



SAF Tehnika Yearbook 2008/09

Point • Point
Microwave communications

Yearbook 2008/09

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Registration No.:
Financial Year:

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1st July, 2008 – 30th June, 2009



SAF Tehnika Overview

Mission

We are dedicated to ongoing development and profitable growth in order to deliver highly reliable microwave radio equipment for data and voice communication at a compelling price to our customers worldwide. This is achieved by bringing together 9 years of professional experience, competence and know-how, state-of-the-art technologies and solid team, resulting in cost-efficient quality product delivered on time.

By building long-term sustainable relationships with partners, our customer-oriented strategy brings the focus on satisfaction of each and every individual customer's needs and demand. It is our concern to ensure maximum value for our customers and their competitiveness in the market.

Vision

We are making 100% effort to revolve *SAF Tehnika AS* positions by bringing the innovation driven IP radio into the telecommunications market.

Strategy

By developing and improving CFIP product line *SAF Tehnika AS* will consolidate its strength and reach the desired levels of profitability and competitiveness in the market – regain 1% of the world's microwave market – which is the main goal of the company for the following years.

SAF Tehnika in Brief

SAF Tehnika AS is a Latvian (European) designer, producer and distributor of digital microwave data transmission equipment. *SAF Tehnika AS* products provide wireless backhaul solutions for digital voice and data transmission to mobile and fixed network operators, data service providers, governments and private companies. The company offers 3 product lines: **CFIP family** – 366Mbps Lumina FODU (Optical Gigabit Ethernet), 108Mbps FODU (Fast Ethernet) and 366Mbps Phoenix Hybrid Split Mount System, **CFQ family** – high capacity radio equipment (SDH) and **CFM family** – low to medium capacity radio equipment (PDH).

The company provides an important part of the telecommunications infrastructure to customers in 98 countries worldwide. *SAF Tehnika AS* attributes this success to three key factors: a distinctive approach to research and development, flexibility and the ability to deliver high-value solutions at attractive prices.

BSNL and MTNL (India), PCTL (Pakistan), VimpelCom, Cable & Wireless, Intertelecom (Ukraine), Global Crossing (Latin America), Gateway Communications (various African countries) are among the telecommunications operators who have chosen *SAF Tehnika AS* to supply high-reliability wireless backhaul solutions in their networks.

SAF Tehnika AS has grown to be an acknowledged member of the industry. The company's determined focus, strong technology resources and quality products allow it to compete successfully in its market segment with the largest integrated vendors - Ericsson, Nokia Siemens Networks and NEC.

The company's growth occurred during difficult market conditions in the telecommunications industry. The dramatic reduction of capital expenditures in the wireless data transmission sector after 2001 adversely affected many other vendors in the industry. However, during this time, when the overall market was contracting, the Company expanded its product range by introducing new products and improved R&D (research and development) capacity.

In May 2004 the company launched a successful IPO with the initial market capitalization of more than €50 million, with substantial subscriptions from institutional investors. The company is listed on the NASDAQ OMX Riga Stock Exchange under the symbol SAF1R and the current quotation is accessible on the company's web page www.saftehnika.com.

To strengthen the product portfolio, in 2004 *SAF Tehnika AS* acquired a Swedish company *Viking Microwave AB* - *SAF Tehnika Sweden AB*, a fully owned subsidiary, based in Gothenburg. This division contributed R&D

resources to SDH product line development, enabling the company to deliver high-value solutions to customers at compelling price points. By completing the design of CFQ product line in 2008, primary aim of the establishment of *SAF Tehnika Sweden AB* has been reached. Therefore, in November 2008 an agreement on the buy-out of the capital shares was signed between *SAF Tehnika AS* and a company registered in Sweden named *PROCOTECH AB*, which represents the current management of *SAF Tehnika Sweden AB*. However, both companies will continue the cooperation in R&D of microwave data transmission equipment.

A joint Group in Russian Federation under the name of *SAF Tehnika RUS Ltd* (САФ Техника РУС 000) and Russian Group named "Мобильные технологии" 000 as its co-founder was established in November 2008 with the aim to increase the sales of *SAF Tehnika AS* products in Russia, but has not started its operations due to economical situation in the region and currently is dormant.

During financial year 2008/09, *SAF Tehnika* penetrated 11 new markets, bringing the total number of active markets to 79. The company continues to grow internationally by penetrating new geographic markets in both developed and developing countries, especially the United States of America and fast-growing regions of Asia and Africa.

Key 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 AS* employees reaches 160
- 2007 Implementation of a new automated modern manufacturing line
- 2008 Launch of 108Mbps radio – *SAFCFIP* product line
Buy-out of the capital shares of *SAF Tehnika Sweden AB* by its management
Establishment of joint company in Russian Federation – *SAF Tehnika RUS Ltd*.
- 2009 Sales growth up to 79 active markets

www.saftehnika.com

SAF Tehnika Management Board



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 AS*. N. Bergs is one of the founders of *SIA Fortech* (co-founding company of *SAF Tehnika AS*) where during the periods from 1990 to 1992 and 1999 to 2000 he acted as Managing Director and General Director, respectively. Following *SIA Fortech's* merger with *AS Microlink* in 2000, N. Bergs became Chief Executive Officer of *SAF Tehnika AS* and Member of the Management Board of *AS 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 in 1986 with a degree in radio engineering.



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 AS*. D. Liepkalns founded a private enterprise *SAF* in 1995 and co-founded the company *SAF Tehnika AS* 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 in 1985 with a degree in radio engineering.



Aira Loite

Member

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



Janis Ennitis

Member

Janis Ennitis, born in 1970, is Member of the Board and he holds the position of Vice-President Sales and Marketing 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 from 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 AS*. Before co-founding the Company, from 1992 to 1999, he worked for *SIA Fortech*, where throughout his career he held positions of programmer, lead programmer, and manager/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 AS*. 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 in 1987 with a degree in radio engineering.



Ivars Senbergs

Member

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



Janis Bergs

Member

Janis Bergs, born in 1970, Member of the Supervisory Council, also Chairman of the Board of *SIA FMS*. J. Bergs is a former Chairman of the Board of *SIA 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.

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

Normunds Bergs

President and the Member of the Management Board of Latvian Electrical Engineering and Electronics Industry Association (LEtERA)
Member of the Management Board of SIA "Namipasumu parvalde",
Owns 40.00% of the shares
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 "Energijas centrs",
Owns 25.00% of the shares
Shareholder of SIA "P3B Holdings",
Owns 18.00% of the shares
Shareholder of SIA "Real Sound Lab",
Owns 10.00% of the shares

Janis Bergs

Chairman of the Management Board of consortium "Latvian IT Cluster"
Chairman of the Management Board of SIA "FMS"
Shareholder of SIA "FMS Group",
Owns 27.50% of the shares
Shareholder of UAB "Fortek IT",
Owns 29.00% of the shares
Shareholder of UAB BKA,
Owns 33.00% of the shares
Shareholder of SIA "CityCredit",
Owns 30.00% of the shares
Shareholder of SIA "TCon",
Owns 26.00% of the shares
Shareholder of SIA "Energijas centrs",
Owns 25.00% of the shares
Shareholder of SIA "P3B Holdings",
Owns 18.00% of the shares

Ivars Senbergs

Chairman of the Management Board of SIA "Latnek Ipasumi",
Owns 60.00% of the shares
Chairman of the Management Board of SIA "Juridiskais Audits",
Owns 58.62% of the shares
Chairman of the Management Board of SIA "Namipasumu parvalde",
Owns 30.00% of the shares
Member of the Management Board of SIA "Hipno",
Owns 5.00% of the shares
Member of the Supervisory Council of AS "MFS bookkeeping",
Shareholder of SIA "Namservisa Agentura",
Owns 33.30% of the shares
Shareholder of SIA "Arhitekta K.Rukuta Birojs",
Owns 5.12% of the shares

Vents Lacars

Member of the Management Board of SIA "Details",
Owns 20.00% of the shares

Janis Ennitis

Shareholder of SIA "REED Production",
Owns 35.00% of the shares
Shareholder of SIA "Pakards",
Owns 33.33% of the shares
Shareholder of SIA "Auto Mikss",
Owns 25.00% of the shares

Report of the Board

Type of activity

SAF Tehnika AS (the "Group") is a designer, producer and distributor of digital microwave data transmission equipment. The Group 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 Group in the reporting year

The Group's net sales for the 12-month period of the financial year 2008/2009 were LVL 8.83 million (EUR 12.56 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 (29.51%) and represent a slight decrease on a year-on-year basis (-0.8%). 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 (19.37%). The largest revenue increase (+26.38%) 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 Group's products were sold in 79 countries during financial year 2008/2009. 11 of them were new markets. The Group's aggregate exports for the reporting period is LVL 8.41 million (EUR 11.97 million) comprising 95.3% 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 Group for the financial year 2008/2009 is LVL 1.242 million (EUR 1.767 million) which mainly reflects lower sales and falling margins due to a lack of funding for investments for The Group'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 AB* amounting to LVL 437 thousand (EUR 621 thousand) was a further contributor.

