SAF Tehnika A/S
Annual Report
for the year ended 30 June 2009

Content

Information about the Company

Name of the company	SAF Tehnika A/S
Legal status of the company	Joint stock company
Registration number, place and date of registration	4 000 347 410 9 Riga, 27 December 1999 Registered with the Commercial Register on 10 March 2004
Address	Ganibu dambis 24a Riga, LV-1005 Latvia
Names of the shareholders	Normunds Bergs (9.74%) Juris Ziema (8.71%) Didzis Liepkalns (17.05%) Andrejs Grisans (10.03%) Vents Lacars (6.08%) Gatis Poiss (8.05%) Swedbank AS clients account (12.96%) Skandinaviska Enskilda Banken AB (9.98%) Other shareholders (17.40%)
Names and positions of Council Members	Vents Lacars – Chairman of the Council Juris Ziema – Deputy Chairman of the Council Andrejs Grisans – Council Member Ivars Senbergs – Council Member Janis Bergs – Council Member
Names and positions of Board Members	Normunds Bergs – Chairman of the Board Didzis Liepkalns – Deputy Chairman of the Board Aira Loite – Board Member Janis Ennitis – Board Member
Reporting period	1 July 2008 – 30 June 2009
Previous reporting period	1 July 2007 – 30 June 2008
Name and address of the auditor and sworn auditor in charge	Deloitte Audits Latvia SIA Sworn Auditors’ Company’s Licence No. 43 Gredu street 4a Riga, LV-1019 Latvia Sworn Auditor in Charge: Inguna Stasa Sworn Auditor’s Certificate No. 145

Report of the Board

Type of activity

SAF Tehnika (the "Company") is a designer, producer and distributor of digital microwave data transmission equipment. The Company offers comprehensive, cost-effective PDH, SDH and IP 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 12-month period of the financial year 2008/2009 were LVL 8.81 million (EUR 12.54 million) representing 83% of the previous financial year's net sales. The results were mainly impacted by slowing sales in CIS and Asia markets. Europe formed the largest sales portion (29%) and represent a slight decrease on a year-on-year basis (-1%). Although sales in the CIS decreased substantially from the beginning of the calendar year 2009, it was the second largest region by sales contribution in the financial year 2008/2009 (19%). The largest revenue increase (+26%) was reached in the African region where intensive sales endeavours brought results and 1.37 million LVL (EUR 1.95 million) sales were recorded. The Company's products were sold in 79 countries during financial year 2008/2009. 11 of them were new markets. The Company's aggregate exports for the reporting period is LVL 8.41 million (EUR 11.97 million) comprising 95.46% from total net sales which is by largely on par with the prior financial year. The sales strategy of servicing a wider geographical customer base continues to provide a buffer in the current challenging environment.

The net loss of the Company for the financial year 2008/20079 is LVL 1.117 million (EUR 1.589 million) which mainly reflects lower sales and falling margins due to a lack of funding for investments for SAF Tehnika's clients and increasing competition. The loss was notably impacted by allowances recorded for bad and doubtful trade receivables for one Russia client amounting to 245 thousand LVL (348 thousand EUR) due to information received about significant liquidity problems of it. (sales were originally made during the second half of 2008). An extraordinary item relating to the divestment of a subsidiary SAF Tehnika Sweden amounting to LVL 249 thousand (EUR 355 thousand) was a further contributor.

During the reporting year the Company invested LVL 103 thousand (EUR 146 thousand) in product certification, development and production software, production equipment and IT.

In order to promote the popularity of SAF brand, present Company's product news, strengthen the positions of SAF in the telecommunication market and to find new clients and partners SAF Tehnika has participated in several regional and international telecommunication and information technology exhibitions. Among them "CeBIT 2009" in Hannover, Germany, and "Sviaz ExpoComm 2009" in Moscow, Russia were the largest. Participation was co-financed by European Regional Development Fund in those events.

Research and development

The Company keeps an ongoing focus towards the development of latest CFIP product line, to expand it beyond already well received CFIP 108 Mbps FODU all Outdoor radio system. Continuous product support and maintenance is provided for CFM and CFQ product line radios.

Foreign branches and representation offices

An agreement on the buy-out of the capital shares of the Swedish subsidiary "SAF Tehnika Sweden" was signed in November 2008 between SAF Tehnika and a company representing the current management of "SAF Tehnika Sweden" – "Trebax". Since then the former subsidiary operates as an independent company, but continues to provide services for SAF Tehnika on development of data transmission equipment.

A joint company in Russian Federation under the name of SAF Tehnika RUS Ltd (САФ Техника РУС ООО) and Russian company named "Мобильные технологии" ООО as its co-founder was established in November 2008 with the aim to increase the sales of SAF Tehnika products in Russia, but has not started its operations due to economical situation in the region and currently is dormant.

Future prospects

Even in such tough conditions SAF Tehnika continues to roll out new products from the CFIP family to satisfy customer needs for higher capacity products and recover reducing sales for CFM products. The Company is planning to launch new products outside the scope of traditional licensed point to point MW radios in 7-38Ghz during coming periods. A solid financial condition (net cash rather than net debt) allows the Company to maintain general operations at their previous level and increase the sales team's local presence in all regions. The Company's focus will be the further development of sales activities in North America where significant sales growth is expected already in the first part of the financial year 2009/2010 and Asia where the Company has already established a solid local presence. Further growth is planned in the present most active region – Africa. There will be ongoing attention on the reduction of production expenses by looking for more efficient product design and improvement of internal processes with the goal to end the financial year 2009/2010 with a profit.

The Board is proposing to use retained earnings from previous periods to cover losses of the financial year 2008/2009 and not to pay dividend.

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Normunds Bergs
Chairman of the Board

Riga, 28 October 2009

The annual report was approved by the shareholders' meeting on ____ ______________ 2009.

Chairman of the shareholders' meeting ______________________________

STATEMENT OF BOARD'S RESPONSIBILITIES

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

The unconsolidated financial statements set out on pages 8 to 38 are prepared in accordance with the source documents and present fairly the financial position of the Company as at 30 June 2009 and the results of its financial performance and cash flows for the year then ended.

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

For the Board,

Normunds Bergs
Chairman of the Board

28 October 2009

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of AS "SAF Tehnika":

Report on the financial statements

We have audited the accompanying unconsolidated financial statements of AS "SAF Tehnika" (the Company), which comprise the Company's balance sheet as at 30 June 2009, and the income statement, statement of changes in equity and cash flow statement for the year 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 unconsolidated financial statements in accordance with 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 unconsolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. 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 unconsolidated financial statements of the Company give a true and fair view of the financial position of the Company as of 30 June 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on the management reports

We have read the report of the Management Board (pages 4 to 5) of the annual report and we have not identified any material discrepancies between the historical financial information presented in these reports and the unconsolidated financial statements for the year ended 30 June 2009.

