our main values are people, responsibility and quality.***

## Workplace Safety

*SAF Tehnika* policy is to be a responsible company that takes care of well-being of its employees, providing safe, non-hazardous and friendly working environment. The Company ensures constant supervision of working environment, regular improvement of employees' knowledge and awareness of occupational health and work safety issues. The Company complies with all binding laws and regulations.

## Employees Growth and Development

We consider it highly significant for employees to grow and develop continuously, to open new horizons. Therefore, *SAF Tehnika* provides employees with an opportunity to upgrade their qualification at various seminars and trainings by organizing corporate trainings, as well as participating in open education events both in Latvia, and abroad.

This year, in co-operation with Latvian Electrical Engineering and Electronics Industry Association (LEtERA) and Latvian Chamber of Commerce and Industry (LCCI), we have been involved in a project for facilitating employees' education and competence co-funded by the European Social Fund. Within the project, *SAF* employees have improved their skills in computing and English.

A strategic seminar with several work sessions has been organized for company managers and specialists.

Employees from different departments regularly participate in product exhibitions abroad, where they seize an opportunity to learn, adopt the best experience from competitors and cooperation partners.

We are in favour of initiative and personal growth of each employee!

## Remuneration and Benefits

*SAF Tehnika* is a socially responsible company, which fully complies with labour law requirements. In addition to a fixed remuneration, *SAF* provides its employees with a bonus system, which is based on individual and corporate achievements. This financial year, 32.6% of the annual salary fund has been paid to bonuses.

To encourage professional development of employees, the annual performance development discussions are held by the company. According to results of discussions, the company defines employee's professional training needs and career development prospects, as well as revises the salary of an employee.

On special occasions like getting married and giving birth to a child, each employee receives a financial support along with good wishes from the company. September 1 is a compensated holiday for parents of children who begin their school studies in the first grade. Employees who have been working for the company for five and more years get an extra compensated holiday in addition to their annual vacation.

The Company cares about its employees' health and organizes regular vaccinations, eye sight tests and mandatory health checks in the company's premises, as well as provides employees with health insurance policies.



## Leisure Activities

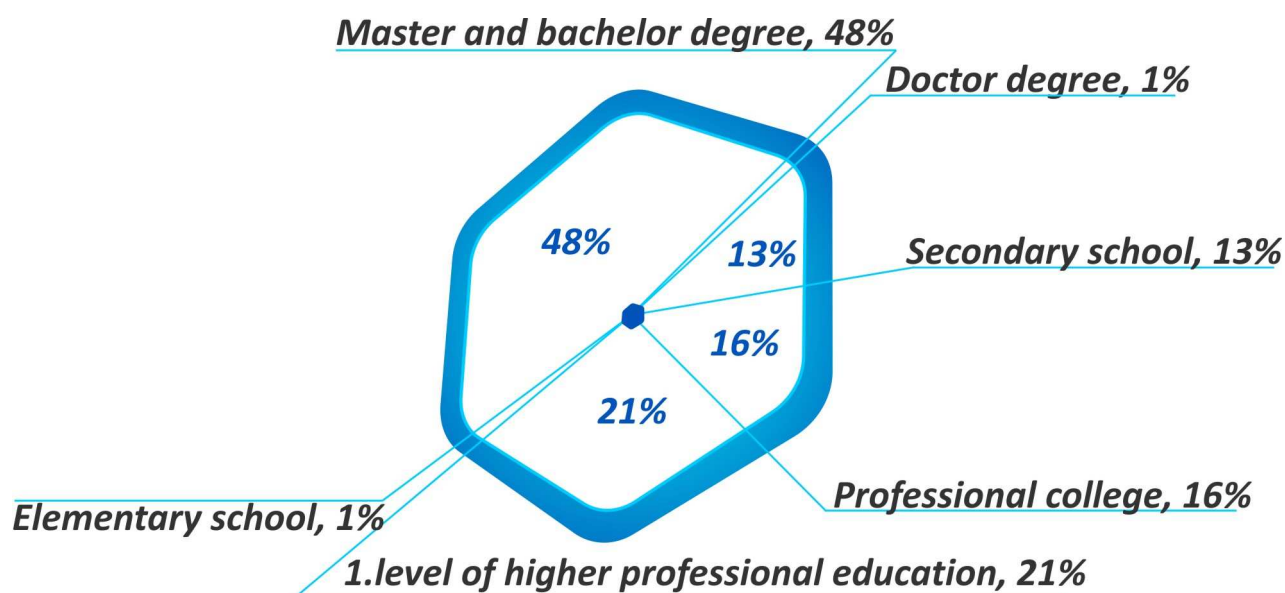
By tradition, various yearly leisure activities are organized for the company's employees – a New-Year's party, a summer holiday event, a Midsummer Night party, etc. This year, a summer event was held on August 27, at the Gauja National Park, where SAF employees contributed to park improvements by building a new tourist path. A New-Year's party was held with clothing ideas from different fashion periods.

Our employees enjoy relaxing both at company-wide events and team outings with their fellow co-workers bicycling or boating. It is a wonderful opportunity to build strong and friendly teams and to encourage loyal attitude towards the Company.

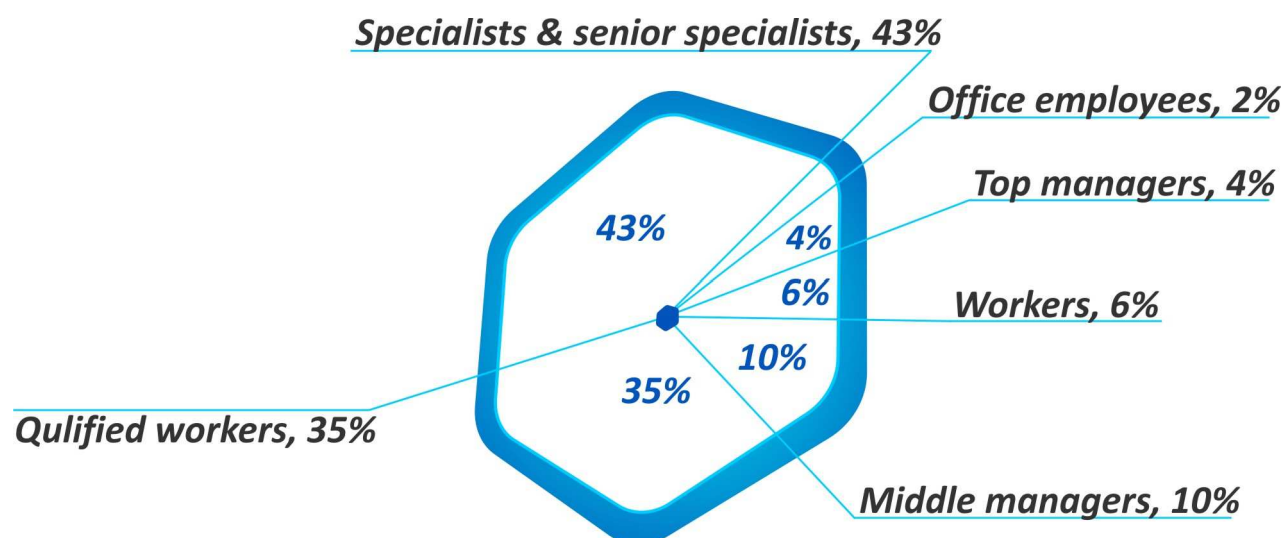
Day after day, *SAF Tehnika* consolidates its reputation as an employer, which is proved by low employee circulation, a great number of those who take interest in the announced vacant positions, the increased demand for training places, and the ever growing education level of employees.



### Division of employees by education 2010/2011



### Division of employees by job category 2010/2011





# *Corporate Social Responsibility*



## Corporate Social Responsibility

### Supporting forthcoming talents

As an organization that is built on the skills and talents of its employees, *SAF Tehnika* is aware of how important education is to Society. The company believes it has the power to unlock personal potential, deliver economic and social transformation, and change individual lives. By giving high school students a chance to discover and learn to love the natural sciences, *SAF Tehnika* hopes to see young Latvians become outstanding engineers ready to meet the economic challenges of the real world. In partnership with the Latvian State Education Centre within the framework of “The Sciences and Mathematics” project the Company has awarded prize-money to support passionate and dedicated Latvian high school teachers. For the third year now *SAF Tehnika* has been sponsoring another education related project – the “Mission Possible” program, which helps to recruit young, gifted university graduates with excellent leadership qualities to work as teachers for Latvian schools. The goal of the program is to transform children schooldays into a stimulating journey, profoundly meaningful for their future. *SAF Tehnika* shows its appreciation for the teachers and supports their work of contributing to the long-term development of the country.

Since 2009, *SAF Tehnika* has continued to play its part in an educational ecosystem within the scope of study-camp ALFA. The camp is designed to educate secondary school students who have already proven themselves in national level Olympiads.

*SAF Tehnika* is constantly providing internships for the students. By continuing partnership with Riga Technical University, Riga Technical College, Ogre Professional School and establishing contacts with other technical schools, the company wants to attract the greatest potential talents on a national level and help perpetuate jobs related to the telecommunications industry.

### Supporting our own

*SAF Tehnika*’s employees are the key to product and client service excellence and to the success and future growth of the company. In return the Company cares about its employees’ motivation, professional growth and workplace safety. As a responsible employer, SAF actively supports the professional development of its employees. Human Resources team deploys a variety of tools to develop talents. Training programs address the needs that have been identified and discussed during annual performance appraisal interviews. In addition to a fixed remuneration, SAF provides its employees with a bonus system, which is based on individual and corporate achievements. SAF is continuously investing in an effort to maintain its solid reputation as an employer, to keep the present trend of low employee turnover. Employees who have been working for the Company for five and more years get an extra compensated holiday as a token of appreciation.

### We stand for a greener world

Both despite and because of the fact that SAF has a mindset of a global company we’ve always paid the most thorough attention to the environmental impact assessment of our business activities. Being rooted in one of the greenest countries of the world we are truly dedicated to an environment-friendly production, and being active in close to 100 countries worldwide we’re fully aware of severe consequences of environmental irresponsibility. Not only does SAF encourage a paper-free office and the reuse of printed paper, we are also fulfilling packaging, electric and electronic equipment waste management (EC Directive 2002/96/EC) programs in cooperation with *Latvijas Zaļais punkts* (Green Dot) and *Latvijas Zaļas elektrons* (Green Electron). Our equipment is designed to be as compact as possible, with power consumption levels that allow it to be powered by alternative energy sources such as solar and wind, and it is produced in full compliance with RoHS Directive (2002/95/EC). In order to reduce our carbon footprint even more, SAF is aiming at hiring local suppliers as much as possible, and the majority of our international suppliers are leading producers in their field, thus ensuring that these are companies with established environment awareness policies.



It has become a tradition for *SAF Tehnika* employees volunteering to take part in Latvian Natural preserve development and beautification activities. This year the Company went to the Gauja National Park to build new walking and cycling trails.

## ***Sustainable development***

We are proud to announce that for the first time in *SAF Tehnika's* history corporate sustainability has been evaluated by Free Trade Union Confederation of Latvia and Employer's Confederation of Latvia. Corporate sustainability is a business approach that creates long-term shareholder value by embracing opportunities and managing risks derived from economic, environmental and social development. The currently achieved bronze category in sustainability has helped the company to implement a business strategy that creates long-term value for future development.