During the reporting year the Group invested LVL 139 thousand (EUR 197 thousand) in product certification, development and production software, production equipment and IT.

In order to promote the popularity of *SAF* brand, present Group's product news, strengthen the positions of *SAF* in the telecommunication market and to find new clients and partners *SAF Tehnika AS* 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 Group 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 AS* and a company representing the current management of *SAF Tehnika Sweden AB – Trebax*. Since then the former subsidiary operates as an independent company, but continues to provide services for *SAF Tehnika AS* on development of data transmission equipment.

A joint Group in Russian Federation under the name of *SAF Tehnika RUS Ltd* (САФ Техника РУС 000) and Russian Group named "Мобильные технологии" 000 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 AS* 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 Group is planning to launch new products outside the scope of traditional licensed point to point MW radios in 7-38 GHz during coming periods. A solid financial condition (net cash rather than net debt) allows the Group to maintain general operations at their previous level and increase the sales team's local presence in all regions. The Group'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 financial year 2009/2010 and Asia where the Group 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 annual report has been approved by the general shareholders' meeting on 29 October, 2009.

Chairman of the shareholders' meeting



Normunds Bergs
Chairman of the Board
Riga, 29 October 2009

Statement of the Board's responsibilities

The Board of *SAF Tehnika AS* (hereinafter – the Company) is responsible for preparing the consolidated financial statements of the Company and its subsidiary (hereinafter – the Group).

The consolidated financial statements set out on pages 22 to 54 are prepared in accordance with the source documents and present fairly the financial position of the Group as at 30 June 2009 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 consolidated financial statements.

The Board of *SAF Tehnika AS* is responsible for the maintenance of proper accounting records, the safeguarding of the Group's assets and the prevention and detection of fraud and other irregularities in the Group. The Board is also responsible for the compliance with the laws of the countries in which the Group's companies are operating (Latvia and Sweden).

For the Board,



Normunds Bergs
Chairman of the Board
Riga, 29 October 2009

Supervisory Council report

During the financial year 2008/2009 Joint Stock Company „SAF Tehnika“ (hereinafter - Group) has continued its operations according to its chosen strategy of maintaining high production quality for a reasonable price.

Although the Group has significantly increased sales in Africa, rapid decline of sales in CIS and Asia resulted in a substantial revenue decrease. As to the products - the major decline of the CFM product line was experienced.

The R&D department has made great efforts to improve and develop CFIP product line. CFIP platform serves as a basis for all new products designed in order to address present and future market requirements.

Supervisory Council advises the Management Board to concentrate resources on a vigorous promotion and further development of CFIP product line in all markets in order to compensate the decline of demand for CFM products.

During the previous financial period the Supervisory Council has performed its duties to monitor the activities of the Group according to the legislation in force and the resolutions of the shareholders, reviewed financial reports and monitored the actions of the Management Board.

Vents Lacars
Chairman of the Supervisory Council
Riga, 29 October 2009





Personnel

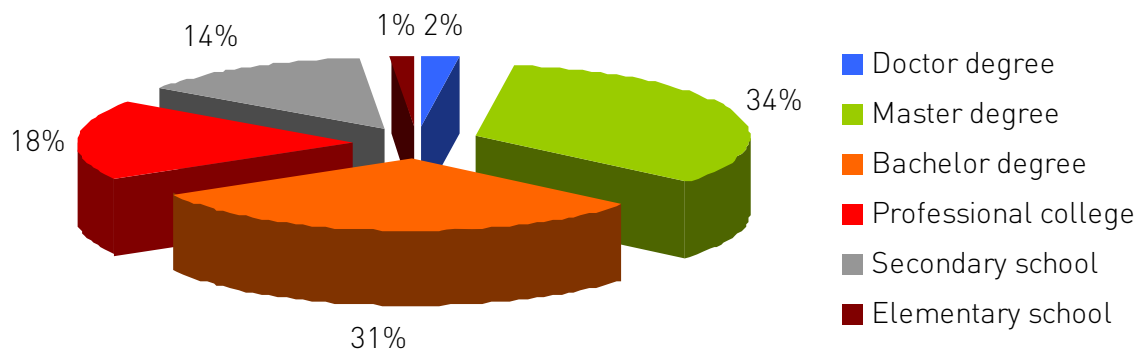
The personnel management is a significant factor for effective and successful development of *SAF Tehnika AS* in a rapidly evolving global business environment. We believe it is our duty to make sure our employees feel as a part of a big team and are treated as unique and highly valuable specialists. At the beginning of the financial year 172 employees worked for the Group, 15 of which were employed by *SAF Tehnika Sweden AB*. Both buy-out of the shares by *SAF Tehnika Sweden AB* management in November 2008 and optimization of operational processes contributed to the fact that the number of the Group's employees reduced to 143 at the end of the financial year. Majority of our employees are specialists or highly qualified personnel. In comparison to previous financial year, the proportion of women had fallen down by 20%. The number of employees with higher education had risen by 4%, and there was also a slight increase – by 1% - in number of those having professional college education. The average age of the Group's employee is 37 years. Despite the fact that the number of employees working for the Group for less than 2 years had risen by 5%, still almost half of the staff are core long-term employees. Here at *SAF Tehnika* we believe that each our department is an important part of operations chain, thus each our employee makes fundamental contribution to overall performance of the Group.

SAF Tehnika AS customers are the basis for its current and future development; therefore, great emphasis is put on development of employees' communication and consultation skills that guarantee the efficient fulfillment of wishes and needs of the Group's clients. Thus, personnel recruitment, effectiveness of training, as well as personnel loyalty programs play an important role. The Group's goal is ideal correspondence between the candidate's competence, professional attitude and job requirements, as well as corporate culture and goals. Taking into account the ever-changing business environment, the Group is constantly investing in qualification improvement programs, also notably contributing to coordination and control of internal and external training processes, as well as encouraging our employees to acquire higher academic or professional education by supporting their efforts. The Group believes in high value of effective team-building, improvement of operational procedures and efficient resource management.