Deloitte Audits Latvia SIA
License No. 43

Inguna Stasa
Board member
Sworn Auditor
Certificate No. 145

Riga, Latvia
28 October 2009

Balance sheet

	Notes	30 June 2009 LVL	30 June 2008 LVL	30 June 2009 EUR	30 June 2008 EUR
ASSETS					
Non-current assets					
Property, plant and equipment	6	717 950	963 620	1 021 551	1 371 109
Intangible assets	6	67 273	114 685	95 721	163 182
Prepayments for property, plant, equipment and intangible assets	6	-	35 989	-	51 208
Investments in related company	7	-	480 209	-	683 276
Non-current financial assets		590	591	839	839
Deferred tax assets	13	51 025	48 160	72 602	68 526
		836 838	**1 643 254**	**1 190 713**	**2 338 140**
Current assets					
Inventories	8	2 552 910	2 885 161	3 632 464	4 105 214
Corporate income tax	24	20 297	95 410	28 880	135 756
Receivables	9	1 746 412	2 521 670	2 484 920	3 588 013
Receivables from related company		-	1 979	-	2 816
Other receivables	10	124 742	111 072	177 492	158 041
Prepaid expense		24 837	46 133	35 340	65 641
Derivatives	11	-	61	-	87
Cash and cash equivalents	12	2 346 818	1 671 178	3 339 221	2 377 872
		6 816 016	**7 332 664**	**9 698 317**	**10 433 440**
Total assets		**7 652 854**	**8 975 918**	**10 889 030**	**12 771 580**
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		1 676 448	2 793 449	2 385 371	3 974 720
Total equity		**6 650 832**	**7 767 833**	**9 463 281**	**11 052 630**
LIABILITIES					
Current liabilities					
Payables	15	955 609	1 202 926	1 359 709	1 711 609
Borrowings	16	1 896	5 159	2 698	7 341
Deferred income		44 517	-	63 342	-
Total liabilities		**1 002 022**	**1 208 085**	**1 425 749**	**1 718 950**
Total equity and liabilities		**7 652 854**	**8 975 918**	**10 889 030**	**12 771 580**

The accompanying notes on pages 12 to 38 are an integral part of these financial statements.

The financial statements on pages 8 to 38 were approved by the Board and signed on its behalf by:

Normunds Bergs
Chairman of the Board

28 October 2009

Income statement

	Notes	Year ended 30 June 2009 LVL	Year ended 30 June 2008 LVL	Year ended 30 June 2009 EUR	Year ended 30 June 2008 EUR
Sales	17	8 811 499	10 644 021	12 537 634	15 145 077
Cost of sales	18	(7 407 996)	(9 511 093)	(10 540 629)	(13 533 066)
Gross profit		**1 403 503**	**1 132 928**	**1 997 005**	**1 612 011**
Selling and marketing costs	19	(1 612 378)	(1 445 996)	(2 294 207)	(2 057 467)
Administrative expense	20	(815 795)	(564 421)	(1 160 772)	(803 099)
Other income	21	56 542	333 104	80 452	473 964
Financial revenue		101 779	21 600	144 818	30 735
Financial expense	22	(4 163)	(90 807)	(5 923)	(129 207)
Loss on sale of long-term investment	7	(249 354)	-	(354 799)	-
Loss before taxes		**(1 119 866)**	**(613 592)**	**(1 593 426)**	**(873 063)**
Corporate income tax	23	2 865	1 487	4 077	2 116
Loss for the year		**(1 117 001)**	**(612 105)**	**(1 589 349)**	**(870 947)**
Attributable to:					
Shareholders of the Company		**(1 117 001)**	**(612 105)**	**(1 589 349)**	**(870 947)**
Earnings per share attributable to the shareholders of the Company (LVL/ EUR per share)					
– basic	25	-0.376	-0.206	-0.535	-0.293
– diluted	25	-0.376	-0.206	-0.535	-0.293

The accompanying notes on pages 12 to 38 are an integral part of these financial statements.

The financial statements on pages 8 to 38 were approved by the Board and signed on its behalf by:

Normunds Bergs
Chairman of the Board

28 October 2009

Statement of changes in equity

	Share capital LVL	Share premium LVL	Retained earnings LVL	Total LVL
Balance as at 30 June 2007	**2 970 180**	**2 004 204**	**3 405 554**	**8 379 938**
Loss for the period	-	-	(612 105)	(612 105)
Balance as at 30 June 2008	**2 970 180**	**2 004 204**	**2 793 449**	**7 767 833**
Loss for the period	-	-	(1 117 001)	(1 117 001)
Balance as at 30 June 2009	**2 970 180**	**2 004 204**	**1 676 448**	**6 650 832**

	Share capital EUR	Share premium EUR	Retained earnings EUR	Total EUR
Balance as at 30 June 2007	**4 226 185**	**2 851 725**	**4 845 667**	**11 923 577**
Loss for the period	-	-	(870 947)	(870 947)
Balance as at 30 June 2008	**4 226 185**	**2 851 725**	**3 974 720**	**11 052 630**
Loss for the period	-	-	(1 589 349)	(1 589 349)
Balance as at 30 June 2009	**4 226 185**	**2 851 725**	**2 385 371**	**9 463 281**

The accompanying notes on pages 12 to 38 are an integral part of these financial statements.

The financial statements on pages 8 to 38 were approved by the Board and signed on its behalf by:

Normunds Bergs
Chairman of the Board

28 October 2009

Cash flow statement

	Notes	Year ended 30 June 2009 LVL	Year ended 30 June 2008 LVL	Year ended 30 June 2009 EUR	Year ended 30 June 2008 EUR
Loss before tax		(1 119 866)	(613 592)	(1 593 426)	(873 063)
Adjustments for:					
- depreciation	6	342 278	452 910	487 019	644 433
- amortization	6	88 628	126 579	126 105	180 106
- changes in provisions for slow-moving inventories	8	34 029	78 741	48 419	112 039
- changes in accruals for guarantees		14 022	-	19 952	-
- changes in accruals for unused annual leave	15	(6 088)	(7 885)	(8 662)	(11 220)
- changes in allowances for bad debtors	9	256 536	(45 856)	365 018	(65 247)
- interest income		(83 481)	(21 539)	(118 783)	(30 647)
- interest expense	22	4 163	24 001	5 923	34 150
- (gain)/loss from revaluation of derivative financial instruments	11	61	(61)	87	(87)
- receipt of government grant	21	(50 730)	(309 723)	(72 182)	(440 696)
- (gain)/loss from sale of PPE		334	252	475	359
- loss on sale of long term investment		249 354	-	354 799	-
Cash (used in) operations before changes in working capital		**(270 760)**	**(316 173)**	**(385 256)**	**(449 873)**
Inventories decrease/ (increase)		298 222	2 438 981	424 332	3 470 357
Receivables decrease		566 092	32 411	805 476	46 117
Payables increase/ (decrease)		(102 789)	225 608	(146 256)	321 011
Cash generated from operating activities		**490 765**	**2 380 827**	**698 296**	**3 387 612**
Receipt of government grant		64 984	292 814	92 464	416 637
Interest paid		(4 163)	(24 001)	(5 923)	(34 150)
Income tax received		75 113	255 676	106 875	363 793
Net cash generated from operating activities		**626 699**	**2 905 316**	**891 712**	**4 133 892**
Cash flows from (to) investing activities					
Purchases of property, plant and equipment		(73 855)	(129 218)	(105 086)	(183 861)
Proceeds from sale of PPE		529	16 274	753	23 156
Purchases of intangible assets		(28 843)	(109 365)	(41 040)	(155 612)
Interest received		75 978	18 553	108 107	26 399
Proceeds from sale of long term investment		74 481	-	105 977	-
Net cash (used in)/generated from investing activities		**48 290**	**(203 756)**	**68 711**	**(289 918)**
Cash flows from (to) financing activities					
Proceeds from (repayment of) borrowings		(3 263)	(1 462 257)	(4 643)	(2 080 604)
Repayment of loan to related company		-	165 360	-	235 286
Net cash (used in)/generated from financing activities		**(3 263)**	**(1 296 897)**	**(4 643)**	**(1 845 318)**
Effect of exchange rate changes		3 914	-	5 569	-
Net increase in cash and cash equivalents		**675 640**	**1 404 663**	**961 349**	**1 998 656**
Cash and cash equivalents at the beginning of the year		1 671 178	266 515	2 377 871	379 216
Cash and cash equivalents at the end of the year	12	**2 346 818**	**1 671 178**	**3 339 221**	**2 377 872**