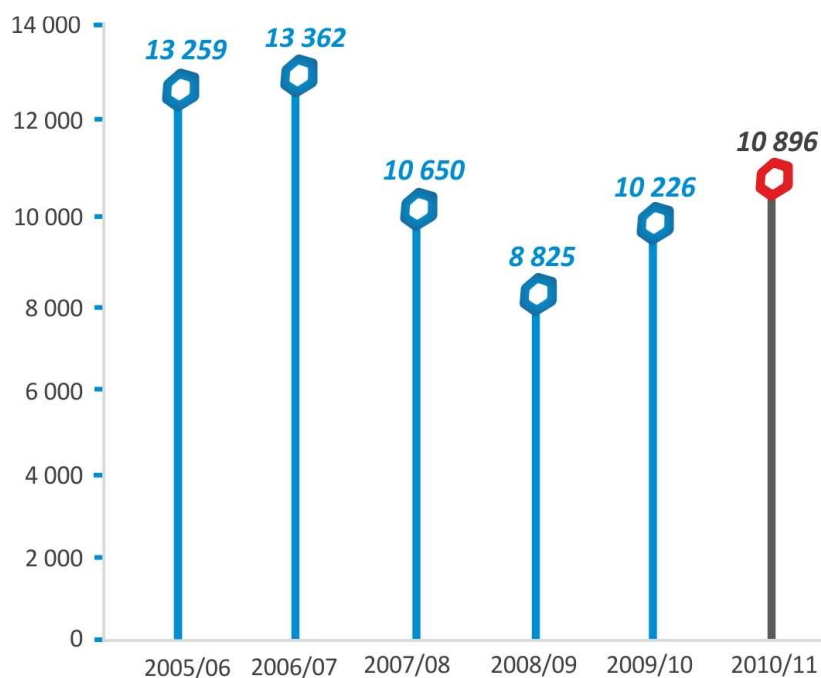
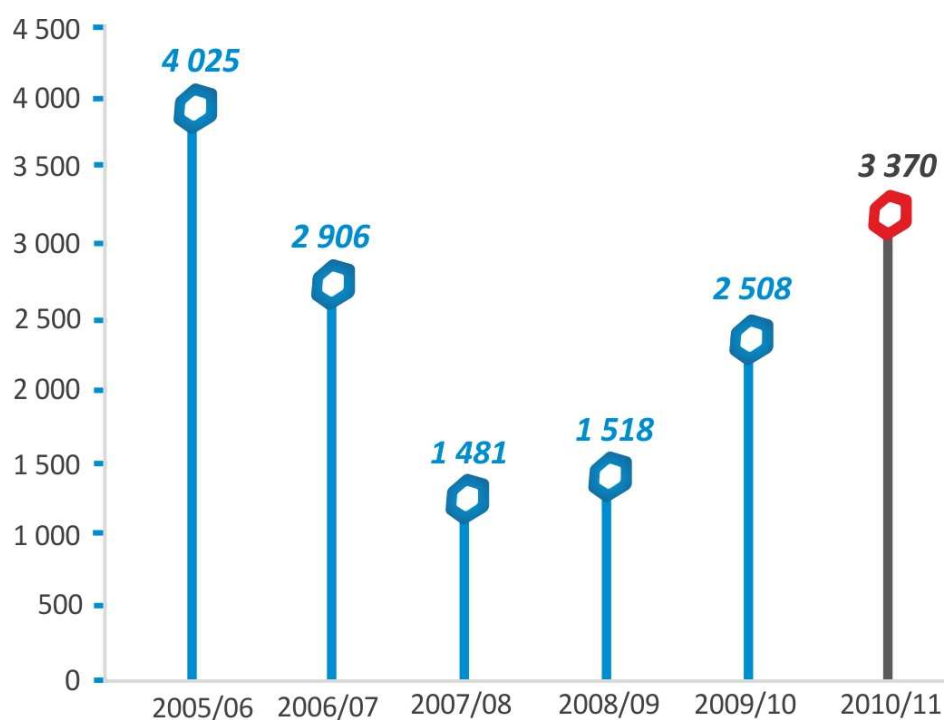


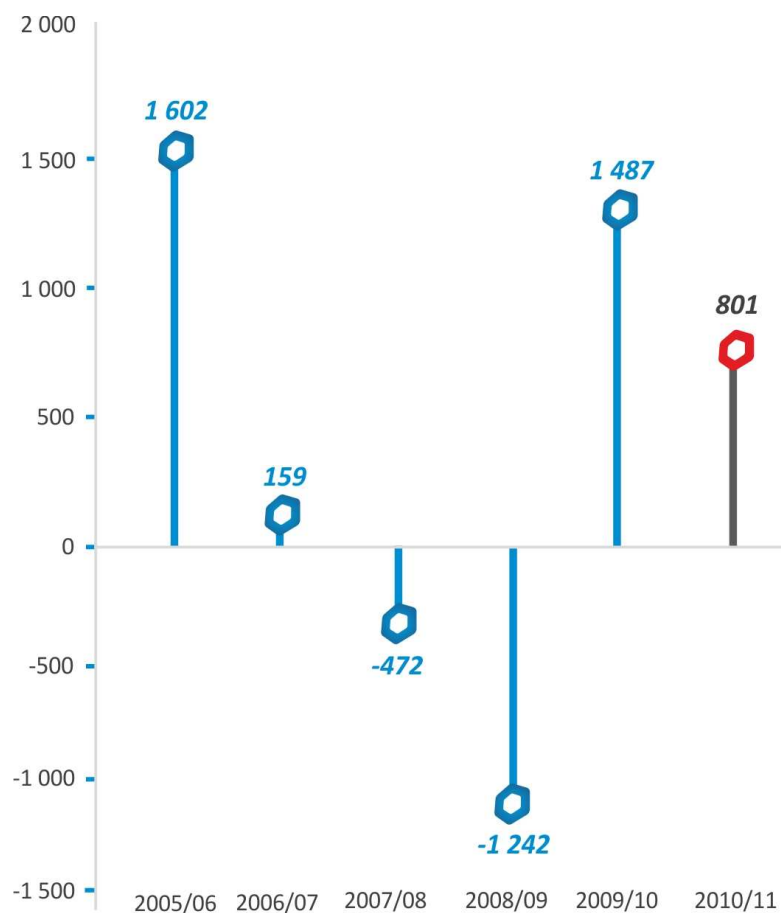
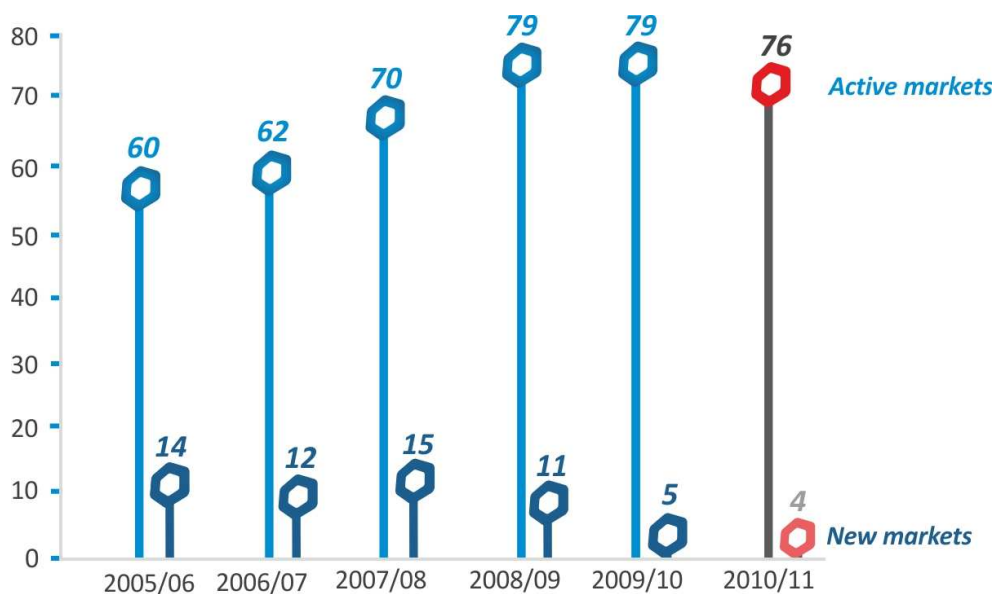


# *Financial Highlights*





**Financial highlights\*****Net sales (thousand LVL)****Gross profit (thousand LVL)**

**Net profit (thousand LVL)****Active markets**

\*Until FY 2008/09 the consolidated data of SAF Tehnika Group is provided as till November 2008 the Company owned 100% subsidiary SAF Tehnika Sweden AB



## Key figures describing economic development\*

	2010/11	2009/10	2008/09	2007/08	2006/07	2005/06
Turnover	10 896 071	10 226 905	8 825 628	10 650 128	13 362 094	13 259 709
Earnings before interest, taxes and depreciation (EBITDA)	1 086 492	1 618 579	-867 922	244 248	1 107 147	2 361 819
share of the turnover %	10%	16%	-10%	2%	8%	18%
Profit/loss before interest and taxes (EBIT)	886 935	1 340 016	-1 323 922	-411 026	322 059	1 666 216
share of the turnover %	8%	13%	-15%	-4%	2%	13%
Net Profit	800 833	1 487 474	-1 241 746	-472 492	159 582	1 602 131
share of the turnover %	7%	15%	-14%	-4%	1%	12%
Return on equity (ROE) %	11%	21%	-17%	-6%	2%	20%
Return on assets (ROA) %	8%	17%	-15%	-5%	1%	17%
Liquidity ratio						
Quick ratio %	102%	89%	234%	141%	12%	54%
Current ratio %	265%	261%	421%	331%	116%	201%
Average number of employees	163	140	152	172	182	136

\*Until FY 2008/09 the consolidated data of SAF Tehnika Group is provided as till November 2008 the Company owned 100% subsidiary SAF Tehnika Sweden AB

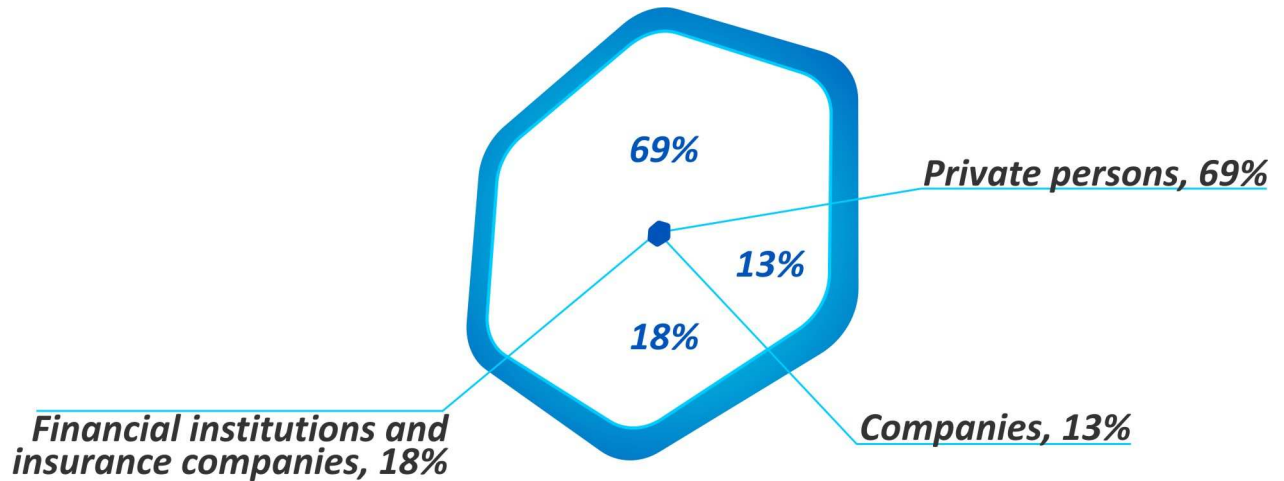
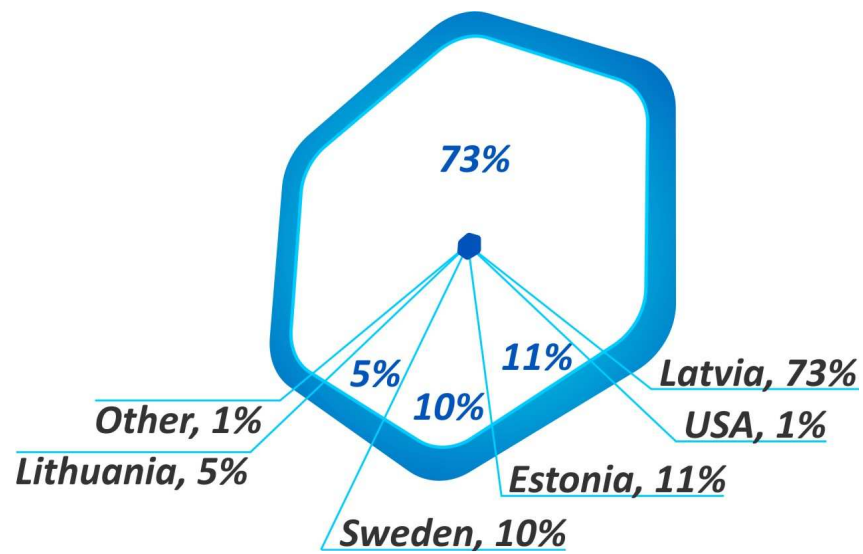
## Holdings and shares

SAF Tehnika shareholders (over 5%) as of 30.04.2011

Name	Ownership interest (%)
Didzis Liepkalns	17,05%
Andrejs Grisans	10,03%
Skandinaviska Enskilda Banken	9,98%
Maleks S, SIA	9,76%
Normunds Bergs	9,74%
Juris Ziema	8,71%
Vents Lacars	6,08%