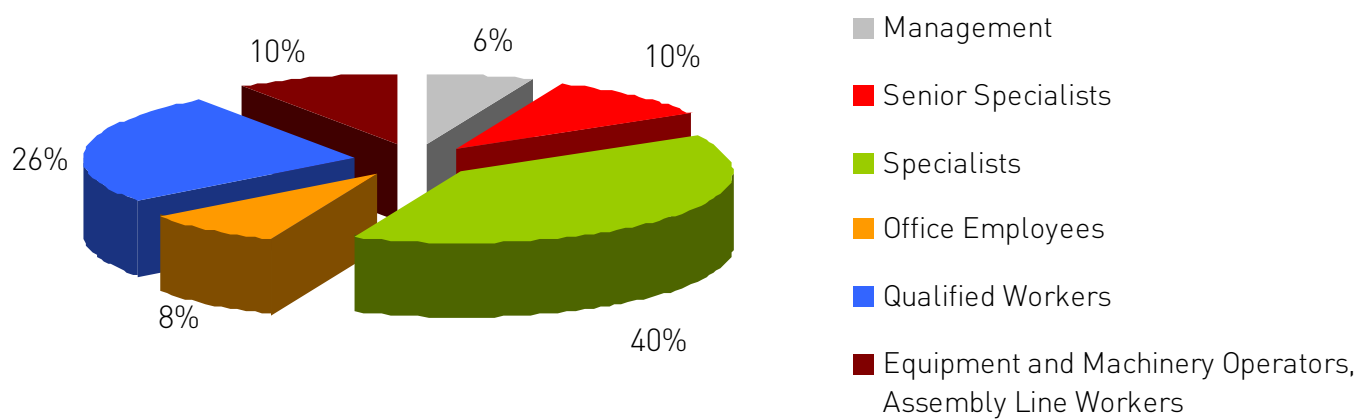
In order to attract young and talented students to electronics industry, The Group takes part in projects aimed at informing students of technical sciences about *SAF Tehnika AS* and other companies of the industry. The Group is actively working with professional schools and universities, providing traineeship possibilities.

The Group offers modern environment, as well as state-of-the-art research and production tools for effective and successful work of employees. Its staff is encouraged to take active part in maintaining and developing a Quality Management System by contributions to improvement of different processes, which also helps each our employee to broaden the understanding of their value, as well as importance of their work and role in the Group. *SAF Tehnika AS* cares for its employees, thus yearly compulsory health inspections are organized within its premises, and each employee is provided with healthcare insurance. Every year such corporate activities as sports games, New Year's Eve party and other socializing events are organized by the Group in order to boost team spirit and unity of our employees.

Division of employees by education 2008/09



Division of employees by job category 2008/09



III Commitment to Society

We take various actions in order to support programs which are intended for the benefit of the whole society. Last year we reasonably invested in different charity and sponsorship projects.

SAF provided financial support for the program "Mission Possible" where young, talented graduates are recruited for the work in Latvian schools. We consider that education should be the ultimate value around which the future of Latvian society should be built.

We have continued active participation in the projects for popularization of engineer careers and development of engineering by offering grants to engineer students of Riga Technical University and providing positions of field practice for students coming from several educational institutions, inter alia Riga Technical University and Riga Technical College.

SAF was involved in different educational and research projects organized by Latvian Electrical Engineering and Electronics Industry association. We consider that the actions regarding popularization of technical education and inventions are the only way to achieve growth and development of the industry. Therefore *SAF* has supported young engineers and participated in funding of young engineers activities.

Within Latvian Electrical Engineering and Electronics Industry association members of *SAF* Management Board consult Latvian government and administrative body regarding the implementation of European Union framework legislation using most effective and practical methods, as well as express propositions for supplementation of electrical engineering and electronics and related branch legislation.

III Environmental reporting

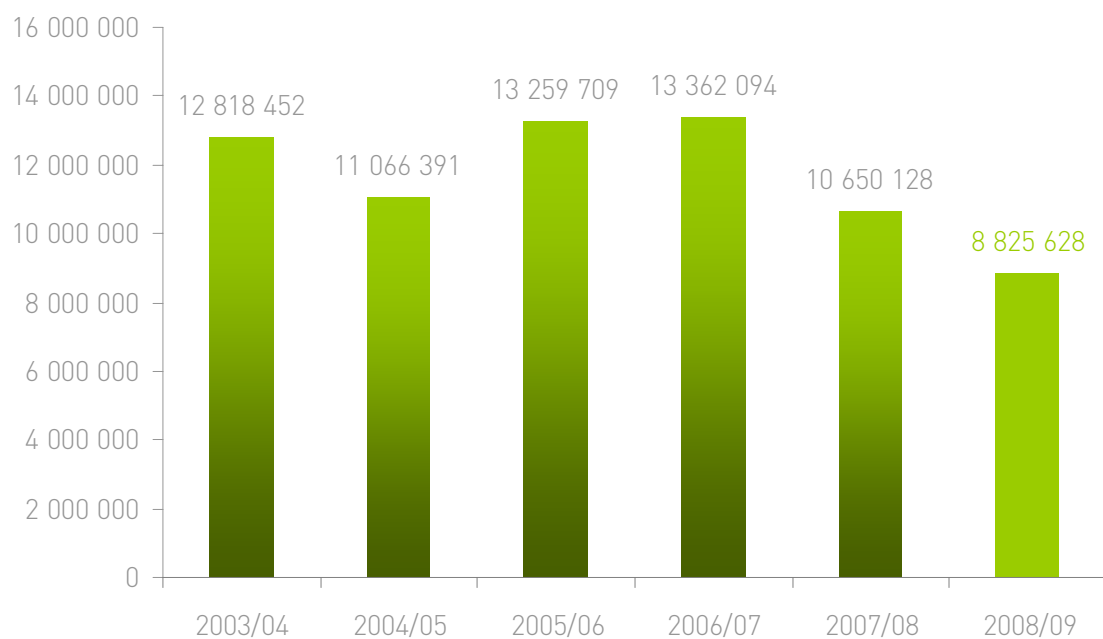
In order to minimize our environmental impact we organize effective waste handling and reduce the use of harmful substances. Our policy is to use best endeavours for conserving raw materials, water and energy, eliminating the use of toxic raw materials and substances, reducing the quantity and toxicity of waste. *SAF Tehnika AS* participates in packing material recycling programs. Every employee of *SAF Tehnika AS* is involved in execution of our common environmental policy.

SAF Tehnika AS participates in the program for disposal of waste of electrical and electronic equipment and complies with the provisions of Directive 2002/96/EC on waste of electrical and electronic equipment (WEEE).

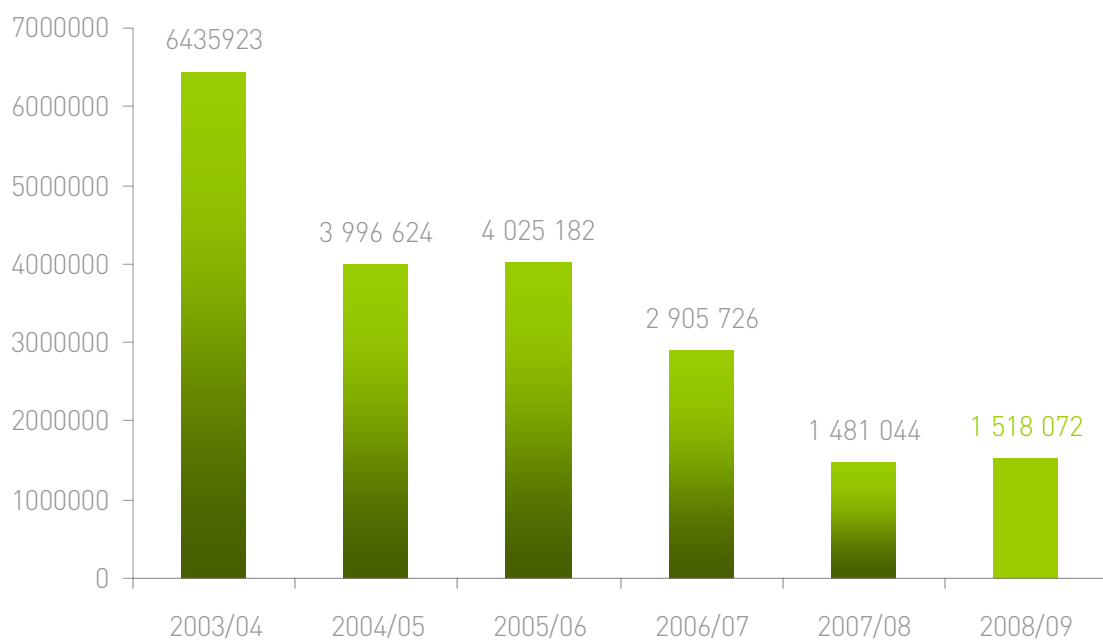
We have organized the production in a way that we comply with Directive 2002/95/EC on the restriction of the use of certain hazardous substances in electrical and electronic equipment. Produced equipment is also RoHS compliant.