The accompanying notes on pages 12 to 38 are an integral part of these financial statements.

The financial statements on pages 8 to 38 were approved by the Board and signed on its behalf by:

Normunds Bergs
Chairman of the Board

28 October 2009

Notes to the financial statements

1. General information

The core business activity of SAF Tehnika A/S (hereinafter – the Company) comprises the design, production and distribution of microwave radio data transmission equipment offering an alternative to cable channels. The Company offers approximately 200 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 under the name of "SAF Tehnika RUS" Ltd (САФ Техника РУС ООО) with a Russian company named "Мобильные технологии" (Mobile Technology) OOO as its co-founder was established in the November 2008. JSC "SAF Tehnika" owns 51% of the shares of "SAF Tehnika RUS" Ltd. Up to now "SAF Tehnika RUS" has not started its operations.

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 NASDAQ OMX Riga Stock Exchange, Latvia.

These unconsolidated financial statements were approved by the Board on 28 October 2009.

2. Summary of significant accounting policies

The principal accounting and measurement policies adopted in the preparation of these unconsolidated financial statements are set out below:

A Basis of preparation

The financial statements of SAF Tehnika have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. IFRS as adopted by the EU do not currently differ from IFRS as issued by the International Accounting Standards Board (IASB) and currently effective for the purpose of these financial statements, except for certain hedge accounting requirements under IAS 39, which have not been adopted by the EU. The Company has determined that the unendorsed hedge accounting requirements under IAS 39 would not impact the Company's financial statements had they been endorsed by the EU at the balance sheet date. The accounting policies used by the Company are consistent with those used in the previous accounting period.

Standards and Interpretations effective in the current period

In the current year, the Company has adopted:

- IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction', provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement;
- IFRIC 12 Service Concession Arrangements (effective for accounting periods beginning on or after 1 January 2008, however, not yet adopted by EU). The interpretation addresses how service concession operators should apply existing International Financial Reporting Standards to account for the obligations they undertake and rights they receive in service concession arrangements.
- IFRIC 13 Customer Loyalty Programmes (effective for accounting periods beginning on or after 1 July 2008). The interpretation specifies how customer loyalty programs should be accounted for.

Notes to the financial statements (cont'd)

2. Summary of significant accounting policies (cont'd)

A Basis of preparation (cont'd)

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, 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.

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.

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.

Notes to the financial statements (cont'd)

2. Summary of significant accounting policies (cont'd)

D Intangible assets other than goodwill

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

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

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).

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.

Notes to the financial statements (cont'd)

2. Summary of significant accounting policies (cont'd)

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 and deposits, and short-term highly liquid investments with an original maturity of three months or less.

L Share capital

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

M 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.

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 nor 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.

Notes to the financial statements (cont'd)

2. Summary of significant accounting policies (cont'd)

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, discounts and inter-Group sales. 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.

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 Standards and Interpretations in issue

At the date of authorisation of these financial statements the following Standards and Interpretations were in issue but not yet effective:

- IAS 23 (Revised) Borrowing Costs (effective for accounting periods beginning on or after 1 January 2009). According to this amendment borrowing costs, that are directly attributable to the acquisition, construction and production of a qualifying asset, should form part of the cost of that asset;

- IAS 1 (Revised), 'Presentation of financial statements' (effective from 1 January 2009). The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning of the comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period;

Notes to the financial statements (cont'd)

2. Summary of significant accounting policies (cont'd)

T Standards and Interpretations in issue not yet adopted (cont'd)

- IFRS 2 (Amendment), 'Share-based payment' (effective from 1 January 2009). The standard deals with vesting conditions and cancellations;

- IAS 32 (Amendment), 'Financial instruments: Presentation', and IAS 1 (Amendment), 'Presentation of financial statements' – 'Puttable financial instruments and obligations arising on liquidation' (effective from 1 January 2009);

- IAS 27 'Consolidated and separate financial statements' (effective from 1 January 2009). The standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost.

- IFRS 3 (Revised), 'Business combinations' (effective from 1 July 2009), (not yet endorsed by EU). The standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice to measure the non – controlling interest either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition related costs should be expensed;

- IFRS 5 (Amendment), 'Non-current assets held-for-sale and discontinued operations' (and consequential amendment to IFRS 1, 'First-time adoption') (effective from 1 July 2009), (not yet endorsed by EU). The standard clarifies that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control.

- IFRS 8 Operating Segments (effective for accounting periods beginning on or after 1 January 2009); The standard sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers;

- IAS 39 (Amendment), 'Financial instruments: Recognition and measurement' and IFRS 7 "Reclassification of Financial Assets (effective from 1 January 2009). The standard clarifies that it is possible for movements into and out of fair value through profit and loss category where derivative commences or ceases to qualify as a hedging instrument in cash flow or net investment hedge. The standard also clarifies that a financial asset or liability that is part of portfolio of financial instruments managed together with evidence of an actual recent pattern of short- term profit making is included in such portfolio on initial recognition. The standard also clarifies the application of hedge accounting at segmental level and effective interest rate to be applied when remeasuring the carrying amount of a debt instrument on cessation of fair value accounting.

The Company anticipates that adoptions of the above Standards and Interpretations will have no material impact on the financial statements of the Company in the period of initial application.

Notes to the financial statements (cont'd)

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.

(b) Credit risk
From time to time 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.