### Shareholders structure





## Share price development

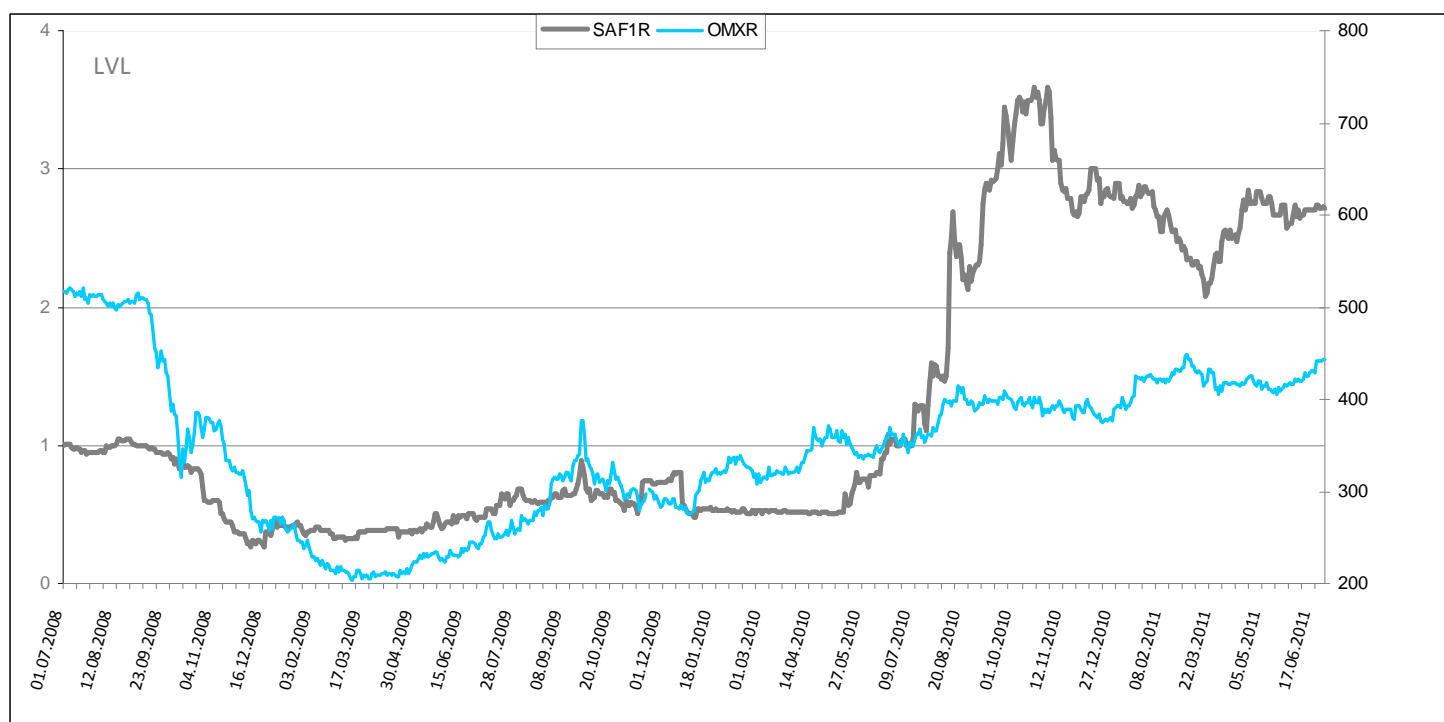
### Share and dividend related information

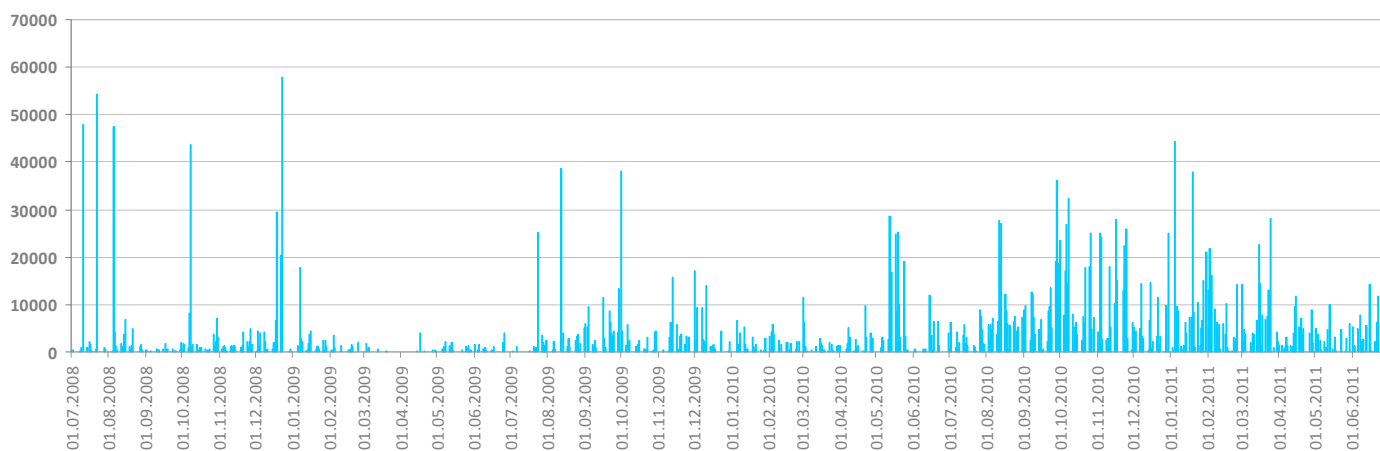
	2010/11	2009/10
Share price (last) for the end of period	2,71	1
Market value of share capital	8 049 188	2 970 180
Earnings per share (EPS)	0,27	0,50
Dividend per share (for the previous reporting period)	0,23	0,23
Dividend / net profit (for the previous reporting period)	0,46	-0,55
P/E ratio	10,05	2,00

### The lowest, the highest and medium (average) share price for the reporting period

Lowest	0,99	0,48
Highest	3,67	1,08
Medium	2,38	0,62

## Share price development



**Share turnover (LVL)****Basic information about trading**

ISIN	LV0000101129
Name	SAF1R
List	Baltic main list
Stock Exchange	NASDAQ OMX Group, Riga Stock Exchange
Inclusion in indexes	OMX Riga GI, OMX Baltic PI, OMX Baltic GI, OMX Baltic Benchmark PI, OMX Baltic Benchmark GI, OMX Baltic Benchmark Cap PI, OMX Baltic Benchmark Cap GI, OMX Baltic Information Technology PI, OMX Baltic Information Technology GI
Nominal value	1.00 LVL
Total number of securities	2,970,180
Number of listed securities	2,970,180
Listing date	26.05.2004





*Product: CFIP-108 7GHz*

*Place: New Zealand*

*Link distance and temperature: +7 to +30°C; ~40km*



## Corporate governance

In the accounting period *SAF Tehnika JSC* has followed the principles of good corporate governance Selected principles from *SAF Tehnika* Corporate Governance report.

### Shareholders' meetings

Shareholders exercise their right to participate in the management of *SAF Tehnika JSC* at Shareholders' meetings. According to the laws in force, *SAF Tehnika JSC* calls the annual Shareholders' meeting at least once a year. Extraordinary Shareholders' meetings are called per necessity. All shareholders have equal rights to participate in the management of *SAF Tehnika JSC*. They are entitled to participate at Shareholders' meetings and to receive information that shareholders need in order to make decisions. Only Shareholders' meeting can amend the Articles of association.

### Selection methods of Management Board and Supervisory Council

According to the Commercial law of Latvia and the Articles of association of *SAF Tehnika JSC* its Supervisory Council consists of five members and is elected by Shareholders' meeting for the term of three years. For its part, Management Board consists of four members and is elected by Supervisory Council for a term of three years. Management Board members must meet the criteria approved by Supervisory Council. Chairman of the Management Board is nominated by Supervisory Council. Supervisory Council can recall a member of the Management Board if there is a significant ground for that. Member of the Management Board can also leave the post voluntarily at any time.

### Powers of the Management Board

Powers of the Management Board are set in the Articles of association of *SAF Tehnika JSC* which are available on SAF website [www.saftehnika.com](http://www.saftehnika.com). Management Board represents and manages *SAF Tehnika JSC*. Members of the Management Board can represent *SAF Tehnika* each separately. Shareholders' meeting of *SAF Tehnika JSC* can not decide upon issues which fall within the competence of Management Board.

### Dividend policy

*SAF Tehnika* has not adopted a written dividend policy but the Company has always paid 15% to 50% of net profit in dividends.

### Other contractual agreements with auditors

*SAF Tehnika JSC* does not have any other contractual agreement with auditors - only an auditing agreement.

The Corporate Governance report document can be found on SAF webpage [www.saftehnika.com](http://www.saftehnika.com).





## ***Independent Auditors' report***

### ***Report on the Financial Statements***

We have audited the accompanying financial statements on pages 27 to 60 of JSC *SAF Tehnika* which comprise the balance sheet as of 30 June 2011 and the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for 12 months period then ended and a summary of significant accounting policies and other explanatory notes.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the requirements of the International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### ***Auditor's 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 as adopted by the Latvian Association of certified auditors. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from 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 the auditor's 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, the auditor considers internal control 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 control. An audit also includes evaluating the appropriateness of accounting policies 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 audit opinion.

### ***Opinion***

In our opinion, the accompanying financial statements give a true and fair view of the financial position of JSC SAF TEHNIKA as of 30 June 2011, and of its financial performance and its cash flows for the 12 month period then ended in accordance with the requirements of the International Financial Reporting Standards as adopted by the European Union.



## **Report on the Management Report**

We have read the Management Report set out on pages 9 to 10 and did not identify material inconsistencies between the financial information contained in the Management Report and that contained in the financial statements for 12 months period ended 30 June 2011.

On behalf of  
SIA Potapoviča un Andersone,  
Certified Auditors Company  
licence No. 99



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Kristīne Potapoviča  
Responsible Certified Auditor  
Certificate No. 99  
Member of the Board