Financial highlights

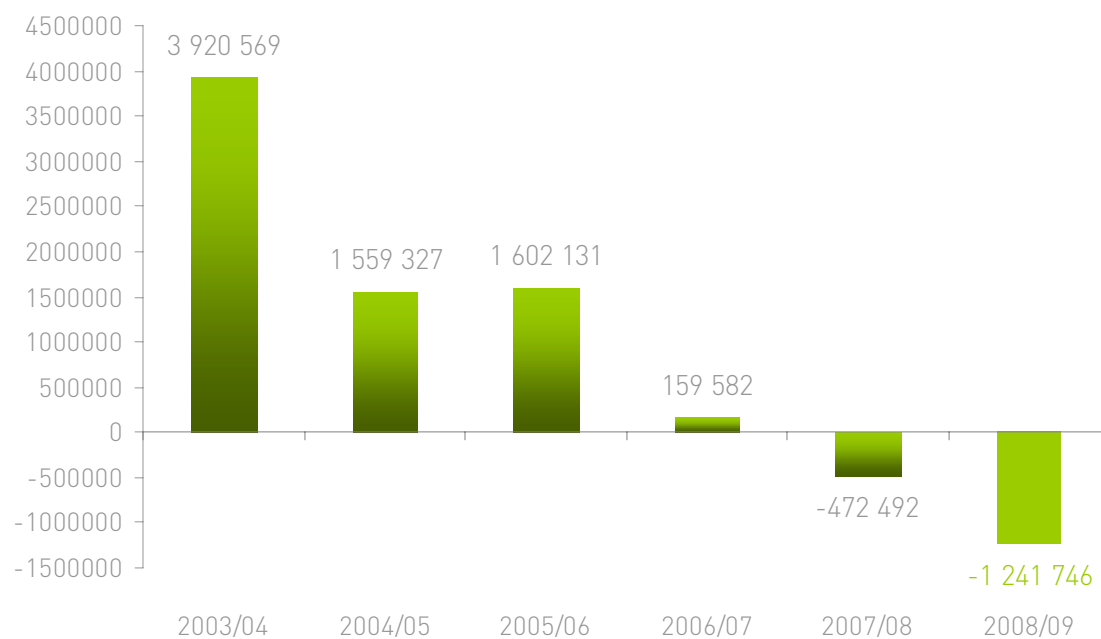
Net Sales, LVL



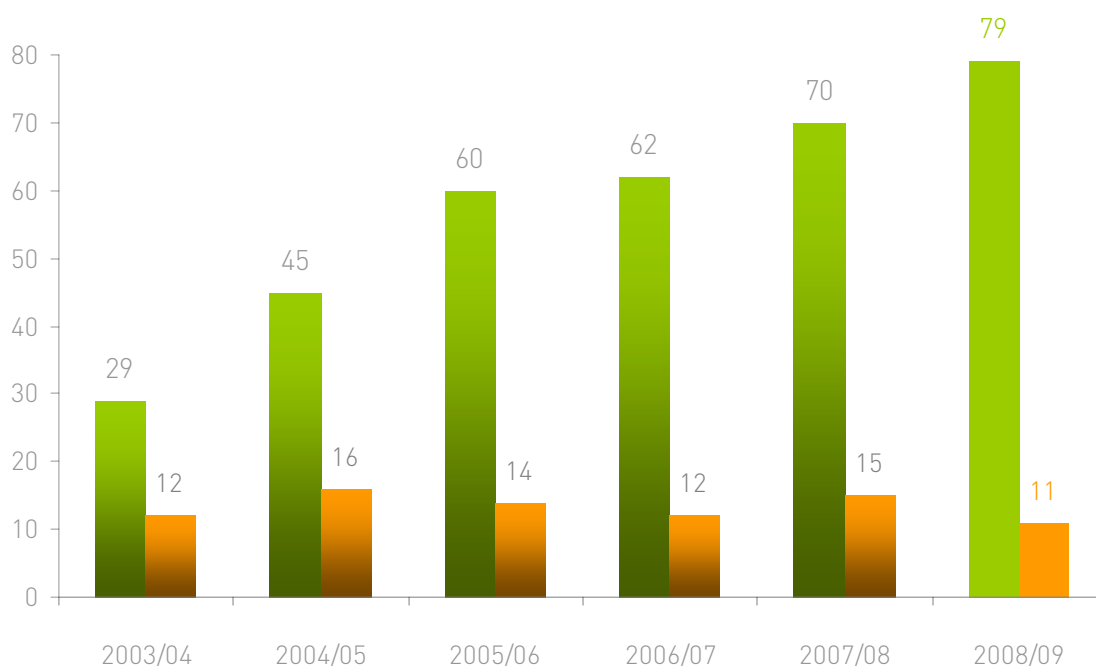
Gross profit, LVL



Net Profit, LVL



Number of active markets



III Group key figures describing economic development

	2008/09	2007/08	2006/07	2005/06	2004/05	2003/04
Turnover	8 825 628	10 650 128	13 362 094	13 259 709	11 066 391	12 818 452
Earnings before interest, taxes and depreciation (EBITDA)	-792 781	244 248	1 107 147	2 361 819	2 512 645	5 255 447
share of the turnover %	-9%	2%	8%	18%	23%	41%
Profit/loss before interest and taxes (EBIT)	-1 248 781	-411 026	322 059	1 666 216	1 959 205	4 922 075
share of the turnover %	-14%	-4%	2%	13%	18%	38%
Net Profit	-1 241 746	-472 492	159 582	1 602 131	1 559 327	3 920 569
share of the turnover %	-14%	-4%	1%	12%	14%	31%
Return on equity (ROE) %	-17%	-6%	2%	20%	22%	92%
Return on assets (ROA) %	-15%	-5%	1%	17%	19%	66%
Liquidity ratio						
Quick ratio %	234%	141%	12%	54%	14%	54%
Current ratio %	421%	331%	116%	201%	260%	246%
Average number of employees	152	172	182	136	124	90

III Holdings and shares

SAF Tehnika shareholders (over 5%) as of 01.10.2009

Name	Ownership interest (%)
Didzis Liepkalns	17.05%
Swedbank AS Clients Account (formerly AS Hansapank)	12.96%
Andrejs Grisans	10.03%
Skandinaviska Enskilda Banken	9.98%
Normunds Bergs	9.74%
Juris Zieme	8.71%
Gatis Poiss	8.05%
Vents Lacars	6.08%