As at 30 June 2009, the Company's credit risk exposure to a single customer amounted to 17.00 % of the total trade receivables (30.06.2008: 17.00%). 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 4 263 696 or 55.71% to total assets (30.06.2008: LVL 4 448 094 or 49.56% to total assets).

Notes to the financial statements (cont'd)

3. Financial risk management (cont'd)

(c) Liquidity risk
Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through short-term borrowings secured by the Letters of Credit terms. Due to the dynamic nature of the core operations, the Finance Department aims to maintain flexibility in funding by obtaining available credit lines. During the reporting period 3 million EUR multi-currency credit line was available assigned by Nordea bank Finland plc Latvia branch. Since April 2009 the credit line amount was decreased to 1 million EUR evaluating potential necessity. The assigned overdraft facility has not been used as at 30 June 2009. (see Note 16 Borrowings)

(d) Cash flow interest rate risk
As the Company does not have significant interest bearing assets, the Company's income and cash flows are largely independent of changes in market interest rates. The Company's cash flows from interest bearing liabilities are dependent on current market interest rates.

(2) Accounting for derivative financial instruments

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

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.

Notes to the financial statements (cont'd)

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:

	30/06/2009 LVL	30/06/2008 LVL	30/06/2009 EUR	30/06/2008 EUR
Debt	1 002 022	1 208 085	1 425 749	1 718 950
Cash and cash in bank	-2 346 818	-1 671 178	-3 339 221	-2 377 872
Net debt (-cash)	-1 344 796	-463 093	-1 913 472	-658 922
Equity	6 650 832	7 767 833	9 463 281	11 052 630
Debt to equity ratio	15%	16%	15%	16%
Net debt to equity ratio	-20%	-6%	-20%	-6%

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;

- 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 (cont'd)

6. Property, plant, equipment and intangible assets

	Intangible assets	Leasehold improvements	Equipment and machinery	Other assets	Prepayments for assets	Total
	LVL	LVL	LVL	LVL	LVL	LVL
Year ended 30/06/2008						
Opening net carrying amount	123 953	591 638	527 422	199 559	20 762	1 463 334
Additions	117 311	4 389	87 089	14 566	45 868	269 223
Reclassified	-	-	-	-	(30 641)	(30 641)
Depreciation charge	(126 579)	(68 477)	(320 165)	(64 268)	-	(579 489)
Disposals	-	-	(602)	(7 531)	-	(8 133)
Closing net carrying amount	**114 685**	**527 550**	**293 744**	**142 326**	**35 989**	**1 114 294**
Year ended 30/06/2009						
Opening net carrying amount	114 685	527 550	293 744	142 326	35 989	1 114 294
Additions	28 843	-	71 087	2 768		102 698
Reclassified	12 707	-	23 282	-	(35 989)	-
Depreciation charge	(88 628)	(68 807)	(221 866)	(51 605)	-	(430 906)
Disposals	(334)	-	(529)	-	-	(863)
Closing net carrying amount	**67 273**	**458 743**	**165 718**	**93 489**	**-**	**785 223**
As at 30/06/2007						
Cost	548 608	755 447	1 908 578	412 258	20 762	3 645 653
Accumulated depreciation	(424 655)	(163 809)	(1 381 156)	(212 699)	-	(2 182 319)
Net carrying amount	**123 953**	**591 638**	**527 422**	**199 559**	**20 762**	**1 463 334**
As at 30/06/2008						
Cost	588 039	759 837	1 928 710	407 858	35 989	3 720 433
Accumulated depreciation	(473 354)	(232 287)	(1 634 966)	(265 532)	-	(2 606 139)
Net carrying amount	**114 685**	**527 550**	**293 744**	**142 326**	**35 989**	**1 114 294**
As at 30/06/2009						
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)
Net carrying amount	**67 273**	**458 743**	**165 718**	**93 489**	**-**	**785 223**

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

Depreciation of LVL 264 364 (2007/2008: LVL 386 303) is included in the income statement caption *Cost of sales*; depreciation of LVL 113 702 (2007/2008: Ls 122 475) – *in Selling and marketing costs*; and depreciation of LVL 51 067 (2007/2008: LVL 68 808) – in *Administrative expense*, and depreciation of LVL 1 773 (2007/2008: LVL 1 903) – in O*ther 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 1 868 304 (2007/2008: LVL 1 581 115).

Notes to the financial statements (cont'd)

6. Property, plant, equipment and intangible assets (cont'd)

	Intangible assets	Leasehold improvements	Equipment and machinery	Other assets	Prepayments for assets	Total
	EUR	EUR	EUR	EUR	EUR	EUR
Year ended 30/06/2008						
Opening net carrying amount	176 369	841 825	750 454	283 947	29 542	2 082 137
Additions	166 919	6 245	123 916	20 726	65 264	383 070
Reclassified	-	-	-	-	(43 598)	(43 598)
Depreciation charge	(180 106)	(97 434)	(455 554)	(91 445)	-	(824 539)
Disposals	-	-	(855)	(10 716)	-	(11 571)
Closing net carrying amount	**163 182**	**750 636**	**417 961**	**202 512**	**51 208**	**1 585 499**
Year ended 30/06/2009						
Opening net carrying amount	163 182	750 636	417 961	205 512	51 208	1 585 499
Additions	41 039	-	101 147	3 939	-	146 125
Reclassified	18 080	-	33 128	-	(51 208)	-
Depreciation charge	(126 105)	(97 903)	(315 688)	(73 428)	-	(613 124)
Disposals	(475)	-	(753)	-	-	(1 228)
Closing net carrying amount	**95 721**	**652 733**	**235 795**	**133 023**	**-**	**1 117 272**
As at 30/06/2007						
Cost	780 599	1 074 904	2 715 663	586 590	29 541	5 187 297
Accumulated depreciation	(604 230)	(233 079)	(1 965 208)	(302 643)	-	(3 105 160)
Net carrying amount	**176 369**	**841 825**	**750 455**	**283 947**	**29 541**	**2 082 137**
As at 30/06/2008						
Cost	836 704	1 081 151	2 744 307	580 330	51 208	5 293 700
Accumulated depreciation	(673 522)	(330 515)	(2 326 346)	(377 818)	-	(3 708 201)
Net carrying amount	**163 182**	**750 636**	**417 961**	**202 512**	**51 208**	**1 585 499**
As at 30/06/2009						
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)	-	(4 195 621)
Net carrying amount	**95 721**	**652 733**	**235 795**	**133 023**	**-**	**1 117 272**

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

Depreciation of EUR 376 156 (2007/2008: EUR 549 660) is included in the income statement caption *Cost of sales*; depreciation of EUR 161 783 (2007/2008: EUR 174 266) – *in Selling and marketing costs*; and depreciation of EUR 72 662 (2007/2008: EUR 97 905) – in *Administrative expense* and depreciation of EUR 2 521 (2007/2008: EUR 2 708) – in O*ther 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 2 658 357 (2007/2008: EUR 2 249 724).