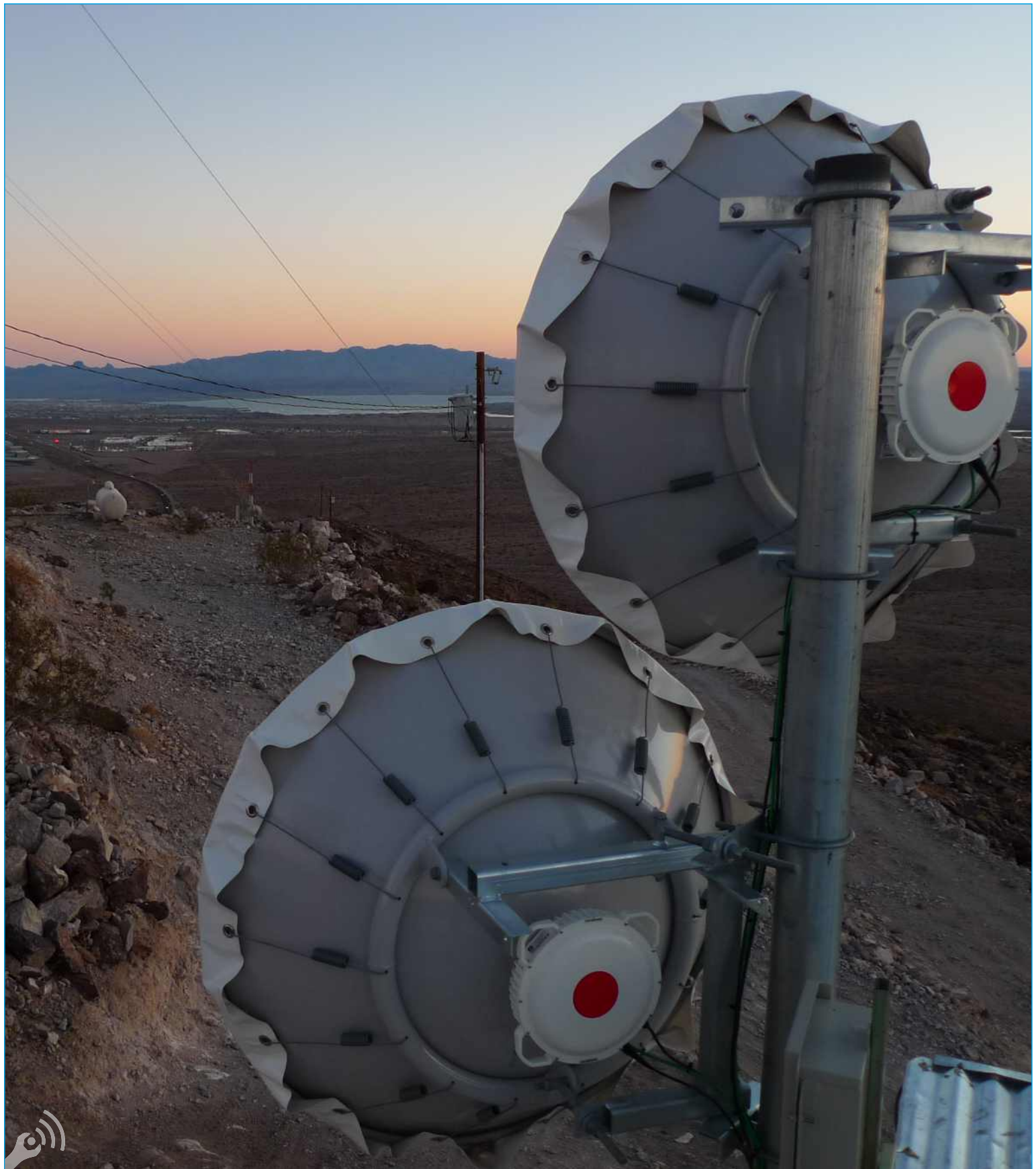
26 October 2011  
Riga, Latvia



*Product: CFIP Lumina 11GHz*

*Place: Arizona desert, USA*

*Link distance: ~70km*



## Balance sheet

		30 June		30 June	
	Notes	2011 LVL	2010 LVL	2011 EUR	2010 EUR
ASSETS					
Non-current assets					
Property, plant and equipment	6	501 898	550 000	714 137	782 580
Intangible assets	6	67 474	56 251	96 007	80 038
Prepayments for property, plant, equipment and intangible assets	6	2 457	-	3 496	-
Shares in companies	7	500	-	711	-
Long-term loans		24 670	-	35 102	-
Long-term receivables	9	65 140	182 776	92 686	260 067
Deferred tax assets	13	73 032	57 179	103 915	81 358
		735 171	846 206	1 046 054	1 204 043
Current assets					
Inventories	8	3 365 397	2 217 855	4 788 529	3 155 723
Receivables	9	1 755 985	2 788 006	2 498 542	3 966 975
Other receivables	10	154 932	175 428	220 448	249 612
Prepaid expense		47 906	52 642	68 163	74 903
Short-term loans		22 772	-	32 402	-
Short-term investments	11	1 479 081	1 659 889	2 104 543	2 361 809
Cash and cash equivalents	12	2 106 660	2 413 687	2 997 507	3 434 367
		8 932 733	9 307 507	12 710 134	13 243 389
Total assets		9 667 904	10 153 713	13 756 188	14 447 432
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		2 598 473	2 480 781	3 697 294	3 529 833
Total equity		7 572 857	7 455 165	10 775 204	10 607 743
LIABILITIES					
Current liabilities					
Payables	15	2 074 046	2 679 804	2 951 102	3 813 018
Borrowings	16	9 779	6 181	13 914	8 795
Deferred income		11 222	12 563	15 968	17 876
Total liabilities		2 095 047	2 698 548	2 980 984	3 839 689
Total equity and liabilities		9 667 904	10 153 713	13 756 188	14 447 432

The accompanying notes on pages 31 to 60 are an integral part of these financial statements.

Normunds Bergs  
Chairman of the Board

Didzis Liepkalns  
Deputy Chairman of the Board

Aira Loite  
Board Member

Janis Ennitis  
Board Member

Riga, 26 October 2011





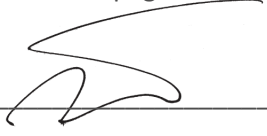
## Income statement

	Notes	Year ended 30 June		Year ended 30 June	
		2011	2010	2011	2010
		LVL	LVL	EUR	EUR
Sales	17	10 896 071	10 226 905	15 503 712	14 551 575
Cost of sales	18*	(7 526 443)	(7 719 094)	(10 709 163)	(10 983 281)
<b>Gross profit</b>		<b>3 369 628</b>	<b>2 507 811</b>	<b>4 794 549</b>	<b>3 568 294</b>
Selling and marketing costs	19*	(1 483 842)	(1 074 626)	(2 111 317)	(1 529 055)
Administrative expense	20	(857 295)	(495 818)	(1 219 821)	(705 486)
Other income	21	101 610	212 331	144 578	302 121
Financial revenue	22	100 724	349 743	143 317	497 638
Financial expense	23	(243 166)	(2 133)	(345 994)	(3 035)
<b>Profit/(loss) before taxes</b>		<b>987 659</b>	<b>1 497 308</b>	<b>1 405 312</b>	<b>2 130 477</b>
Corporate income tax	24	(186 826)	(9 834)	(265 829)	(13 993)
<b>Profit/(loss) for the year</b>		<b>800 833</b>	<b>1 487 474</b>	<b>1 139 483</b>	<b>2 116 484</b>
<b>Attributable to:</b>					
Shareholders of the Company		<b>800 833</b>	<b>1 487 474</b>	<b>1 139 483</b>	<b>2 116 484</b>

## Statement of Comprehensive Income

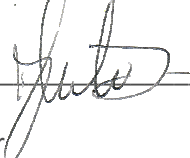
		Year ended 30 June		Year ended 30 June	
		2011	2010	2011	2010
		LVL	LVL	EUR	EUR
Profit/(loss) for the year		<b>800 833</b>	<b>1 487 474</b>	<b>1 139 483</b>	<b>2 116 484</b>
Other comprehensive income for the year		-	-	-	-
<b>Total comprehensive income for the year</b>		<b>800 833</b>	<b>1 487 474</b>	<b>1 139 483</b>	<b>2 116 484</b>
<b>Earnings per share attributable to the shareholders of the Company (LVL/ EUR per share)</b>					
– basic	26	0.270	0.501	0.384	0.713
– diluted	26	0.270	0.501	0.384	0.713

The accompanying notes on pages 31 to 60 are an integral part of these financial statements.

  
Normunds Bergs  
Chairman of the Board

  
Didzis Liepkalns  
Deputy Chairman of the Board

  
Aira Loite  
Board Member

  
Janis Ennitis  
Board Member

Riga, 26 October 2011



## Statement of changes in equity

	Share capital LVL	Share premium LVL	Retained earnings LVL	Total LVL
<b>Balance as at 30 June 2009</b>	<b>2 970 180</b>	<b>2 004 204</b>	<b>1 676 448</b>	<b>6 650 832</b>
Dividends for 2008/2009	-	-	(683 141)	(683 141)
Profit for the period	-	-	1 487 474	1 487 474
<b>Balance as at 30 June 2010</b>	<b>2 970 180</b>	<b>2 004 204</b>	<b>2 480 781</b>	<b>7 455 165</b>
Dividends for 2009/2010	-	-	(683 141)	(683 141)
Profit for the period	-	-	800 833	800 833
<b>Balance as at 30 June 2011</b>	<b>2 970 180</b>	<b>2 004 204</b>	<b>2 598 473</b>	<b>7 572 857</b>

	Share capital EUR	Share premium EUR	Retained earnings EUR	Total EUR
<b>Balance as at 30 June 2009</b>	<b>4 226 185</b>	<b>2 851 725</b>	<b>2 385 371</b>	<b>9 463 281</b>
Dividends for 2008/2009	-	-	(972 022)	(972 022)
Loss for the period	-	-	2 116 484	2 116 484
<b>Balance as at 30 June 2010</b>	<b>4 226 185</b>	<b>2 851 725</b>	<b>3 529 833</b>	<b>10 607 743</b>
Dividends for 2009/2010	-	-	(972 022)	(972 022)
Profit for the period	-	-	1 139 483	1 139 483
<b>Balance as at 30 June 2011</b>	<b>4 226 185</b>	<b>2 851 725</b>	<b>3 697 294</b>	<b>10 775 204</b>

The accompanying notes on pages 31 to 60 are an integral part of these financial statements.

The financial statements on pages 27 to 30 were approved by the Board.



## Cash flow statement

	Notes	Year ended 30 June		Year ended 30 June	
		2011 LVL	2010 LVL	2011 EUR	2010 EUR
Profit/(Loss) before tax		987 659	1 497 308	1 405 312	2 130 477
Adjustments for:					
- depreciation	6	167 662	235 082	238 562	334 492
- amortization	6	31 895	43 481	45 383	61 868
- changes in provisions for slow-moving inventories	8	110 983	3 358	157 915	4 777
- changes in accruals for guarantees		16 863	-	23 994	-
- changes in accruals for unused annual leave	15	45 724	(4 344)	65 059	(6 181)
- changes in allowances for bad debtors	9	244 130	(198 784)	347 366	(282 844)
- interest income	22	(100 724)	(159 425)	(143 317)	(226 841)
- interest expense	23	-	2 133	-	035
- foreign exchange gains		-	(12 166)	-	(17 311)
- receipt of government grant	21	(80 526)	(150 758)	(114 578)	(214 509)
- (gain)/loss from sale of PPE		(3 702)	(19 573)	(5 269)	(27 850)
<b>Cash (used in) operations before changes in working capital</b>		<b>1 419 964</b>	<b>1 236 312</b>	<b>2 020 427</b>	<b>1 759 113</b>
Inventories decrease/ (increase)		(1 258 525)	331 697	(1 790 720)	471 962
Receivables decrease/ (increase)		882 163	(1 044 076)	1 255 205	(1 485 586)
Payables increase/ (decrease)		(834 160)	1 712 551	(1 186 902)	2 436 741
<b>Cash generated from operating activities</b>		<b>209 442</b>	<b>2 236 484</b>	<b>298 010</b>	<b>3 182 230</b>
Receipt of government grant		106 425	89 476	151 429	127 312
Interest paid		-	(2 133)	-	(3 035)
Income tax paid/received		(36 866)	20 289	(52 456)	28 869
<b>Net cash generated from operating activities</b>		<b>279 001</b>	<b>2 344 116</b>	<b>396 983</b>	<b>3 335 376</b>
<b>Cash flows from (to) investing activities</b>					
Purchases of property, plant and equipment		(128 257)	(67 186)	(182 493)	(95 597)
Proceeds from sale of PPE		9 942	19 627	14 146	27 927
Purchases of intangible assets		(43 118)	(32 459)	(61 352)	(46 185)
Interest received		122 082	129 350	173 707	184 048
Shares in other companies		(500)	-	(711)	-
Short-term loans		(22 772)	-	(32 402)	-
Long-term loans		(24 670)	-	(35 102)	-
Short-term investments		180 808	(1 659 889)	257 267	(2 361 809)
<b>Net cash (used in)/generated from investing activities</b>		<b>93 515</b>	<b>(1 610 557)</b>	<b>133 060</b>	<b>(2 291 616)</b>
<b>Cash flows from (to) financing activities</b>					
Proceeds from (repayment of) borrowings		3 598	4 285	5 119	6 097
Dividends paid to Company's shareholders		(683 141)	(683 141)	(972 022)	(972 022)
<b>Net cash (used in)/generated from financing activities</b>		<b>(679 543)</b>	<b>(678 856)</b>	<b>(966 903)</b>	<b>(965 925)</b>
Effect of exchange rate changes		-	12 166	-	17 311
<b>Net increase in cash and cash equivalents</b>		<b>(307 027)</b>	<b>66 869</b>	<b>(436 860)</b>	<b>95 146</b>
Cash and cash equivalents at the beginning of the year		2 413 687	2 346 818	3 434 367	3 339 221
<b>Cash and cash equivalents at the end of the year</b>	12	<b>2 106 660</b>	<b>2 413 687</b>	<b>2 997 507</b>	<b>3 434 367</b>

The accompanying notes on pages 31 to 60 are an integral part of these financial statements.

The financial statements on pages 27 to 30 were approved by the Board.





# *Notes to Financial Statements*

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## Notes to the financial statements

### 1. General information

The core business activity of *SAF Tehnika* JSC (hereinafter – the Company) comprises 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 and private companies.

The Company owned 100% subsidiary *SAF Tehnika* Sweden AB until November 2008 when it was sold to *SAF Tehnika* Sweden AB management.

A joint company in the Russian Federation was established under the name of *SAF Tehnika* RUS Ltd (САФ Техника РУС ООО) with a Russian company named Мобильные технологии ООО (Mobile Technology) as its co-founder in November, 2008. *SAF Tehnika* JSC owned 51% of the shares of *SAF Tehnika* RUS Ltd. The decision to withdraw from a joint company in the Russian Federation was made as the subsidiary had not started its planned operations. The decision of the Board was approved by the Council in July 21, 2010. In August 2010 the company was liquidated.

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

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

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

These financial statements were approved by the Board on 26 October 2011.

### 2. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

#### *A Basis of preparation*

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS as adopted by the EU). Due to the European Union's endorsement procedure, the standards and interpretations not approved for use in the European Union are presented in this note as they may have impact on financial statements of the Company in the following periods if endorsed.

The financial statements have been prepared under the historical cost convention. In cases reclassification not affecting the equity and results of prior periods is performed, the reclassified items are duly disclosed in the Notes to the Financial Statements.

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





## Notes to the financial statements

### 2. Summary of significant accounting policies

#### A Basis of preparation

Certain IFRSs became effective for the Company from 1 July 2010. Listed below are those or amended standards or interpretations which are relevant to the preparation of the Company's financial statements for the year ended 31 June 2011.