III Share price development

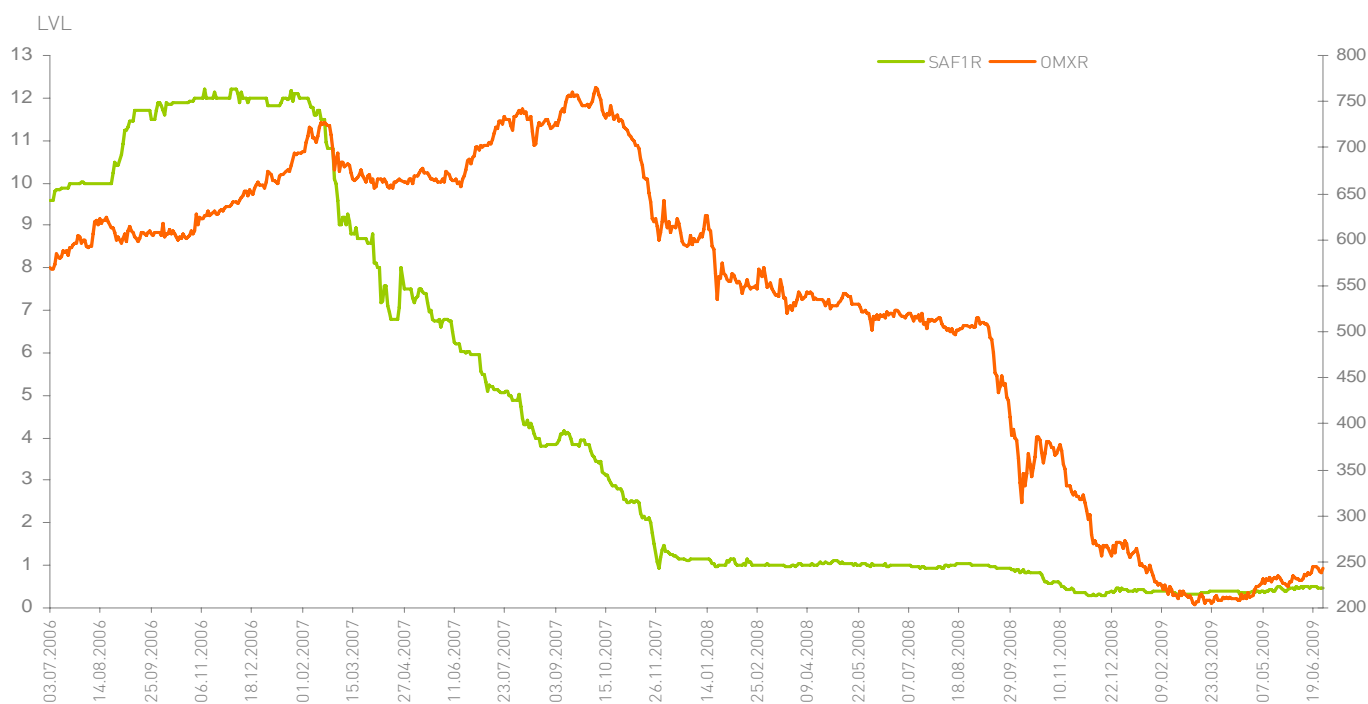
Share and dividend related information

	2008/09	2007/08
Share price (last) for the end of period	0.48	1.00
Market value of share capital	1 425 686	2 970 180
Earnings per share (EPS)	-0.42	-0.16
Dividend per share (for the previous reporting period)	-	-
Dividend / net profit (for the previous reporting period)	-	-
P/E ratio	-1.15	-6.87

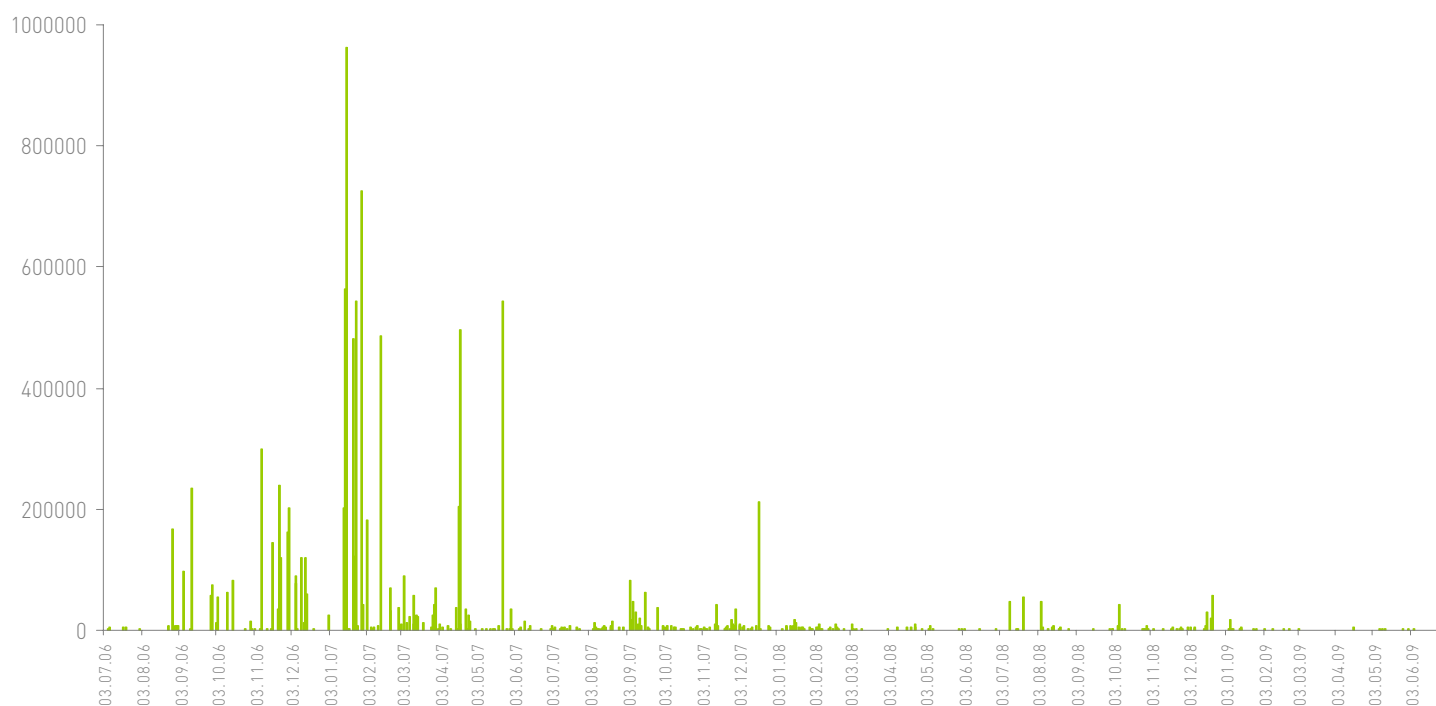
The lowest, the highest and medium (average) share price for the reporting period

	2008/09	2007/08
Lowest	0.27	0.94
Highest	1.05	5.95
Medium	0.43	1.87

Share price development (LVL)



Share turnover (million 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, OMX Baltic Benchmark GI, OMX Baltic Benchmark Cap GI, OMX Baltic GI
Nominal value	1.00 LVL
Total number of securities	2,970,180
Number of listed securities	2,970,180
Listing date	26.05.04

Corporate governance

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

Shareholder meetings

Shareholders exercise their right to participate in the management of *SAF Tehnika AS* at Shareholders' meetings. According to the laws in force, *SAF Tehnika AS* 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 AS*. 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 AS* its Supervisory Council consists from five members and it is elected by Shareholders' meeting for the term of three years. For its part, Management Board consists from four members and it 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 AS* which is available on *SAF* website www.saftehnika.com. Management Board represents and manages *SAF Tehnika AS*. Members of the Management Board can represent *SAF Tehnika* each separately. Shareholders' meeting of *SAF Tehnika AS* can not decide upon issues which fall within the competence of Management Board.

Other contractual agreements with auditors

SAF Tehnika AS does not have any other contractual agreement with auditors - only auditing agreement. The report document can be found on *SAF* webpage www.saftehnika.com.



INDEPENDENT AUDITOR'S REPORT

To the shareholders of "SAF Tehnika" A/S:

Report on the financial statements

We have audited the accompanying consolidated financial statements of "SAF Tehnika" A/S and its subsidiaries (the Group), which comprise the Group's consolidated balance sheet as at 30 June 2009, and the consolidated income statement, consolidated statement of changes in equity and consolidated 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 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 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 consolidated financial statements of the Group give a true and fair view of the financial position of the Group as of 30 June 2009, and its financial performance and its consolidated 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 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