Notes to the financial statements (cont'd)

7. Investments in related companies

(a) Investment in subsidiaries

Name	Equity share 30/06/2009 %	Equity share 30/06/2008 %
SAF Tehnika Sweden AB	-	100
SAF Tehnika RUS Ltd	51	-

On November, 2008 a subsidiary SAF Tehnika Sweden AB was sold to its management. As the result of this transaction the Company reported the loss of LVL 249 354 (EUR 354 799).

A joint company in the Russian Federation under the name of "SAF Tehnika RUS" Ltd (САФ Техника РУС ООО) with a Russian company named "Мобильные технологии" (Mobile Technology) OOO as its co-founder was established in the November 2008. JSC "SAF Tehnika" owns 51% of the shares of "SAF Tehnika RUS" Ltd. Up to now "SAF Tehnika RUS" Ltd. has not started its operations. There are no financial investments made.

(b) Information about subsidiaries

Name	Address	Equity 30/06/2009 LVL	Equity 30/06/2008 LVL	Profit for the reporting year 2008/2009 LVL	Profit for the reporting year 2007/2008 LVL
SAF Tehnika Sweden AB *	E. A .Rosengrens gata 22, Vastra Frolunda, Sweden	-	335 115	-	97 674
SAF Tehnika RUS Ltd	Verkhnaya Krasnoselskaya str. 34, Moscow, Russia	-	-	-	-

Name	Address	Equity 30/06/2009 EUR	Equity 30/06/2008 EUR	Profit for the reporting year 2008/2009 EUR	Profit for the reporting year 2007/2008 EUR
SAF Tehnika Sweden AB *	E. A .Rosengrens gata 22, Vastra Frolunda, Sweden	-	476 826	-	138 978
SAF Tehnika RUS Ltd	Verkhnaya Krasnoselskaya str. 34, Moscow, Russia	-	-	-	-

Notes to the financial statements (cont'd)

8. Inventories

	30/06/2009 LVL	30/06/2008 LVL	30/06/2009 EUR	30/06/2008 EUR
Raw materials	540 075	752 831	768 457	1 071 182
Work in progress	1 566 727	1 843 850	2 229 252	2 623 562
Finished goods	623 742	500 143	887 505	711 639
Allowance for slow-moving items	(177 634)	(211 663)	(252 750)	(301 169)
	2 552 910	**2 885 161**	**3 632 464**	**4 105 214**

During the reporting year, a decrease in provisions for slow-moving items of LVL 34 029 (EUR 48 419) (2007/2008: increase of LVL 78 741 (EUR 112 039)) were established and included in cost of sales.

9. Receivables

	30/06/2009 LVL	30/06/2008 LVL	30/06/2009 EUR	30/06/2008 EUR
Trade receivables	2 148 529	2 667 252	3 057 081	3 795 158
Allowances for bad and doubtful trade receivables	(402 117)	(145 582)	(572 161)	(207 145)
Trade receivables, net	**1 746 412**	**2 521 670**	**2 484 920**	**3 588 013**

Trade receivables comprise 7 Letters of Credit with original payment term up to 180 days for amount of LVL 516 458 (EUR 734 854) (2007/2008: LVL 674 418 (EUR 959 610)). As at 30 June 2009, the fair value of receivables approximated their carrying amount.

In the reporting year, the net increase of allowances for bad and doubtful trade receivables was included in the income statement caption as administrative expense in amount of LVL 318 995 (EUR 453 889) (2007/2008 – decrease of LVL 33 976 (EUR 48 343)), and written-off receivables of LVL 62 460 (EUR 88 873) *(see Note 20)*.

Split of Trade receivables by currencies expressed in LVL

	30/06/2009 LVL	30/06/2009 %	30/06/2008 LVL	30/06/2008 %
LVL	6 102	0.28	3 015	0.11
USD	687 221	31.99	1 021 291	38.29
EUR	1 455 206	67.73	1 642 946	61.60
Trade receivables	**2 148 529**	**100%**	**2 667 252**	**100%**

Aging analysis of Trade receivables

	30/06/2009 LVL	30/06/2008 LVL	30/06/2009 EUR	30/06/2008 EUR
Not due	1 327 843	2 145 944	1 889 350	3 053 403
Overdue 0 – 89	465 941	399 031	662 975	567 770
Overdue 90 and more	354 745	122 277	504 757	173 985
	2 148 529	**2 667 252**	**3 057 082**	**3 795 158**

Notes to the financial statements (cont'd)

Allowances for bad and doubtful trade receivables

	LVL	EUR
Allowances for bad and doubtful trade receivables as of 30 June 2008	145 582	207 145
Written-off	(62 460)	(88 873)
Increase	339 462	483 011
Decrease	(20 467)	(29 122)
Allowances for bad and doubtful trade receivables at 30 June 2009	**402 117**	**572 161**

10. Other receivables

	30/06/2009 LVL	30/06/2008 LVL	30/06/2009 EUR	30/06/2008 EUR
Government grant *	40 003	11 790	56 919	16 776
VAT receivable (see Note 24)	34 274	67 208	48 768	95 628
Other receivables	24 651	12 230	35 075	17 402
Prepayments to suppliers	25 814	19 844	36 730	28 235
	124 742	**111 072**	**177 492**	**158 041**

* - Government grants relates to projects on participation in international exhibitions and support for further training of employees.

11. Derivatives

	30/06/2009		30/06/2008		30/06/2009		30/06/2008	
	Assets LVL	Liabilities LVL	Assets LVL	Liabilities LVL	Assets EUR	Liabilities EUR	Assets EUR	Liabilities EUR
Forward foreign currency contracts	-	-	61	-	-	-	87	-

12. Cash and cash equivalents

	30/06/2009 LVL	30/06/2008 LVL	30/06/2009 EUR	30/06/2008 EUR
Cash at bank	654 691	357 017	931 541	507 989
Short-term bank deposits	1 692 127	1 314 161	2 407 680	1 869 883
	2 346 818	**1 671 178**	**3 339 221**	**2 377 872**

As at 30 June 2009 free cash resources were deposited in short term deposits. The average annual interest rate on short term deposits in lats 27.67% and other currencies 4.53%. There are no deposits in lats on June 30 2008, but the annual interest rate on short term bank deposits in other currencies was 4.32% as at 30 June 2008.