**Group Cash-settled Share-based Payment Transactions - Amendments to IFRS 2, Share-based Payment** (effective for annual periods beginning on or after 1 January 2010, EU endorsed from annual periods beginning on or after March 2010).

The amendments provide a clear basis to determine the classification of share-based payment awards in both consolidated and separate financial statements. The amendments incorporate into the standard the guidance in IFRIC 8 and IFRIC 11, which are withdrawn.

**Eligible Hedged Items—Amendment to IAS 39, Financial Instruments: Recognition and Measurement** (effective with retrospective application for annual periods beginning on or after 1 July 2009).

The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations.

**IFRIC 15, Agreements for the Construction of Real Estate** (effective 1 January 2009, but EU endorsed for use 1 January 2010).

The interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors, and provides guidance for determining whether agreements for the construction of real estate are within the scope of IAS 11 or IAS 18. It also provides criteria for determining when entities should recognise revenue on such transactions.

**IFRIC 16, Hedges of a Net Investment in a Foreign Operation** (effective 1 October 2008, but EU endorsed for use periods beginning on or after 1 July 2010).

The interpretation explains which currency risk exposures are eligible for hedge accounting and states that translation from the functional currency to the presentation currency does not create an exposure to which hedge accounting could be applied. The IFRIC allows the hedging instrument to be held by any entity or entities within a group except the foreign operation that itself is being hedged. The interpretation also clarifies how the currency translation gain or loss reclassified from other comprehensive income to profit or loss is calculated on disposal of the hedged foreign operation. Reporting entities apply IAS 39 to discontinue hedge accounting prospectively when their hedges do not meet the criteria for hedge accounting in IFRIC 16.

**Amendment to IFRS 5, Non-current Assets Held for Sale and Discontinued Operations (and consequential amendments to IFRS 1)** (effective for annual periods beginning on or after 1 July 2009).

The amendment clarifies that an entity committed to a sale plan involving loss of control of a subsidiary would classify the subsidiary's assets and liabilities as held for sale. The revised guidance should be applied prospectively from the date at which the entity first applied IFRS 5.

**Eligible Hedged Items—Amendment to IAS 39, Financial Instruments: Recognition and Measurement** (effective with retrospective application for annual periods beginning on or after 1 July 2009).

The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations.



## Notes to the financial statements

### 2. Summary of significant accounting policies

#### A Basis of preparation

**IFRS 1, First-time Adoption of International Financial Reporting Standards, revised in December 2008** (effective for the first IFRS financial statements for a period beginning on or after 1 July 2009; restructured IFRS 1 as adopted by the EU is effective for annual periods beginning after 31 December 2009).

The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes.

**Additional Exemptions for First-time Adopters - Amendments to IFRS 1, First-time Adoption of IFRS** (not yet endorsed by EU).

The amendments exempt entities using the full cost method from retrospective application of IFRSs for oil and gas assets and also exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4, 'Determining Whether an Arrangement Contains a Lease' when the application of their national accounting requirements produced the same result.

**IFRIC 19, Extinguishing financial liabilities with equity instruments** (effective for annual periods beginning on or after 1 July 2010).

This interpretation clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in the profit and loss account based on the fair value of the equity instruments compared to the carrying amount of the debt.

**Limited exemption from comparative IFRS 7 disclosures for first-time adopters - Amendment to IFRS 1** (effective for annual periods beginning on or after 1 July 2011).

Existing IFRS preparers were granted relief from presenting comparative information for the new disclosures required by the March 2009 amendments to IFRS 7 'Financial Instruments: Disclosures'. This amendment to IFRS 1 provides first-time adopters with the same transition provisions as included in the amendment to IFRS 7.

**The International Financial Reporting Standard for Small and Medium-sized Entities (issued in July 2009) is a self-contained standard, tailored to the needs and capabilities of smaller businesses.**

Many of the principles of full IFRS for recognising and measuring assets, liabilities, income and expense have been simplified, and the number of required disclosures have been simplified and significantly reduced.

*Certain new standards and interpretations have been published that become effective for this accounting periods beginning after 1 July 2011 for which the Company has not chosen to apply early adoption and thus have no effect on these financial statements.*

**Amendment to IAS 24, Related Party Disclosures** (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011).

IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities.

**Classification of Rights Issues - Amendment to IAS 32** (issued 8 October 2009; effective for annual periods beginning on or after 1 February 2010).

The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives. The Company is currently assessing what impact this interpretation will have on the financial statements.



## Notes to the financial statements

### 2. Summary of significant accounting policies

#### A Basis of preparation

**IFRS 9, Financial Instruments Part 1: Classification and Measurement** (*effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU*). IFRS 9 issued in November 2009 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities. Key features are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated as at fair value through profit or loss in other comprehensive income.
- **Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14** (*effective for annual periods beginning on or after 1 January 2011*). This amendment will have a limited impact as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan. It removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement.



## Notes to the financial statements

### 2. Summary of significant accounting policies

#### A Basis of preparation

**Improvements to International Financial Reporting Standards, issued in May 2010** (*effective for annual periods beginning on or after 1 January 2011; not yet adopted by the EU*).

The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period; IAS 1 was amended to clarify that the components of the statement of changes in equity include profit or loss, other comprehensive income, total comprehensive income and transactions.

With owners and that an analysis of other comprehensive income by item may be presented in the notes; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits.

**Disclosures—Transfers of Financial Assets – Amendments to IFRS 7** (*effective for annual periods beginning on or after 1 July 2011*).

The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised but the entity is still exposed to certain risks and rewards associated with the transferred asset; additional disclosure is required to enable the effects of those risks to be understood.

**Deferred Tax: Recovery of Underlying Assets – Amendment to IAS 12** (*effective for annual periods beginning on or after 1 January 2012; not yet adopted by the EU*).

The amendment introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value.



## Notes to the financial statements

### 2. Summary of significant accounting policies

#### A Basis of preparation

**Severe hyperinflation and removal of fixed dates for first-time adopters – Amendment to IFRS 1** (effective for annual periods beginning on or after 1 July 2011; not yet adopted by the EU).

The amendments will provide relief for first-time adopters of IFRSs from having to reconstruct transactions that occurred before their date of transition to IFRSs, and guidance for entities emerging from severe hyperinflation either to resume presenting IFRS financial statements or to present IFRS financial statements for the first time.

The adoption of the above Standards and Interpretations did not have an impact on the financial statements of the Company.

#### B Foreign currency translation

##### (a) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The financial statements are presented in lats (LVL), which is the Company's functional and presentation currency. According to the requirements of Riga Stock Exchange, all balances are also stated in euros (EUR). For disclosure purposes, the currency translation has been performed by applying the official currency exchange rate determined by the Bank of Latvia (BOL), i.e. EUR 1 = LVL 0.702804.

##### (b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. 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 income statement. The following BOL Exchange rates were effective as at balance sheet dates:

	30.06.2011.	30.06.2010.
	LVL	LVL
1 USD	0.489000	0.573000
1 EUR	0.702804	0.702804

#### C Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Such cost includes the cost of replacing part of such plant and equipment if the asset recognition criteria are met.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

Current repairs are charged to the income statement during the financial period in which they are incurred.





## Notes to the financial statements

### 2. Summary of significant accounting policies

#### C Property, plant and equipment

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets to allocate their cost less the estimated residual values by applying the following depreciation rates:

	% per annum
Mobile phones	50
Technological equipment	33.33
Transport vehicles	20
Other fixtures and fittings	25

Leasehold improvements are amortized on a straight-line basis over the shorter of the estimated useful life of leasehold improvement and the term of lease.

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

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

#### D Intangible assets other than goodwill

##### (a) Trademarks and licences

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 is usually 3 years.

##### (b) Software

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

#### E Research and development

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

#### F Impairment of assets

Intangible assets that are not put in use or have an indefinite useful life are not subject to amortisation and are reviewed for impairment on an annual basis. Assets that are subject to amortisation and depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less selling costs and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units).



## Notes to the financial statements

### 2. Summary of significant accounting policies

#### G Segments

A geographical segment provides products or services within a particular economic environment that is subject to risks and benefits different from those of components operating in other economic environments. A business segment is a group of assets and operations providing products or services that are subject to risks and benefits different from those of other business segments.

#### 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 income statement over the expected useful life of the relevant asset by equal annual instalments.

#### I Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is stated on a first-in, first-out (FIFO) basis. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale. Costs of finished goods and work-in-progress include cost of materials.

#### J Receivables

Receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method. Allowance for impairment of receivables is established when there is objective evidence that the Company will not be able to collect the full amount due according to the original terms. The amount of the allowance is measured as the difference between the carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. Change in allowance is recognised in the income statement.

#### K Cash and cash equivalent

Cash and cash equivalents comprise current bank accounts balances, 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 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method. Borrowings are classified as current liabilities unless the Company is entitled to postpone the settlement of the liability for at least 12 months after the balance sheet date. Borrowing costs are recognized as an expense when incurred.



## Notes to the financial statements

### 2. Summary of significant accounting policies

#### *N Deferred tax*

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. 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 balance sheet 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.

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 income statement in the same period as the related salary cost.

#### *O 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 income statement in the same period as the related salary cost.

#### *P Revenue recognition*

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

##### *(a) Sale 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) Rendering of services*

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

#### *R 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 income statement on a straight-line basis over the lease period.

## **Notes to the financial statements**

### **2. Summary of significant accounting policies**

#### **S Dividend payment**

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

#### **T Consolidation**

The Company does not prepare consolidated accounts for the year ended 30 June 2011. The last set of consolidated accounts was prepared for the year ended 30 June 2009, which was the period when disposal of the subsidiary *SAF Tehnika Sweden AB* was completed.

### **3. Financial risk management**

#### **(1) Financial risk factors**

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

- (a) Foreign currency risk;
- (b) Credit risk;
- (c) Liquidity risk;
- (d) Cash flow interest rate risk.

The Company's overall risk management focuses on the unpredictability of financial markets and seeks to minimise its potential adverse effects on the Company's financial performance. The Company uses derivative financial instruments to hedge certain risk exposures.

The responsibility for risk management lies with the Finance Department. The Finance Department identifies and evaluates risks and seeks for solutions to avoid financial risks in close co-operation with other operating units of the Company.

##### **(a) Foreign currency risk**

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

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



## Notes to the financial statements

### 3. Financial risk management

#### (1) Financial risk factors

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

	30/06/2011 USD expressed in LVL	30/06/2010 USD expressed in LVL	30/06/2011 EUR expressed in LVL	30/06/2010 EUR expressed in LVL
Receivables	1 901 457	1 228 279	353 218	1 736 221
Short-term investments	-	-	1 129 081	989 889
Cash and cash equivalents	424 971	367 685	568 394	1 654 288
Payables	(488 499)	(379 367)	(401 905)	(389 193)
Other creditors	(218 484)	(138 685)	(22 259)	(209 322)
Borrowings	(2 564)	(2 000)	(1 297)	(1 818)
<b>Net open position</b>	<b>1 616 881</b>	<b>1 075 912</b>	<b>1 625 232</b>	<b>3 780 065</b>

#### (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 a regular basis and assigned credit limits are being changed based on credit history and customer's paying behaviour.

As at 30 June 2011, the Company's credit risk exposure to a single customer amounted to 38.07 % of the total short and long-term receivables (30.06.2010: 15.11%). With respect to credit risk arising from the other financial assets of the Company, which comprise cash and cash equivalents and derivatives, the Company's exposure to credit risk arises from the default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The Company's maximum credit risk exposure amounts to LVL 5 657 647 or 58.52% to total assets (30.06.2010: LVL 7 272 428 or 71.62% to total assets).

#### (c) Liquidity risk

The company follows a prudent liquidity risk management and hence maintains a sufficient quantity of money. The Company's management monitors liquidity reserves for the operational forecasting, based on estimated cash flows. Most of the Company's liabilities are short term. Management believes that the Company will have sufficient liquidity to be generated from operating activities.

#### (d) Cash flow interest rate risk

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





## Notes to the financial statements

### 3. Financial risk management

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

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

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.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

#### (3) Fair value

The carrying amounts of all financial assets and liabilities approximate their fair value.