Rīga, Latvia
28 October 2009

Consolidated balance sheet

		30 June		30 June	
	Notes	2009 LVL	2008 LVL	2009 EUR	2008 EUR
ASSETS					
Non-current assets					
Property, plant and equipment	6	717 950	1 007 978	1 021 551	1 434 223
Intangible assets	7	67 273	529 420	95 721	753 297
Non-current financial assets	8	590	590	839	839
Deferred tax assets	15	51 025	100 051	72 602	142 359
		836 838	1 638 039	1 190 713	2 330 718
Current assets					
Inventories	9	2 552 910	2 895 414	3 632 464	4 119 802
Corporate income tax prepaid		20 297	95 410	28 880	135 756
Trade receivables	10	1 746 412	2 521 670	2 484 920	3 588 013
Other receivables	11	124 742	106 215	177 492	151 131
Prepaid expense		24 837	75 376	35 340	107 252
Derivatives	12	-	61	-	87
Cash and cash equivalents	13	2 346 818	1 950 035	3 339 221	2 774 650
		6 816 016	7 644 181	9 698 317	10 876 691
Total assets		7 652 854	9 282 220	10 889 030	13 207 409
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
Currency translation reserve		-	5 106	-	7 265
Retained earnings		1 676 448	2 918 194	2 385 371	4 152 216
Total equity		6 650 832	7 897 684	9 463 281	11 237 391
LIABILITIES					
Current liabilities					
Payables	16	955 609	1 379 377	1 359 709	1 962 677
Borrowings	17	1 896	5 159	2 698	7 341
Deferred income		44 517	-	63 342	-
Total liabilities		1 002 022	1 384 536	1 425 749	1 970 018
Total equity and liabilities		7 652 854	9 282 220	10 889 030	13 207 409

The accompanying notes on pages 27 to 54 are an integral part of these consolidated financial statements.
The consolidated financial statements on pages 22 to 54 were approved by the Board and signed on its behalf by:



Normunds Bergs
Chairman of the Board
29 October 2009

Consolidated income statement

	Notes	Year ended 30 June		Year ended 30 June	
		2009	2008	2009	2008
		LVL	LVL	EUR	EUR
Sales	18	8 825 628	10 650 128	12 557 737	15 153 767
Cost of sales	19	(7 307 556)	(9 169 084)	(10 397 715)	(13 046 431)
Gross profit		1 518 072	1 481 044	2 160 022	2 107 336
Selling and marketing costs	20	(1 613 713)	(1 450 140)	(2 296 107)	(2 063 363)
Administrative expense	21	(867 182)	(741 029)	(1 233 889)	(1 054 389)
Other income	22	56 542	334 202	80 452	475 526
Financial revenue		102 402	31 124	145 705	44 286
Financial expense	23	(4 170)	(90 297)	(5 933)	(128 482)
Loss on sale of long-term investment		(436 562)	-	(621 172)	-
Loss before taxes		(1 244 611)	(435 096)	(1 770 922)	(619 086)
Corporate income tax	24	2 865	(37 396)	4 077	(53 210)
Loss for the year		(1 241 746)	(472 492)	(1 766 845)	(672 296)
Attributable to:					
Shareholders of the Group		(1 241 746)	(472 492)	(1 766 845)	(672 296)
Earnings per share attributable to the shareholders of the Group (LVL per share)					
- basic	25	-0.42	-0.16	-0.59	-0.23
- diluted	25	-0.42	-0.16	-0.59	-0.23

The accompanying notes on pages 27 to 54 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 22 to 54 were approved by the Board and signed on its behalf by:



Normunds Bergs
Chairman of the Board
29 October 2009

Consolidated statement of changes in equity

	Share capital	Share premium	Currency translation reserve	Retained earnings	Total
	LVL	LVL	LVL	LVL	LVL
Balance as at 30 June 2007	2 970 180	2 004 204	15 968	3 390 686	8 381 038
Currency translation difference	-	-	(10 862)	-	(10 862)
Total income and expense for the year recognized directly in equity	-	-	(10 862)	-	(10 862)
Loss for the year	-	-	-	(472 492)	(472 492)
Total income and expense for the year	-	-	(10 862)	(472 492)	(483 354)
Balance as at 30 June 2008	2 970 180	2 004 204	5 106	2 918 194	7 897 684
Currency translation difference	-	-	(5 106)	-	(5 106)
Total income and expense for the year recognized directly in equity	-	-	(5 106)	-	(5 106)
Loss for the year	-	-	-	(1 241 746)	(1 241 746)
Total income and expense for the year	-	-	(5 106)	(1 241 746)	(1 246 852)
Balance as at 30 June 2009	2 970 180	2 004 204	-	1 676 448	6 650 832

The accompanying notes on pages 27 to 54 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

	Share capital	Share premium	Currency translation reserve	Retained earnings	Total
	EUR	EUR	EUR	EUR	EUR
Balance as at 30 June 2007	4 226 185	2 851 725	22 720	4 824 512	11 925 142
Currency translation difference	-	-	(15 455)	-	(15 455)
Total income and expense for the year recognized directly in equity	-	-	(15 455)	-	(15 455)
Loss for the year	-	-	-	(672 296)	(672 296)
Total income and expense for the year	-	-	(15 455)	(672 296)	(687 751)
Balance as at 30 June 2008	4 226 185	2 851 725	7 265	4 152 216	11 237 391
Currency translation difference	-	-	(7 265)	-	(7 265)
Total income and expense for the year recognized directly in equity	-	-	(7 265)	-	(7 265)
Loss for the year	-	-	-	(1 766 845)	(1 766 845)
Total income and expense for the year	-	-	(7 265)	(1 766 845)	(1 774 110)
Balance as at 30 June 2009	4 226 185	2 851 725	-	2 385 371	9 463 281

The accompanying notes on pages 27 to 54 are an integral part of these consolidated financial statements.

Consolidated cash flow statement

	Note	Year ended 30 June		Year ended 30 June	
		30.06.2009	30.06.2008	30.06.2009	30.06.2008
		LVL	LVL	EUR	EUR
Loss before tax		(1 244 611)	(435 096)	(1 770 922)	(619 086)
Adjustments for:					
- depreciation	6	351 364	482 383	499 946	686 369
- amortization	7	104 636	172 891	148 884	246 002
- changes in allowance for slow-moving inventories	9	(33 439)	(144 280)	(47 580)	(205 292)
- changes in accruals for unused annual leave	16	(31 903)	(26 936)	(45 394)	(38 326)
- changes in allowances for bad debtors	10	256 535	(45 856)	365 016	(65 247)
- interest income		(83 481)	(31 063)	(118 783)	(44 199)
- interest expense	23	4 170	24 070	5 933	34 249
- (gain)/loss from revaluation of derivative financial instruments	23	61	(61)	87	(87)
- receipt of government grant	22	(50 730)	(309 723)	(72 182)	(440 696)
- (gain)/loss from sale of PPE		334	252	475	359
- loss on sale of subsidiary		436 562	-	621 172	-
Cash (used in) operations before changes in working capital		(290 502)	(313 419)	(413 348)	(445 954)
Inventories increase		359 131	2 678 633	510 997	3 811 351
Receivables increase		482 616	44 939	686 701	63 942
Payables (decrease)/ increase		(267 001)	377 282	(379 908)	536 824
Cash generated from operating activities		284 244	2 787 435	404 442	3 966 163
Receipt of government grant	22	64 985	292 814	92 465	416 637
Interest paid	23	(4 170)	(24 070)	(5 933)	(34 249)
Income tax received		75 978	255 676	108 107	363 794
Net cash generated from operating activities		421 037	3 311 855	599 081	4 712 345
Cash flow from investing activities					
Purchases of property, plant and equipment	6	(73 856)	(132 485)	(105 088)	(188 509)
Proceeds from sale of PPE		529	16 274	753	23 156
Purchases of intangible assets	7	(28 843)	(109 366)	(41 040)	(155 614)
Net cash received from sale of subsidiary		48 437	-	68 920	-
Interest received		75 978	28 077	108 107	39 950
Net cash generated from (used in) investing activities		22 245	(197 500)	31 652	(281 017)
Cash flows from financing activities					
Repaid borrowings		(3 263)	(1 462 257)	(4 643)	(2 080 604)
Net cash (used in) financing activities		(3 263)	(1 462 257)	(4 643)	(2 080 604)
Effect of exchange rate changes					
Net increase in cash and cash equivalents		(43 236)	(1 651)	(61 519)	(2 349)
		396 783	1 650 447	564 571	2 348 375
Cash and cash equivalents at the beginning of the year		1 950 035	299 588	2 774 650	426 275
Cash and cash equivalents at the end of the year	13	2 346 818	1 950 035	3 339 221	2 774 650

The accompanying notes on pages 27 to 54 are an integral part of these consolidated financial statements.