Notes to the financial statements (cont'd)

Split of Cash by currencies expressed in LVL

	30/06/2009 LVL	30/06/2009 %	30/06/2008 LVL	30/06/2008 %
LVL	380 275	16.20	249 390	14.92
USD	84 655	3.61	90 340	5.41
EUR	1 881 884	80.19	1 331 448	79.67
SEK	4	0.00	-	0.00
Cash at bank and deposits	**2 346 818**	**100%**	**1 671 178**	**100%**

13. Deferred corporate income tax (asset)/ liability

	Year ended 30/06/2009 LVL	Year ended 30/06/2008 LVL	Year ended 30/06/2009 EUR	Year ended 30/06/2008 EUR
Deferred tax (asset) at the beginning of the year	(48 160)	(46 673)	(68 526)	(66 410)
Change in deferred tax liability during the reporting year (see Note 23)	(2 865)	(1 487)	(4 077)	(2 116)
Deferred tax (asset) at the end of the year	**(51 025)**	**(48 160)**	**(72 602)**	**(68 526)**

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

	30/06/2009 LVL	30/06/2008 LVL	30/06/2009 EUR	30/06/2008 EUR
Temporary difference on fixed asset depreciation and intangible asset amortisation	(4 731)	1 598	(6 732)	2 274
Temporary difference on vacation pay accrual	(17 546)	(18 009)	(24 966)	(25 625)
Temporary difference on provisions for slow-moving and obsolete inventories	(26 645)	(31 749)	(37 912)	(45 175)
Temporary difference on provisions for guarantees	(2 103)	-	(2 992)	-
Deferred tax (asset), net	**(51 025)**	**(48 160)**	**(72 602)**	**(68 526)**

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.

Reporting period tax losses in the amount of LVL 741 467 (EUR 1 055 012) and previous period tax losses in the amount of LVL 633 102 (EUR 858 137) can be used to offset taxable profit for 8 proceeding taxable years from the year of origination of tax loss. Due to uncertainty of realisation of the accumulated tax losses the Company has not recognised deferred tax asset related to these losses.

Notes to the financial statements (cont'd)

14. Share capital

As at 30 June 2009, 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 (2007/2008: 2 970 180 shares).

15. Payables

	30/06/2009 LVL	30/06/2008 LVL	30/06/2009 EUR	30/06/2008 EUR
Trade payables	365 925	708 777	520 664	1 008 499
Vacation pay accrual	116 971	123 059	166 435	175 097
Advances from customers	148 606	70 836	211 447	100 791
Taxes and social insurance contributions (see Note 24)	54 385	64 817	77 383	92 226
Other payables	269 722	235 437	383 780	334 996
	955 609	**1 202 926**	**1 359 709**	**1 711 609**

During the reporting period decrease in unused vacation pay included in Income Statement amounted to LVL 6 088 (EUR 8 662) (2007/2008: LVL 7 885 (EUR 11 220)).

Split of Trade payables by currencies expressed in LVL

	30/06/2009 LVL	30/06/2009 %	30/06/2008 LVL	30/06/2008 %
LVL	79 842	21.85	106 701	15.05
USD	98 894	27.03	226 003	31.89
EUR	186 779	51.04	374 320	52.81
GBP	410	0.11	1 753	0.25
Trade payables	**365 925**	**100%**	**708 777**	**100%**

16. Borrowings

	30/06/2009 LVL	30/06/2008 LVL	30/06/2009 EUR	30/06/2008 EUR
Bank overdrafts and credit cards	**1 896**	**5 159**	**2 698**	**7 341**

The Company has not used assigned multi-currency overdraft facility LVL 702 804 (EUR 1 000 000) as at 30 June 2009. The balance of unused overdrafts as at 30 June 2008 was LVL 3 514 020 (EUR 5 000 000). The bank overdraft has been secured by a commercial pledge of all the Company's assets.

Notes to the financial statements (cont'd)

17. Segment information and sales

a) The Company's operations may be divided into two major structural units by product type – CFM (PDH) and CFQ (SDH) product lines. The new CFIP products belong to the CFM product type (super PDH). 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 product line (CFM and CFQ) separately.

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

CFIP radio is capable to provide up to 108Mbps of bit rate to all interfaces combined. This product family provides a perfect solution for a user looking for higher than PDH E3 capacity without need for STM-1 capacity. Apart from the full system capacity of 108Mbps, it is possible to configure the radio to any of 7 MHz, 14 MHz and 28MHz channel bandwidths.

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

Notes to the financial statements (cont'd)

17. Segment information and sales (cont'd)

	CFQ		CFM		Other		Total	
	2008/9	2007/8	2008/9	2007/8	2008/9	2007/8	2008/9	2007/8
	LVL	LVL	LVL	LVL	LVL	LVL	LVL	LVL
Assets								
Segment assets	1 385 792	922 689	3 223 325	4 818 740	439 315	646 351	5 048 432	6 387 780
Unallocated assets							2 604 422	2 588 138
Total assets							**7 652 854**	**8 975 918**
Segment liabilities	214 237	141 415	520 346	793 701	116 625	176 863	851 208	1 111 979
Unallocated liabilities							150 814	96 106
Total liabilities							**1 002 022**	**1 208 085**
Income	2 246 436	1 452 701	5 233 455	7 534 083	1 331 608	1 657 237	8 811 499	10 644 021
Segment results	**305 974**	**(814 437)**	**712 493**	**1 588 937**	**269 613**	**358 428**	**1 288 080**	**1 132 928**
Unallocated expense							(2 312 750)	(2 010 417)
Loss from operations							**(1 024 670)**	**(877 489)**
Other income							56 542	333 104
Financial income (expense), net							97 616	(69 207)
Loss on sale of long-term investment							**(249 354)**	**-**
Loss before taxes							**(1 119 866)**	**(613 592)**
Corporate income tax							2 865	1 487
Loss for the year							**(1 117 001)**	**(612 105)**
Other information								
Additions of property plant and equipment and intangible assets	23 955	514	65 683	94 206	-	210	89 638	94 930
Unallocated additions of property plant and equipment and intangible assets							49 049	128 425
Total additions of property plant and equipment and intangible assets							**138 687**	**223 355**
Depreciation and amortization	24 785	31 179	238 255	351 802	1 292	3 213	264 332	386 194
Unallocated depreciation and amortization							166 574	193 295
Total depreciation and amortization							**430 906**	**579 489**

Notes to the financial statements (cont'd)

17. Segment information and sales (cont'd)

	CFQ		CFM		Other		Total	
	2008/9	2007/8	2008/9	2007/8	2008/9	2007/8	2008/9	2007/8
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Assets								
Segment assets	1 971 804	1 312 868	4 586 378	6 856 449	625 088	919 675	7 183 270	9 088 992
Unallocated assets							3 705 761	3 682 588
Total assets							**10 889 030**	**12 771 580**
Segment liabilities	304 832	201 215	740 386	1 129 335	165 942	251 654	1 211 160	1 582 204
Unallocated liabilities							214 589	136 746
Total liabilities							**1 425 749**	**1 718 950**
Income	3 196 390	2 067 007	7 446 536	10 720 034	1 894 707	2 358 036	12 537 634	15 145 077
Segment results	**435 362**	**(1 158 839)**	**1 013 786**	**2 260 854**	**383 625**	**509 996**	**1 832 773**	**1 612 011**
Unallocated expense							(3 290 746)	(2 860 566)
Loss from operations							**(1 457 974)**	**(1 248 555)**
Other income							80 453	473 964
Financial income (expense), net							138 895	(98 472)
Loss on sale of long- term investment							(354 799)	-
Loss before taxes							**(1 593 426)**	**(873 063)**
Corporate income tax							4 077	2 116
Loss for the year							**(1 589 349)**	**(870 947)**
Other information								
Additions of property plant and equipment and intangible assets	34 085	731	93 458	134 043	-	299	127 543	135 073
Unallocated additions of property plant and equipment and intangible assets							69 790	182 733
Total additions of property plant and equipment and intangible assets							**197 333**	**317 806**
Depreciation and amortization	35 266	44 364	339 006	500 569	1 838	4 572	376 111	549 505
Unallocated depreciation and amortization							237 013	275 034
Total depreciation and amortization							**613 124**	**824 539**