### 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 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:

	30/06/2011 LVL	30/06/2010 LVL	30/06/2011 EUR	30/06/2010 EUR
Debt	2 095 047	2 698 548	2 980 984	3 839 688
Cash and cash in bank	(2 106 660)	(2 413 687)	(2 997 507)	(3 434 367)
<b>Net debt (debt-cash)</b>	<b>(11 613)</b>	<b>284 861</b>	<b>(16 523)</b>	<b>405 321</b>
<b>Equity</b>	<b>7 572 857</b>	<b>7 455 165</b>	<b>10 775 204</b>	<b>10 607 743</b>
Debt to equity ratio	28%	36%	28%	36%
Net debt to equity ratio	0%	4%	0%	4%



## Notes to the financial statements

### 5. Key estimates and assumptions

International Financial Reporting Standards as adopted by the EU and the legislation of the Republic of Latvia require that in preparing the financial statements, the management of the Company make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of off-balance sheet assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

The following are the critical judgements and key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

- The Company reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period. The management of the Company uses their judgment in estimating useful lives of property, plant and equipment. Their assumptions may change and new amounts calculated;
- The Company reviews property, plant and equipment and intangible assets recoverability whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less selling costs and value in use. The Company does not believe that any material adjustments due to impairment of the Company's assets are needed at the balance sheet date considering the planned production and sales levels;
- Upon valuation of inventories, the management relies on its best knowledge taking into consideration historical experience, general background information and potential assumptions and conditions of future events. In determining the impairment of inventories, the sales potential as well as the net realisable value of inventory is taken into consideration;
- The Company estimates allowance for impairment of receivables. The Company believes that impairment allowances recorded in the financial statements correctly reflects net present value of expected future cash flows from these receivables and estimate is made based on the best available information.



## Notes to the financial statements

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

	Intangible assets	Leasehold improvements	Equipment and machinery	Other assets	Prepayments for assets	Total
	LVL	LVL	LVL	LVL	LVL	LVL
<b>Year ended 30/06/2010</b>						
Opening net carrying amount	67 273	458 743	165 718	93 489	-	785 223
Additions	32 459	-	65 679	1 507	-	99 645
Depreciation charge	(43 481)	(68 813)	(121 199)	(45 070)	-	(278 563)
Disposals	-	-	(54)	-	-	(54)
<b>Closing net carrying amount</b>	<b>56 251</b>	<b>389 930</b>	<b>110 144</b>	<b>49 926</b>	<b>-</b>	<b>606 251</b>
<b>Year ended 30/06/2011</b>						
Opening net carrying amount	56 251	389 930	110 144	49 926	-	606 251
Additions	43 118	310	118 449	7 041	2 457	171 375
Depreciation charge	(31 895)	(68 818)	(66 000)	(32 844)	-	(199 557)
Disposals	-	(2 500)	-	(3 740)	-	(6 240)
<b>Closing net carrying amount</b>	<b>67 474</b>	<b>318 922</b>	<b>162 593</b>	<b>20 383</b>	<b>2 457</b>	<b>571 829</b>
<b>As at 30/06/2009</b>						
Cost	568 693	759 837	1 997 086	408 306	-	3 733 922
Accumulated depreciation	(501 420)	(301 094)	(1 831 368)	(314 817)	-	(2 948 699)
<b>Net carrying amount</b>	<b>67 273</b>	<b>458 743</b>	<b>165 718</b>	<b>93 489</b>	<b>-</b>	<b>785 223</b>
<b>As at 30/06/2010</b>						
Cost	552 910	759 837	2 027 517	389 188	-	3 729 452
Accumulated depreciation	(496 659)	(369 907)	(1 917 373)	(339 262)	-	(3 123 201)
<b>Net carrying amount</b>	<b>56 251</b>	<b>389 930</b>	<b>110 144</b>	<b>49 926</b>	<b>-</b>	<b>606 251</b>
<b>As at 30/06/2011</b>						
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)
<b>Net carrying amount</b>	<b>67 474</b>	<b>318 922</b>	<b>162 593</b>	<b>20 383</b>	<b>2 457</b>	<b>571 829</b>

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

Depreciation of LVL 112 487 (2009/2010: LVL 173 347) is included in the income statement caption *Cost of sales*; depreciation of LVL 57 212 (2009/2010: LVL 66 454) – in *Selling and marketing costs*, depreciation of LVL 29 103 (2009/2010: LVL 37 433) – in *Administrative expense* and depreciation of LVL 755 (2009/2010: LVL 1 329) – in *Other administration expense*.

The acquisition cost of fully depreciated property, plant and equipment that is still in use at the end of financial year amounted to LVL 2 573 123 (2009/2010: LVL 2 489 068).

The *Equipment and machinery* group includes items bought with EU co-financing and according to agreement with EU have restrictions in their usage in operations. In total such items amount to LVL 304 043 (2009/2010: LVL 258 373), the residual value on June, 30, 2011 is LVL 49 373 (2009/2010: LVL 18 731). Restrictions are in force till July, 2014.



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

	Intangible assets	Leasehold improvements	Equipment and machinery	Other assets	Prepayments for assets	Total
	EUR	EUR	EUR	EUR	EUR	EUR
<b>Year ended 30/06/2010</b>						
Opening net carrying amount	95 721	652 733	235 795	133 023	-	1 117 272
Additions	46 185	-	93 452	2 145	-	141 782
Depreciation charge	(61 868)	(97 912)	(172 450)	(64 130)	-	(396 360)
Disposals	-	-	(76)	-	-	(76)
<b>Closing net carrying amount</b>	<b>80 038</b>	<b>554 821</b>	<b>156 721</b>	<b>71 038</b>	<b>-</b>	<b>862 618</b>
<b>Year ended 30/06/2011</b>						
Opening net carrying amount	80 038	554 821	156 721	71 038	-	862 618
Additions	61 352	441	168 538	10 018	3 496	243 845
Depreciation charge	(45 383)	(97 919)	(93 910)	(46 733)	-	(283 945)
Disposals	-	(3 557)	-	(5 321)	-	(8 878)
<b>Closing net carrying amount</b>	<b>96 007</b>	<b>453 786</b>	<b>231 349</b>	<b>29 002</b>	<b>3 496</b>	<b>813 640</b>
<b>As at 30/06/2009</b>						
Cost	809 177	1 081 151	2 841 597	580 967	-	5 312 892
Accumulated depreciation	(713 456)	(428 418)	(2 605 802)	(447 944)	-	(4 195 620)
<b>Net carrying amount</b>	<b>95 721</b>	<b>652 733</b>	<b>235 795</b>	<b>133 023</b>	<b>-</b>	<b>1 117 272</b>
<b>As at 30/06/2010</b>						
Cost	786 720	1 081 151	2 884 897	553 764	-	5 306 532
Accumulated depreciation	(706 682)	(526 330)	(2 728 176)	(482 726)	-	(4 443 914)
<b>Net carrying amount</b>	<b>80 038</b>	<b>554 821</b>	<b>156 721</b>	<b>71 038</b>	<b>-</b>	<b>862 618</b>
<b>As at 30/06/2011</b>						
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)
<b>Net carrying amount</b>	<b>96 007</b>	<b>453 786</b>	<b>231 349</b>	<b>29 002</b>	<b>3 496</b>	<b>813 640</b>

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

Depreciation of EUR 160 055 (2009/2010: EUR 246 651) is included in the income statement caption *Cost of sales*; depreciation of EUR 81 405 (2009/2010: EUR 94 556) – in *Selling and marketing costs*, and depreciation of EUR 41 410 (2009/2010: EUR 53 262) – in *Administrative expense* and depreciation of EUR 1 075 (2009/2010: EUR 1 891) – in *Other administration expense*.

The acquisition cost of fully depreciated property, plant and equipment that is still in use at the end of financial year amounted to EUR 3 661 224 (2009/2010: EUR 3 541 625).

The *Equipment and machinery* group includes items bought with EU co-financing and according to agreement with EU have restrictions in their usage in operations. It total such items amounts to EUR 432 614 (2009/2010: EUR 367 362), the residual value on June, 30, 2011 is EUR 70 251 (2009/2010: EUR 26 652). Restrictions are in force till July, 2014.





*Product: CFM-MP-MUX, 7 GHz*

*Place: Mountains near Issyk-Kul Lake, Kyrgyzstan*

*Link distance and temperature: -40 to +15 C; ~18 km*





## Notes to the financial statements

### 7. Shares in companies

Name	Equity share	
	30/06/2011	30/06/2010
	%	%
SAF Tehnika RUS Ltd	-	51
LEO Pētījumu centrs SIA	10	-

A joint company in the Russian Federation was established under the name of *SAF Tehnika RUS Ltd* (САФ Техника РУС ООО) with a Russian company named Мобильные технологии ООО (Mobile Technology) as its co-founder in November, 2008. *SAF Tehnika JSC* owned 51% of the shares of *SAF Tehnika RUS Ltd*. The decision to withdraw from a joint company in the Russian Federation was made as the subsidiary had not started its planned operations. The decision of the Board was approved by the Council in July 21, 2010. In August 2010 the company was liquidated.

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

### 8. Inventories

	30/06/2011 LVL	30/06/2010 LVL	30/06/2011 EUR	30/06/2010 EUR
Raw materials	1 285 778	918 849	1 829 497	1 307 404
Work in progress	1 423 201	754 827	2 025 033	1 074 023
Finished goods	948 393	725 171	1 349 442	1 031 825
Allowance for slow-moving items	(291 975)	(180 992)	(415 443)	(257 529)
	<b>3 365 397</b>	<b>2 217 855</b>	<b>4 788 529</b>	<b>3 155 723</b>

During the reporting year, an increase in provisions for slow-moving items of LVL 110 983 (EUR 157 914) (2009/2010: increase of LVL 358 (EUR 4 779)) was recognised and included in cost of sales.

An equipment delivered to customers on *Sales or return* bases and as *Advance replacement* and held by customers as at the balance date are included in the balance sheet item *Finished goods* in the amount of LVL 196 290 (EUR 279 296) (2009/2010: LVL 223 263 (EUR 317 675)).

### 9. Receivables

	30/06/2011 LVL	30/06/2010 LVL	30/06/2011 EUR	30/06/2010 EUR
<b>Long-term trade receivables</b>	<b>65 140</b>	<b>182 776</b>	<b>92 686</b>	<b>260 067</b>
Trade receivables	2 203 448	2 991 339	3 135 224	4 256 292
Allowances for bad and doubtful trade receivables	(447 463)	(203 333)	(636 682)	(289 317)
<b>Short-term trade receivables, net</b>	<b>1 755 985</b>	<b>2 788 006</b>	<b>2 498 542</b>	<b>3 966 975</b>
<b>Total trade receivables, net</b>	<b>1 821 125</b>	<b>2 970 782</b>	<b>2 591 228</b>	<b>4 227 042</b>

Trade receivables include 6 Letters of Credit with original payment term up to 180 days for the amount of LVL 234 228 (EUR 333 276) (2009/2010: LVL 489 727 (EUR 696 819)). As at 30 June 2011, the fair value of receivables approximated their carrying amount.



## Notes to the financial statements

### 9. Receivables

In the reporting year, the net increase of allowances for bad and doubtful trade receivables was included in the income statement caption as administrative expense in the amount of LVL 348 494 (EUR 495 862) (2009/2010 – increase of LVL 68 683 (EUR 97 727)) (see Note 20). Receivables amounting to LVL 104 364 (EUR 148 496) were written-off as irretrievable.

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

	30/06/2011 LVL	30/06/2011 %	30/06/2010 LVL	30/06/2010 %
LVL	13 913	0.61	26 839	0.85
USD	1 901 457	83.82	1 411 055	44.45
EUR	353 218	15.57	1 736 221	54.70
<b>Total trade receivables</b>	<b>2 268 588</b>	<b>100%</b>	<b>3 174 115</b>	<b>100%</b>

#### Aging analysis of Trade receivables

	30/06/2011 LVL	30/06/2010 LVL	30/06/2011 EUR	30/06/2010 EUR
Not due	1 475 115	2 323 177	2 098 899	3 305 583
Overdue 0 – 89	369 797	667 782	526 174	950 168
Overdue 90 and more	423 676	183 156	602 837	260 608
<b>Total trade receivables</b>	<b>2 268 588</b>	<b>3 174 115</b>	<b>3 227 910</b>	<b>4 516 359</b>

#### Allowances for bad and doubtful trade receivables

	LVL	EUR
Allowances for bad and doubtful trade receivables as of 30 June 2010	203 333	289 317
Written-off	(104 364)	(148 496)
Increase	412 430	586 835
Decrease	(63 936)	(90 974)
Allowances for bad and doubtful trade receivables as of 30 June 2011	<b>447 463</b>	<b>636 682</b>

### 10. Other receivables

	30/06/2011 LVL	30/06/2010 LVL	30/06/2011 EUR	30/06/2010 EUR
Government grant *	35 883	65 373	51 057	93 017
VAT receivable (see Note 25)	20 760	22 021	29 538	31 332
Other receivables	51 107	57 015	72 719	81 127
Prepayments to suppliers	47 182	31 019	67 134	44 136
	<b>154 932</b>	<b>175 428</b>	<b>220 448</b>	<b>249 612</b>

\* - Government grants relate to projects on participation in international exhibitions.