III Notes to the consolidated financial statements

I. General information

The core business activity of *SAF Tehnika AS* and its subsidiaries (hereinafter – the Group) comprises the design, production and distribution of microwave radio data transmission equipment offering an alternative to cable channels. The Group 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. *SAF Tehnika AS* 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) ООО as its co-founder was established in the November 2008. "SAF Tehnika" A/S (hereinafter – the Company) 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 24a, Ganību dambis, Riga, Latvia. The shares of the Company are listed on NASDAQ OMX Riga Stock Exchange, Latvia.

These financial statements were approved by the Board on 29 October 2009.

The Company's shareholders have the power to amend the consolidated financial statements after the issue.

2. Summary of significant accounting policies

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

A Basis of preparation

The consolidated financial statements of *SAF Tehnika AS* 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 Group has determined that the unendorsed hedge accounting requirements under IAS 39 would not impact the Group's financial statements had they been endorsed by the EU at the balance sheet date.

The accounting policies used by the Group are consistent with those used in the previous accounting period. The consolidated financial statements have been prepared under the historical cost convention except for certain financial assets (e.g. derivatives are measured at fair value).

Standards and Interpretations effective in the current period

In the current year, the Group 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.

III Notes to the consolidated financial statements

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

B Consolidation and business acquisition

Subsidiaries involved in the consolidation are companies in which the Parent Group directly or indirectly owns more than a half of the voting rights or has otherwise obtained the power to govern their operations. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether or not the Parent Group controls another Group.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. Inter-Group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group uses the purchase method of accounting to account for the acquisition of subsidiaries or businesses. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued, and liabilities incurred or assumed on the acquisition date, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at their fair values on the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

C Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in lats (LVL), which is the Group's functional and presentation currency. According to the requirements of NASDAQ OMX 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) Group companies

The results and financial position of the Group entities (none of which having the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) Assets and liabilities are translated at the closing rate at the date of the respective balance sheet;
 - (ii) income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
 - (iii) all resulting exchange differences are recognised as a separate component of equity.
- Goodwill and fair value adjustments arising on the acquisition of a foreign entity or business are treated as assets and liabilities of the foreign entity and translated at the closing rate.

III Notes to the consolidated financial statements

D Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment in value. 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 Group 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 G).

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

E Intangible assets other than goodwill

(a) Intangible assets arising from development

Intangible assets arising from development are measured on initial recognition at cost. Subsequently, these are measured at cost less any accumulated amortisation and any accumulated impairment losses. The cost of intangible assets acquired in a business combination corresponds to their fair value on the acquisition date.

Amortization is charged from the moment when the underlying assets are available for use. The amortization is calculated using the straight line method to allocate the cost of product prototypes over the estimated useful life of 10 years.

(b) 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.

(c) 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.

III Notes to the consolidated financial statements

F 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 Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intentions to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure during the development. Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and any accumulated impairment losses. Any expenditure capitalized is amortized over the period of the expected future sales from the related project.

G Impairment of assets

Intangible assets that are not put in use or have an indefinite useful life (incl. goodwill) 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).

H 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.

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 Group 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 equivalents

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

III Notes to the consolidated financial statements

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 Group 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 consolidated 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 nor 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 Group and it is probable that the temporary difference will not reverse in the foreseeable future.

O Employee benefits

The Group makes social insurance contributions under the State's health, retirement benefit and unemployment schemes at the statutory rates in force during the year, based on gross salary payments. The Group pays fixed contributions to a privately administered pension insurance plan. The Group will have no legal or constructive obligations to pay further contributions if the statutory fund or the private pension plan 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 Group entity has passed the significant risks and rewards of ownership of the goods to the customer, i.e. delivered products to the customer and the customer has accepted the products in accordance with the contract terms, and it is probable that the economic benefits associated with the transaction will flow to the Group..

(b) Rendering of services

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

III Notes to the consolidated financial statements

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

T 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 systematic basis to the costs that is intended to compensate. Where the grant relates to an asset, the fair value is credit 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.

U Standards and Interpretations in issue not yet adopted

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;
- 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.

III Notes to the consolidated financial statements

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

3. Financial risk management

(1) Financial risk factors

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

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

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

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

(a) Foreign currency risk

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

III Notes to the consolidated financial statements

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

(b) Credit risk

From time to time the Group has significant exposure of credit risk with its customers. The Group's policy is to ensure that wholesale of products is carried out with customers having appropriate credit histories. 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 Group's credit risk exposure to a single customer amounted to 17.00 % of the total trade receivables (30.06.2008: 17.01%). With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents and derivatives, the Group's exposure to credit risk arises from the default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The Group's maximum credit risk exposure amounts to LVL 4 263 696 or 55.71% to total assets (30.06.2008: LVL 4 749 358 or 51.17% to total assets).

(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 17 Borrowings).

(d) Cash flow interest rate risk

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

(2) Accounting for derivative financial instruments

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

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.

III Notes to the consolidated financial statements

4. Management of the capital structure

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 17, cash and cash equivalents and equity, comprising issued capital, retained earnings.

The gearing ratio at the year-end was as follows:

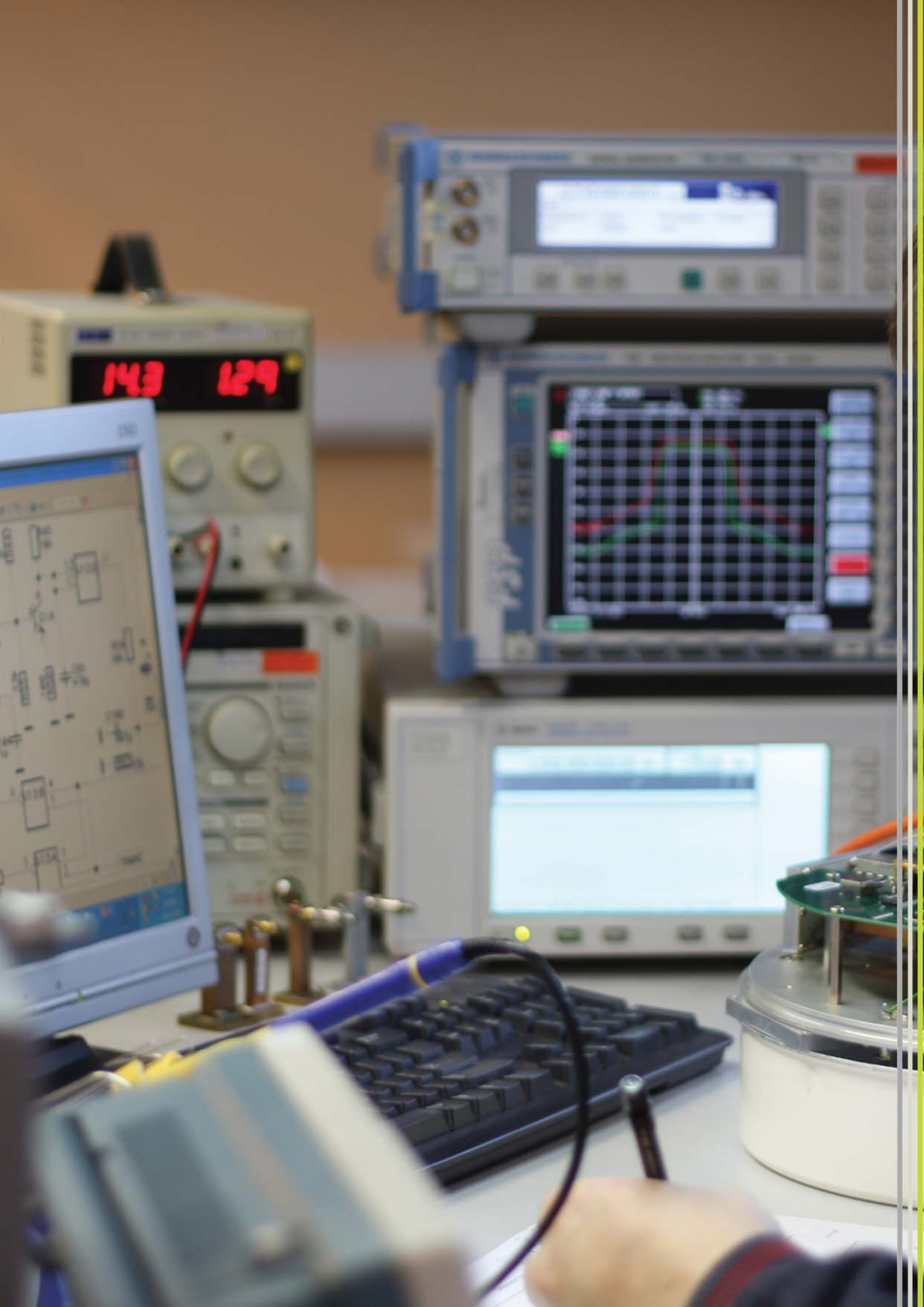
	30/06/2009 LVL	30/06/2008 LVL	30/06/2009 EUR	30/06/2008 EUR
Debt	1 002 022	1 384 536	1 425 749	1 970 018
Cash and cash in bank	(2 346 818)	(1 950 035)	(3 339 221)	(2 774 650)
Net debt (-cash)	(1 344 796)	(565 499)	(1 913 472)	(804 632)
Equity	6 650 832	7 897 684	9 463 281	11 237 391
Debt to equity ratio	15%	18%	15%	18%
Net debt to equity ratio	-20%	-7%	-20%	-7%