Notes to the financial statements (cont'd)

17. Segment information and sales (cont'd)

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

	Net sales		Assets	
	2008/2009	**2007/2008**	**30/06/2009**	**30/06/2008**
	LVL	**LVL**	**LVL**	**LVL**
Asia	1 136 468	2 072 583	454 728	113 757
America	1 339 548	1 598 122	337 145	503 111
Africa	1 371 203	1 084 962	158 600	86 592
Europe	2 590 377	2 619 265	652 917	482 207
CIS	1 709 801	2 640 707	98 195	526 660
Middle East	664 102	628 382	44 827	809 343
	8 811 499	**10 644 021**	**1 746 412**	**2 521 670**
Unallocated assets	**-**	**-**	5 906 442	6 454 248
	8 811 499	**10 644 021**	**7 652 854**	**8 975 918**

	Net sales		Assets	
	2008/2009	**2007/2008**	**30/06/2009**	**30/06/2008**
	EUR	**EUR**	**EUR**	**EUR**
Asia	1 617 048	2 949 020	647 020	161 862
America	1 906 005	2 273 923	479 714	715 862
Africa	1 951 046	1 543 762	225 667	123 209
Europe	3 685 774	3 726 878	929 017	686 119
CIS	2 432 828	3 757 388	139 719	749 370
Middle East	944 933	894 106	63 783	1 151 591
	12 537 634	**15 145 077**	**2 484 920**	**3 588 013**
Unallocated assets	**-**	**-**	8 404 110	9 183 567
	12 537 634	**15 145 077**	**10 889 030**	**12 771 580**

Notes to the financial statements (cont'd)

18. Cost of sales

	Year ended 30/06/2009 LVL	Year ended 30/06/2008 LVL	Year ended 30/06/2009 EUR	Year ended 30/06/2008 EUR
Purchases of components and subcontractors services	5 806 978	7 708 525	8 262 585	10 968 243
Salary expenses (including accruals for vacation pay)	859 837	916 464	1 223 438	1 304 011
Depreciation and amortization (*see Note 6*)	264 364	386 303	376 156	549 660
Social insurance (including accruals for vacation pay)	204 839	217 186	291 460	309 028
Rent of premises	82 375	82 675	117 209	117 636
Public utilities costs	89 867	80 963	127 869	115 200
Car expenses	24 428	23 738	34 758	33 776
Communication expenses	19 521	20 196	27 776	28 736
Travel expenses	7 211	16 344	10 260	23 255
Low value inventory	2 149	9 228	3 058	13 130
Other production costs	46 427	49 471	66 060	70 391
	7 407 996	**9 511 093**	**10 540 629**	**13 533 066**

Research and development related expenses of LVL 1 279 189 (EUR 1 820 122) (2007/2008: LVL 1 777 087 (EUR 2 528 566)) are included in the income statement caption cost of sales.

19. Selling and marketing costs

	Year ended 30/06/2009 LVL	Year ended 30/06/2008 LVL	Year ended 30/06/2009 EUR	Year ended 30/06/2008 EUR
Advertising and marketing costs	633 605	473 023	901 539	673 051
Wages and salaries (incl. vacation pay reserve)	404 379	398 287	575 379	566 711
Business trips	153 800	175 926	218 838	250 320
Depreciation and amortisation (*see Note 6*)	113 702	122 475	161 783	174 266
Delivery costs	115 423	101 176	164 232	143 960
Social insurance contributions (incl. vacation pay reserve)	96 468	86 824	137 262	123 539
Other selling and distribution costs	95 001	88 285	135 174	125 620
	1 612 378	**1 445 996**	**2 294 207**	**2 057 467**

Notes to the financial statements (cont'd)

20. Administrative expense

	Year ended 30/06/2009 LVL	Year ended 30/06/2008 LVL	Year ended 30/06/2009 EUR	Year ended 30/06/2008 EUR
Wages and salaries (incl. vacation pay reserve)	189 742	192 972	269 978	274 574
Depreciation and amortisation (*see Note 6*)	51 067	68 808	72 662	97 905
Social insurance contributions (incl. vacation pay reserve)	41 333	41 489	58 812	59 034
IT services	34 613	40 152	49 250	57 131
Bank charges	21 473	30 990	30 553	44 095
Representation expenses	14 545	26 169	20 696	37 235
Training expenses	18 348	22 401	26 107	31 874
Public utilities costs	11 107	11 148	15 804	15 862
Business trips	934	10 127	1 329	14 409
Rent of premises	9 620	9 387	13 688	13 356
Insurance expenses	7 592	9 193	10 802	13 080
Office maintenance costs	3 713	8 744	5 283	12 442
Sponsorship	4 050	6 000	5 763	8 537
Communications expenses	5 561	5 881	7 913	8 368
Allowance for bad and doubtful receivables	318 995	(33 976)	453 889	(48 343)
Other administration expense	83 102	114 936	118 243	163 540
	815 795	**564 421**	**1 160 772**	**803 099**

21. Other income

	Year ended 30/06/2009 LVL	Year ended 30/06/2008 LVL	Year ended 30/06/2009 EUR	Year ended 30/06/2008 EUR
Government grant	50 730	309 723	72 182	440 696
Other income	5 812	23 381	8 270	33 269
	56 542	**333 104**	**80 452**	**473 965**

The Company has received payment amounting to LVL 10 727 (EUR 15 263) (2007/2008 – LVL 292 814 (EUR 416 637)) of the government grant. The residual amount LVL 40 003 (EUR 56 919) is recorded as receivable (*see Note 10*).