## Notes to the financial statements

### 11. Short-term investments

	30/06/2011 LVL	30/06/2010 LVL	30/06/2011 EUR	30/06/2010 EUR
Deposits	1 479 081	1 659 889	2 104 543	2 361 809
	<b>1 479 081</b>	<b>1 659 889</b>	<b>2 104 543</b>	<b>2 361 809</b>

Deposits with maturity more than 90 days, but not exceeding 12 months as of the balance date June, 30, 2011 are recorded as short-term investments. The average annual interest rate on deposits with maturity more than 90 days in lats is 1.40% (June 30 2010: 6.58%) and other currencies – 2.94% (June 30 2010: 4.84%).

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

	30/06/2011 LVL	30/06/2011 %	30/06/2010 LVL	30/06/2010 %
LVL	350 000	23.66	670 000	40.36
EUR	1 129 081	76.34	989 889	59.64
<b>Deposits</b>	<b>1 479 081</b>	<b>100%</b>	<b>1 659 889</b>	<b>100%</b>

#### Split of Deposits by banks

	30/06/2011 LVL	30/06/2010 LVL	30/06/2011 EUR	30/06/2010 EUR
Trasta Komercbanka JSC	1 479 081	1 188 487	2 104 543	1 691 065
Citadele Banka JSC	-	471 402	-	670 744
<b>Deposits</b>	<b>1 479 081</b>	<b>1 659 889</b>	<b>2 104 543</b>	<b>2 361 809</b>

### 12. Cash and cash equivalents

	30/06/2011 LVL	30/06/2010 LVL	30/06/2011 EUR	30/06/2010 EUR
Cash at bank	1 080 323	695 851	1 537 161	990 106
Short-term bank deposits	1 026 337	1 717 836	1 460 346	2 444 261
	<b>2 106 660</b>	<b>2 413 687</b>	<b>2 997 507</b>	<b>3 434 367</b>

As at 30 June 2011 free cash resources were deposited in short term deposits (with maturity up to 90 days). The average annual interest rate on short term deposits in lats 1.80% (June 30 2010: 9.13%) and other currencies 2.88% (June 30 2010: 4.99%).

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

	30/06/2011 LVL	30/06/2011 %	30/06/2010 LVL	30/06/2010 %
LVL	236 958	11.24	391 713	16.23
USD	424 971	20.18	367 686	15.23
EUR	1 444 731	68.58	1 654 288	68.54
<b>Cash at bank and deposits</b>	<b>2 106 660</b>	<b>100%</b>	<b>2 413 687</b>	<b>100%</b>



## Notes to the financial statements

### 12. Cash and cash equivalents

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

	30/06/2011 LVL	30/06/2010 LVL	30/06/2011 EUR	30/06/2010 EUR
Trasta Komerbanka JSC	440 692	286 178	627 049	407 195
Citadele Banka JSC	505 599	1 314 990	719 402	1 871 061
Latvijas Hipotēku un Zemes banka JSC	-	120 016	-	170 768
Swedbank JSC	212 222	238 178	301 964	338 897
Nordea bank Finland Plc Latvian branch	804 946	452 149	1 145 335	643 350
DnB Nord Banka JSC	1 265	2 176	1 800	3 096
JP Morgan Chase Bank	141 936	-	201 957	-
<b>Cash at bank and deposits</b>	<b>2 106 660</b>	<b>2 413 687</b>	<b>2 997 507</b>	<b>3 434 367</b>

### 13. Deferred corporate income tax (asset)/ liability

	Year ended 30/06/2011 LVL	Year ended 30/06/2010 LVL	Year ended 30/06/2011 EUR	Year ended 30/06/2010 EUR
Deferred tax (asset) at the beginning of the year	(57 179)	(51 025)	(81 358)	(72 602)
Change in deferred tax asset during the reporting year (see Note 24)	(15 853)	(6 154)	(22 557)	(8 756)
<b>Deferred tax (asset) at the end of the year</b>	<b>(73 032)</b>	<b>(57 179)</b>	<b>(103 915)</b>	<b>(81 358)</b>

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

	30/06/2011 LVL	30/06/2010 LVL	30/06/2011 EUR	30/06/2010 EUR
Temporary difference on fixed asset depreciation and intangible asset amortisation	650	(11 033)	925	(15 698)
Temporary difference on vacation pay accrual	(23 753)	(16 894)	(33 798)	(24 038)
Temporary difference on provisions for slow-moving and obsolete inventories	(43 796)	(27 149)	(62 316)	(38 630)
Temporary difference on provisions for guarantees	(4 633)	(2 103)	(6 592)	(2 992)
Temporary difference on provisions for bonuses	(1 500)	-	(2 134)	-
<b>Deferred tax (asset), net</b>	<b>(73 032)</b>	<b>(57 179)</b>	<b>(103 915)</b>	<b>(81 358)</b>

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

### 14. Share capital

As at 30 June 2011, 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 (2009/2010: 2 970 180 shares).



## Notes to the financial statements

### 15. Payables

	30/06/2011 LVL	30/06/2010 LVL	30/06/2011 EUR	30/06/2010 EUR
Trade payables	1 003 495	916 425	1 427 845	1 303 955
Vacation pay accrual	158 351	112 627	225 313	160 254
Advances from customers	243 441	1 006 217	346 386	1 431 718
Taxes and social insurance contributions (see Note 25)	257 074	80 888	365 783	115 094
Other payables	411 685	563 647	585 775	801 997
	<b>2 074 046</b>	<b>2 679 804</b>	<b>2 951 102</b>	<b>3 813 018</b>

During the reporting period increase in unused vacation pay is included in Income Statement amounted to LVL 45 724 (EUR 65 059) (2009/2010: decrease LVL 4 344 (EUR 6 181)).

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

	30/06/2011 LVL	30/06/2011 %	30/06/2010 LVL	30/06/2010 %
LVL	110 885	11.05	147 104	16.05
USD	488 499	48.68	379 367	41.40
EUR	401 905	40.05	389 193	42.47
GBP	2 206	0.22	-	-
HUF	-	-	761	0.08
Trade payables	<b>1 003 495</b>	<b>100%</b>	<b>916 425</b>	<b>100%</b>

### Aging analysis of Trade payables

	30/06/2011 LVL	30/06/2010 LVL	30/06/2011 EUR	30/06/2010 EUR
Not due	992 101	844 175	1 411 633	1 201 152
Overdue 0 – 30	11 394	72 250	16 212	102 803
	<b>1 003 495</b>	<b>916 425</b>	<b>1 427 845</b>	<b>1 303 955</b>

### 16. Borrowings

	30/06/2011 LVL	30/06/2010 LVL	30/06/2011 EUR	30/06/2010 EUR
Credit cards	<b>9 779</b>	<b>6 181</b>	<b>13 914</b>	<b>8 795</b>

The Company continues to use company credit cards.

### 17. Segment information and sales

a) The Company's operations may be divided into two major structural units by product lines – CFM (Hybrid/ PDH radio) and CFIP (Hybrid/ super PDH system) as the first structural unit and CFQ (SDH) as the second unit. These structural units are used as a basis for providing information about the primary segments of the Company, i.e. business segments. Production, as well as research and development are organised and managed for each structural units (CFM, CFIP and CFQ) separately.





## Notes to the financial statements

### 17. Segment information and sales

CFM microwave radio product line has been the main type of radio SAF has been supplying to the market over many years, yet it is still demanded and popular as ever. Such medium capacity, simple yet extremely reliable and feature rich radio forms the basis of many new deployments in the areas of rapid development of telecom networks.

CFIP - a new and growing product line is represented by 4 respectable models,

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

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

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

Full Outdoor units of Lumina and CFIP-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.

Even though mentioned CFIP products are set to carry SAF Tehnika's fortunes into the future, SAF offered CFQ radio, still widely used due to an ability to reconfigure the terminal to provide widest range of interfaces in any SAF system.

As demand for CFQ products has decreased substantially, it has been decided to phase out the entire CFQ product line starting from summer 2011, providing the CFQ basic functionality with CFIP Phoenix M split mount system. The clients' requirements will be covered by full spectrum of CFIP and CFM products.



## Notes to the financial statements

## 17. Segment information and sales

	CFQ		CFM; CFIP		Other		Total	
	2010/11	2009/10	2010/11	2009/10	2010/11	2009/10	2010/11	2009/10
	LVL	LVL	LVL	LVL	LVL	LVL	LVL	LVL
Assets								
Segment assets	1 431 233	1 513 834	3 910 724	3 589 216	569 998	749 075	5 911 955	5 852 125
Unallocated assets							3 755 949	4 301 588
<b>Total assets</b>							<b>9 667 904</b>	<b>10 153 713</b>
Segment liabilities	228 501	541 310	1 199 255	1 503 886	266 875	386 650	1 694 631	2 431 846
Unallocated liabilities							400 416	266 702
<b>Total liabilities</b>							<b>2 095 047</b>	<b>2 698 548</b>
Income	951 384	2 187 568	8 226 627	6 509 182	1 718 060	1 530 155	10 896 071	10 226 905
<b>Segment results</b>	<b>114 005</b>	<b>820 279</b>	<b>3 257 197</b>	<b>2 072 363</b>	<b>757 627</b>	<b>560 474</b>	<b>4 128 829</b>	<b>3 453 116</b>
Unallocated expense							(3 100 338)	(2 515 746)
<b>Profit/ (loss) from operations</b>							<b>1 028 491</b>	<b>937 370</b>
Other income							101 610	212 332
Financial income (expense), net							(142 442)	347 606
<b>Profit/ (loss) before taxes</b>							<b>987 659</b>	<b>1 497 308</b>
Corporate income tax							(186 826)	(9 834)
<b>Profit/(loss) for the year</b>							<b>800 833</b>	<b>1 487 474</b>
Other information								
Additions of property plant and equipment and intangible assets	1 257	5 944	57 062	77 701	83	-	58 402	83 645
Unallocated additions of property plant and equipment and intangible assets							112 973	16 000
<b>Total additions of property plant and equipment and intangible assets</b>							<b>171 375</b>	<b>99 645</b>
Depreciation and amortization	10 524	13 600	101 875	159 741	88	10	112 487	173 351
Unallocated depreciation and amortization							87 070	105 212
<b>Total depreciation and amortization</b>							<b>199 557</b>	<b>278 563</b>



**17. Segment information and sales**

	CFQ		CFM; CFIP		Other		Total	
	2010/11	2009/10	2010/11	2009/10	2010/11	2009/10	2010/11	2009/10
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Assets								
Segment assets	2 036 461	2 153 992	5 564 459	5 106 994	811 034	1 065 838	8 411 954	8 326 824
Unallocated assets							5 344 234	6 120 608
<b>Total assets</b>							<b>13 756 188</b>	<b>14 447 432</b>
Segment liabilities	325 128	770 215	1 706 386	2 139 837	379 729	550 153	2 411 243	3 460 205
Unallocated liabilities							569 741	379 484
<b>Total liabilities</b>							<b>2 980 984</b>	<b>3 839 689</b>
Income	1 353 697	3 112 629	11 705 436	9 261 732	2 444 579	2 177 214	15 503 712	14 551 575
<b>Segment results</b>	<b>162 214</b>	<b>1 167 152</b>	<b>4 634 574</b>	<b>2 948 707</b>	<b>1 078 006</b>	<b>797 483</b>	<b>5 874 794</b>	<b>4 913 342</b>
Unallocated expense							(4 411 383)	(3 579 584)
<b>Profit/(loss) from operations</b>							<b>1 463 411</b>	<b>1 333 758</b>
Other income							144 578	302 121
Financial income (expense), net							(202 677)	494 599
<b>Profit/ (loss) before taxes</b>							<b>1 405 312</b>	<b>2 130 478</b>
Corporate income tax							(265 829)	(13 994)
<b>Profit/(loss) for the year</b>							<b>1 139 483</b>	<b>2 116 484</b>
Other information								
Additions of property plant and equipment and intangible assets	1 789	8 458	81 192	110 558	118	-	83 099	119 016
Unallocated additions of property plant and equipment and intangible assets							160 746	22 766
<b>Total additions of property plant and equipment and intangible assets</b>							<b>243 845</b>	<b>141 782</b>
Depreciation and amortization	14 974	19 351	144 955	227 291	125	14	160 054	246 656
Unallocated depreciation and amortization							123 891	149 704
<b>Total depreciation and amortization</b>							<b>283 945</b>	<b>396 360</b>



## 17. Segment information and sales

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

	Net sales		Assets	
	2010/2011	2009/2010	30/06/2011	30/06/2010
	LVL	LVL	LVL	LVL
America	3 004 794	1 787 390	540 179	470 417
Europe, CIS	3 843 472	2 475 325	226 705	751 536
Asia, Africa, Middle East	4 047 805	5 964 190	1 054 241	1 748 829
	<b>10 896 071</b>	<b>10 226 905</b>	<b>1 821 125</b>	<b>2 970 782</b>
Unallocated assets	-	-	7 846 779	7 182 931
	<b>10 896 071</b>	<b>10 226 905</b>	<b>9 667 904</b>	<b>10 153 713</b>

	Net sales		Assets	
	2010/2011	2009/2010	30/06/2011	30/06/2010
	EUR	EUR	EUR	EUR
America	4 275 436	2 543 227	768 605	669 343
Europe, CIS	5 468 768	3 522 070	322 573	1 069 339
Asia, Africa, Middle East	5 759 508	8 486 278	1 500 050	2 488 360
	<b>15 503 712</b>	<b>14 551 575</b>	<b>2 591 228</b>	<b>4 227 042</b>
Unallocated assets	-	-	11 164 960	10 220 390
	<b>15 503 712</b>	<b>14 551 575</b>	<b>13 756 188</b>	<b>14 447 432</b>

## 18. Cost of sales

	Year ended 30/06/2011	Year ended 30/06/2010	Year ended 30/06/2011	Year ended 30/06/2010
	LVL	LVL	EUR	EUR
Purchases of components and subcontractors services	5 774 632	6 299 822*	8 216 561	8 963 839
Salary expenses (including accruals for vacation pay)	1 094 243	816 197	1 556 968	1 161 344
Depreciation and amortization (see Note 6)	112 487	173 347	160 055	246 651
Social insurance (including accruals for vacation pay)	261 130	195 027	371 555	277 498
Rent of premises	105 113	81 508	149 562	115 975
Public utilities costs	67 779	70 935	96 441	100 931
Car expenses	20 254	20 167	28 819	28 695
Communication expenses	10 969	12 322	15 608	17 533
Travel expenses	14 444	3 406	20 552	4 846
Low value inventory	1 810	1 670	2 576	2 376
Other production costs	63 582	44 693	90 466	63 593
	<b>7 526 443</b>	<b>7 719 094</b>	<b>10 709 163</b>	<b>10 983 281</b>

\* See explanation on expense reclassification in Note 19.

Research and development related expenses of LVL 968 940 (EUR 1 378 677) (2009/2010: LVL 1 026 838 (EUR 1 461 059)) are included in the income statement caption cost of sales.



## Notes to the financial statements

## 19. Selling and marketing costs

	Year ended 30/06/2011 LVL	Year ended 30/06/2010 LVL	Year ended 30/06/2011 EUR	Year ended 30/06/2010 EUR
Advertising and marketing costs *	81 746	36 190	116 314	51 494
Wages and salaries (incl. vacation pay reserve)	669 316	429 265	952 350	610 789
Business trips	235 196	197 866	334 654	281 538
Depreciation and amortisation (see Note 6)	57 212	66 454	81 405	94 556
Delivery costs	196 799	153 790	280 019	218 823
Social insurance contributions (incl. vacation pay reserve)	161 389	103 463	229 636	147 215
Other selling and distribution costs	82 184	87 598	116 939	124 640
	<b>1 483 842</b>	<b>1 074 626</b>	<b>2 111 317</b>	<b>1 529 055</b>

\* Considering that sales agent services, which are closely related to sales results and by nature are an attribute of the cost of sales, such services are now included in the *Purchases of components and subcontractors services* item and not in *Advertising and marketing costs* section. The reclassification is also applied for comparatives, reclassifying expenses in the amount of LVL 1 099 092 (EUR 1 563 867) from Advertising and marketing costs to Cost of sales.

## 20. Administrative expense

	Year ended 30/06/2011 LVL	Year ended 30/06/2010 LVL	Year ended 30/06/2011 EUR	Year ended 30/06/2010 EUR
Wages and salaries (incl. vacation pay reserve)	201 308	162 413	286 435	231 093
Depreciation and amortisation (see Note 6)	29 103	37 433	41 410	53 262
Social insurance contributions (incl. vacation pay reserve)	56 225	39 264	80 001	55 868
IT services	22 060	23 622	31 389	33 611
Bank charges	13 049	16 305	18 567	23 200
Representation expenses	36 839	23 854	52 417	33 942
Training expenses	5 718	8 755	8 136	12 457
Public utilities costs	9 764	9 692	13 893	13 790
Business trips	20	163	28	232
Rent of premises	12 835	9 883	18 262	14 062
Insurance expenses	9 830	9 179	13 987	13 061
Office maintenance costs	4 120	2 570	5 862	3 657
Sponsorship	23 915	3 000	34 028	4 269
Communications expenses	3 353	3 524	4 771	5 014
Allowance for bad and doubtful receivables	348 494	68 683	495 862	97 727
Other administration expense*	80 662	77 478	114 773	110 241
	<b>857 295</b>	<b>495 818</b>	<b>1 219 821</b>	<b>705 486</b>

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





## 21. Other income

	Year ended 30/06/2011 LVL	Year ended 30/06/2010 LVL	Year ended 30/06/2011 EUR	Year ended 30/06/2010 EUR
Government grant	80 526	150 758	114 578	214 509
Other income	21 084	61 573	30 000	87 612
	<b>101 610</b>	<b>212 331</b>	<b>144 578</b>	<b>302 121</b>

The Company has received cash payment amounting to LVL 106 425 (EUR 151 429) (2009/2010 – LVL 89 476 (EUR 127 312)) of the government grant.

## 22. Financial revenue

	Year ended 30/06/2011 LVL	Year ended 30/06/2010 LVL	Year ended 30/06/2011 EUR	Year ended 30/06/2010 EUR
Interest Income	100 724	159 425	143 317	226 841
Currency exchange gain, net	-	190 318	-	270 797
	<b>100 724</b>	<b>349 743</b>	<b>143 317</b>	<b>497 638</b>

## 23. Financial expense

	Year ended 30/06/2011 LVL	Year ended 30/06/2010 LVL	Year ended 30/06/2011 EUR	Year ended 30/06/2010 EUR
Interest expense	-	2 133	-	3 035
Currency exchange loss, net	243 166	-	345 994	-
	<b>243 166</b>	<b>2 133</b>	<b>345 994</b>	<b>3 035</b>

## 24. Corporate income tax

	Year ended 30/06/2011 LVL	Year ended 30/06/2010 LVL	Year ended 30/06/2011 EUR	Year ended 30/06/2010 EUR
Change in deferred tax asset (see Note 13)	(15 853)	(6 154)	(22 557)	(8 756)
Corporate income tax charge for the current reporting year	199 328	15 988	283 618	22 749
Corporate income tax paid in the form of WHT	4 079	-	5 803	-
Prior year adjustments	(728)	-	(1 035)	-
	<b>186 826</b>	<b>9 834</b>	<b>265 829</b>	<b>13 993</b>

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.



## 24. Corporate income tax

	Year ended 30/06/2011 LVL	Year ended 30/06/2010 LVL	Year ended 30/06/2011 EUR	Year ended 30/06/2010 EUR
<b>Profit/(Loss) before taxes</b>	<b>987 659</b>	<b>1 497 308</b>	<b>1 405 312</b>	<b>2 130 477</b>
Tax rate	15%	15%	15%	15%
Theoretically calculated tax	148 149	224 596	210 797	319 572
Expenses not deductible for tax purposes	39 405	4 352	56 067	6 192
Non- recognised deferred tax asset of tax loss	-	(219 114)	-	(311 771)
Prior year adjustments	(728)	-	(1 035)	-
<b>Tax charge</b>	<b>186 826</b>	<b>9 834</b>	<b>265 829</b>	<b>13 993</b>

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 balance sheet date).

## 25. Tax payable

	VAT LVL	Social insurance contri- butions LVL	Personal income tax LVL	Corporate income tax LVL	Unemploy- ment risk duty LVL	With- holding tax LVL	Total LVL
<b>Payable as at 30.06.2010</b>	-	39 102	25 761	15 988	37	-	80 888
<b>(Receivable) as at 30.06.2010</b>	(22 021)	-	-	-	-	-	(22 021)
Calculated for the period	(225 726)	682 668	467 687	199 328	462	4 810	1 129 229
Prior year's adjustments	-	-	-	(728)	-	-	(728)
Transferred to/from other taxes	226 987	(226 987)	-	-	-	-	-
Paid in the period	-	(446 735)	(466 267)	(32 837)	(459)	(4 757)	(951 055)
<b>Payable as at 30.06.2011</b>	-	48 048	27 181	181 751	40	53	257 073
<b>(Receivable) as at 30.06.2011</b>	(20 760)	-	-	-	-	-	(20 760)



## 25. Tax payable

	VAT	Social insurance contributions	Personal income tax	Corporate income tax	Unemployment risk duty	Withholding tax	Total
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Payable as at 30.06.2010	-	55 638	36 654	22 749	53	-	115 094
(Receivable) as at 30.06.2010	(31 332)	-	-	-	-	-	(31 332)
Calculated for the period	(321 179)	971 348	665 459	283 617	657	6 843	1 606 745
Prior year's adjustments	-	-	-	(1 035)	-	-	(1 035)
Transferred to/from other taxes	322 973	(322 973)	-	-	-	-	-
Paid in the period	-	(635 646)	(663 438)	(46 723)	(652)	(6 768)	(1 353 22)
Payable as at 30.06.2011	-	68 367	38 675	258 608	58	75	365 783
(Receivable) as at 30.06.2011	(29 538)	-	-	-	-	-	(29 538)

## 26. Earnings per share

Basic and diluted earnings per share are calculated by dividing the profit by the weighted average number of shares during the year.

	Year ended 30/06/2011 LVL	Year ended 30/06/2010 LVL	Year ended 30/06/2011 EUR	Year ended 30/06/2010 EUR
Profit (loss) for the reporting year (a)	800 833	1 487 474	1 139 483	2 116 484
Ordinary shares as at 1 July (b)	2 970 180	2 970 180	2 970 180	2 970 180
Basic and diluted earnings per share for the reporting year (a/b)	0.270	0.501	0.384	0.713

## 27. Management remuneration

### Remuneration to the Board and the Council

	Year ended 30/06/2011 LVL	Year ended 30/06/2010 LVL	Year ended 30/06/2011 EUR	Year ended 30/06/2010 EUR
Remuneration to the Board Members				
· salaries	173 749	113 499	247 223	161 494
· social insurance contributions	41 957	27 433	59 700	39 034
Remuneration to the Council Members				
· salaries	107 123	69 473	152 422	98 851
· social insurance contributions	25 806	16 718	36 718	23 788
<b>Total</b>	<b>348 635</b>	<b>227 123</b>	<b>496 063</b>	<b>323 167</b>



## 28. Related party transactions

2010/2011 financial year there have been no transactions with related companies.

## 29. Personnel expense

	Year ended 30/06/2011 LVL	Year ended 30/06/2010 LVL	Year ended 30/06/2011 EUR	Year ended 30/06/2010 EUR
Wages and salaries	1 964 866	1 407 875	2 795 753	2 003 226
Social insurance contributions	478 744	337 754	681 191	480 581
<b>Total</b>	<b>2 443 610</b>	<b>1 745 629</b>	<b>3 476 944</b>	<b>2 483 807</b>

## 30. Average number of employees

	Year ended 30/06/2011	Year ended 30/06/2010
Average number of personnel employed during the reporting year:	<b>163</b>	<b>140</b>

## 31. Operating lease

Lease agreement No. S-116/02, dated 10 December 2002, was signed with Dambis JSC. According to the agreement, the lessor commissions and *SAF Tehnika* JSC accepts premises in the total area of 5 851 m<sup>2</sup> for consideration till 16.09.2009. Since 17.09.2009 total leased area was decreased to 5 672m<sup>2</sup>. The premises are located at Ganību dambis 24a. The agreement expires on 1 March 2016. According to the signed agreements, the Company has the following lease payment commitments as at 30 June 2011.

	LVL	EUR
1 year	144 906	206 183
2 – 5 years	664 390	945 342
	<b>809 296</b>	<b>1 151 525</b>

## 32. Contingent liabilities

The Company has given guarantees in the ordinary course of business amounting to LVL 21 728 (EUR 30 916) (2009/2010: LVL 21 728 (EUR 30 916)) to the third parties.

## 33. Going concern

The Company closed the reporting year with positive operating cash flow of LVL 279 thousand (EUR 397 thousand), (2009/2010: LVL 2 344 thousand (EUR 3 335 thousand)), its cash position amounts to LVL 2 107 thousand (EUR 2 997 thousand), but liquidity ratio was 4.3 at the end of financial year.

Net profit for the reporting period amounted to LVL 801 thousand (EUR 1 139 thousand).

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



### ***34. Events after balance sheet date***

As of the last day of the reporting year until the date of signing these financial statements there have been no events which would have any material impact on the financial position of the Company as at 30 June 2011 or its financial performance and cash flows for the year then ended.