22. Financial costs

	Year ended 30/06/2009 LVL	Year ended 30/06/2008 LVL	Year ended 30/06/2009 EUR	Year ended 30/06/2008 EUR
Interest expense	4 163	24 001	5 923	34 150
Currency exchange, net	-	66 806	-	95 057
	4 163	**90 807**	**5 923**	**129 207**

Notes to the financial statements (cont'd)

23. Corporate income tax

	Year ended 30/06/2009 LVL	Year ended 30/06/2008 LVL	Year ended 30/06/2009 EUR	Year ended 30/06/2008 EUR
Change in deferred tax liability (see Note 13)	(2 865)	(1 487)	(4 077)	(2 116)
Corporate income tax charge for the current reporting year	-	-	-	-
	(2 865)	**(1 487)**	**(4 077)**	**(2 116)**

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:

	Year ended 30/06/2009 LVL	Year ended 30/06/2008 LVL	Year ended 30/06/2009 EUR	Year ended 30/06/2008 EUR
Loss before taxes	**(1 119 866)**	**(613 592)**	**(1 593 426)**	**(873 063)**
Tax rate	15%	15%	15%	15%
Theoretically calculated tax	(167 980)	(92 039)	(239 014)	(130 959)
Expenses not deductible for tax purposes	53 895	(4 414)	76 686	(6 281)
Not recognised deferred tax asset	111 220	94 966	158 251	135 124
Tax charge	**(2 865)**	**(1 487)**	**(4 077)**	**(2 116)**

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).

Notes to the financial statements (cont'd)

24. Tax payable

	VAT	Social insurance contri-butions	Personal income tax	Corporate income tax	Unemploy-ment risk duty	Total
	LVL	LVL	LVL	LVL	LVL	LVL
Payable as at 30.06.2008.	**-**	**40 296**	**24 483**	**-**	**38**	**64 817**
(Receivable) as at 30.06.2008.	**(67 208)**	**-**	**-**	**(95 410)**	**-**	**(162 618)**
Calculated for the period	(554 276)	475 738	280 220	421	436	202 539
Transferred to/from other taxes	468 157	(452 502)	-	(15 217)	(438)	-
Repaid by SRS	119 053	(893)	-	95 410	-	213 570
Paid in the period	-	(27 339)	(285 654)	(5 501)	-	(318 494)
Payable as at 30.06.2009.	**-**	**35 300**	**19 049**	**-**	**36**	**54 385**
(Receivable) as at 30.06.2009.	**(34 274)**	**-**	**-**	**(20 297)**	**-**	**(54 571)**

	VAT	Social insurance contri-butions	Personal income tax	Corporate income tax	Unemploy-ment risk duty	Total
	EUR	EUR	EUR	EUR	EUR	EUR
Payable as at 30.06.2008.	**-**	**57 336**	**34 836**	**-**	**54**	**92 226**
(Receivable) as at 30.06.2008.	**(95 628)**	**-**	**-**	**(135 756)**	**-**	**(231 384)**
Calculated for the period	(788 664)	676 914	398 717	599	620	288 186
Transferred to/from other taxes	666 127	(643 852)	-	(21 652)	(623)	-
Repaid by SRS	169 397	(1 271)	-	135 756	-	303 882
Paid in the period	-	(38 900)	(406 449)	(7 827)	-	(453 176)
Payable as at 30.06.2009.	**-**	**50 227**	**27 104**	**-**	**51**	**77 382**
(Receivable) as at 30.06.2009.	**(48 768)**	**-**	**-**	**(28 880)**	**-**	**(77 648)**

Notes to the financial statements (cont'd)

25. 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 30/06/2009 LVL	Year ended 30/06/2008 LVL	Year ended 30/06/2009 EUR	Year ended 30/06/2008 EUR
Profit (loss) for the reporting year (a)	(1 117 001)	(612 105)	(1 589 349)	(870 947)
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)	**-0.376**	**-0.206**	**-0.535**	**-0.293**

26. Management remuneration

Remuneration to the Board and the Council

	Year ended 30/06/2009 LVL	Year ended 30/06/2008 LVL	Year ended 30/06/2009 EUR	Year ended 30/06/2008 EUR
Remuneration to the Board Members				
· salaries	130 850	120 026	186 183	170 782
· social insurance contributions	27 292	23 578	38 833	33 548
Remuneration to the Council Members				
· salaries	76 795	62 415	109 269	88 809
· social insurance contributions	18 500	14 291	26 323	20 334
Total	**253 437**	**220 310**	**360 608**	**313 473**

Notes to the financial statements (cont'd)

27. Related party transactions

During the period from 1 July 2008 until 31 October 2008, the Company sold its products to its subsidiary SAF Tehnika Sweden AB for the total amount of LVL 26 100 (EUR 37 137).

The Company received research and advisory services from SAF Tehnika Sweden AB for the total amount of LVL 296 581 (EUR 421 997) from 1 July 2008 until 31 October 2008.

During the period from 1 July 2008 until 30 June 2009, the Company sold its products to related parties for the total amount of LVL 199 659 (EUR 284 089) and provided services – LVL 5 253 (EUR 7 474).

During the period from 1 July 2008 until 30 June 2009, the Company bought goods from related parties for the total amount of LVL 12 260 (EUR 17 444), bought tangible assets – LVL 59 732 (EUR 84 990) and received services – LVL 8 680 (EUR 12 351).

As at 30 June 2009, the Company has not paid to related parties for the total amount LVL 2 150 (EUR 3 059).

28. Personnel expense

	Year ended 30/06/2009 LVL	Year ended 30/06/2008 LVL	Year ended 30/06/2009 EUR	Year ended 30/06/2008 EUR
Wages and salaries	1 453 958	1 507 722	2 068 796	2 145 295
Social insurance contributions	342 640	345 499	487 533	491 601
Total	**1 796 598**	**1 853 221**	**2 556 329**	**2 636 896**

29. Average number of employees

	Year ended 30/06/2009	Year ended 30/06/2008
Average number of personnel employed during the reporting year:	**148**	**157**

30. Operating lease

Lease agreement No. S-116/02, dated 10 December 2002, was signed with Dambis A/S. According to the agreement, the lessor commissions and SAF Tehnika A/S accepts premises in the total area of 5 851 m^2 for consideration till 16.09.2009. Since 17.09.2009 total leased area was decreased to 5 672m2. The premises are located at Ganību dambis 24a. The agreement expires on 1 March 2016.

According to the signed agreements, the Company has the following lease payment commitments as at 30 June 2009.

	LVL	EUR
1 year	98 713	140 456
2 – 5 years	392 239	558 106
More than 5 years	163 433	232 544
	654 385	**931 106**

Notes to the financial statements (cont'd)

31. Contingent liabilities

The Company has given guarantees in the ordinary course of business amounting to LVL 59 716 (EUR 84 968) (2007/2008: LVL 51 584 (EUR 73 397) to third parties).

32. Going concern

The Company closed the reporting year with positive operating cash flow of LVL 627 thousand (EUR 892 thousand), (2007/2008: LVL 2 905 thousand (EUR 4 134 thousand)), its cash position amounts to LVL 2 347 thousand (EUR 3 339 thousand), but liquidity ratio was 6,8 at the end of financial year.

Net loss for the reporting period amounted to LVL 1 117 thousand (EUR 1 589 thousand).

The Company's management believes that although the existing situation is challenging, global competition increases and customers suffer from lack of financing, the new CFIP product line has a potential due to it's functionality and competitive pricing.

There are no outstanding borrowings. Currently the Company is operating utilising its own resources.

33. 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 2009 or its financial performance and cash flows for the year then ended.