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 Group makes 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 Group reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period. The management of the Group uses their judgment in estimating useful lives of property, plant and equipment. Their assumptions may change and new amounts calculated;
- the Group 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 Group does not believe that any material adjustments due to impairment of the Group's assets are needed at the balance sheet date considering the planned production and sales levels;
- the Group estimates allowance for impairment of receivables. The Group 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 consolidated financial statements

6. Property, plant and equipment

	Leasehold improvements LVL	Equipment and machinery LVL	Other assets LVL	Prepay- ments for assets LVL	Total LVL
Year ended 30/06/2008					
Opening net carrying amount	591 638	574 853	199 998	109	1 366 598
Additions	4 389	89 753	15 170	-	109 312
Reclassified	-	-	-	23 173	23 173
Depreciation charge	(68 477)	(349 351)	(64 555)	-	(482 383)
Disposals	-	(602)	(7 531)	-	(8 133)
Result of FX rate changes	-	(580)	(9)	-	(589)
Closing net carrying amount	527 550	314 073	143 073	23 282	1 007 978
Year ended 30/06/2009					
Opening net carrying amount	527 550	314 073	143 073	23 282	1 007 978
Additions	-	71 088	2 768	-	73 856
Reclassified	-	23 282	-	(23 282)	-
Depreciation charge	(68 807)	(230 822)	(51 735)	-	(351 364)
Disposals	-	(529)	-	-	(529)
Write-off on sale of long-term investment	-	(11 374)	(617)	-	(11 991)
Closing net carrying amount	458 743	165 718	93 489	-	717 950
As at 30/06/2007					
Cost	755 447	1 968 188	412 813	109	3 136 557
Accumulated depreciation	(163 809)	(1 393 335)	(212 815)	-	(1 769 959)
Net carrying amount	591 638	574 853	199 998	109	1 366 598
As at 30/06/2008					
Cost	759 836	2 057 339	420 452	23 282	3 260 909
Accumulated depreciation	(232 286)	(1 743 266)	(277 379)	-	(2 252 931)
Net carrying amount	527 550	314 073	143 073	23 282	1 007 978
As at 30/06/2009					
Cost	759 836	2 130 850	422 475	-	3 313 161
Accumulated depreciation	(301 093)	(1 965 132)	(328 986)	-	(2 595 211)
Net carrying amount	458 743	165 718	93 489	-	717 950

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

Depreciation of LVL 252 870 (2007/2008: LVL 375 969) is included in the income statement caption *Cost of sales*; depreciation of LVL 59 513 (2007/2008: LVL 49 562) – in *Selling and marketing costs*; and depreciation of LVL 37 208 (2007/2008: LVL 54 949) – in *Administrative expense* and depreciation of LVL 1 773 (2007/2008: LVL 1 903) – 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 1 554 404 (2007/2008: LVL 1 314 733).

Notes to the consolidated financial statements

6. Property, plant and equipment

	Leasehold improvements	Equipment and machinery	Other assets	Prepay- ments for assets	Total
	EUR	EUR	EUR	EUR	EUR
Year ended 30/06/2008					
Opening net carrying amount	841 825	817 942	284 572	155	1 944 494
Additions	6 245	127 707	21 586	-	155 538
Reclassified	-	-	-	32 972	32 972
Depreciation charge	(97 434)	(497 081)	(91 854)	-	(686 369)
Disposals	-	(857)	(10 716)	-	(11 573)
Result of FX rate changes	-	(825)	(14)	-	(839)
Closing net carrying amount	750 636	446 886	203 574	33 127	1 434 223
Year ended 30/06/2009					
Opening net carrying amount	750 636	446 886	203 574	33 127	1 434 223
Additions	-	101 149	3 939	-	105 088
Reclassified	-	33 127	-	(33 127)	-
Depreciation charge	(97 903)	(328 430)	(73 612)	-	(499 945)
Disposals	-	(753)	-	-	(753)
Write-off on sale of long-term investment	-	(16 184)	(878)	-	(17 062)
Closing net carrying amount	652 733	235 795	133 023	-	1 021 551
As at 30/06/2007					
Cost	1 074 904	2 800 479	587 381	155	4 462 919
Accumulated depreciation	(233 079)	(1 982 537)	(302 809)	-	(2 518 425)
Net carrying amount	841 825	817 942	284 572	155	1 944 494
As at 30/06/2008					
Cost	1 081 149	2 927 329	598 250	33 127	4 639 855
Accumulated depreciation	(330 513)	(2 480 443)	(394 676)	-	(3 205 632)
Net carrying amount	750 636	446 886	203 574	33 127	1 434 223
As at 30/06/2009					
Cost	1 081 149	3 031 926	601 128	-	4 714 203
Accumulated depreciation	(428 416)	(2 796 131)	(468 105)	-	(3 692 652)
Net carrying amount	652 733	235 795	133 023	-	1 021 551

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

Depreciation of EUR 359 802 (2007/2008: EUR 534 957) is included in the income statement caption *Cost of sales*; depreciation of EUR 84 678 (2007/2008: EUR 70 520) – in *Selling and marketing costs*; and depreciation of EUR 52 942 (2007/2008: EUR 78 185) – in *Administrative expense* and depreciation of EUR 2 523 (2007/2008: EUR 2 707) 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 2 211 718 (2007/2008: EUR 1 870 697).

Notes to the consolidated financial statements

7. Intangible assets

	Product prototypes	Trademarks and licenses	Software	Prepayments	Intangible assets under development	Total
	LVL	LVL	LVL	LVL	LVL	LVL
Year ended 30/06/2008						
Opening net carrying amount	387 046	92 214	31 739	20 653	68 683	600 335
Additions	-	58 207	51 159	-	-	109 366
Reclassified	67 508	7 946	-	(7 946)	(67 508)	-
Amortisation charge	(46 311)	(68 055)	(58 525)	-	-	(172 891)
Result of FX rate changes	(6 215)	-	-	-	(1 175)	(7 390)
Closing net carrying amount	402 028	90 312	24 373	12 707	-	529 420
Year ended 30/06/2009						
Opening net carrying amount	402 028	90 312	24 373	12 707	-	529 420
Additions	-	21 534	7 309	-	-	28 843
Reclassified	-	12 707	-	(12 707)	-	-
Amortisation charge	(16 008)	(67 792)	(20 836)	-	-	(104 636)
Disposal	-	-	(334)	-	-	(334)
Write-off on sale of long-term investment	(386 020)	-	-	-	-	(386 020)
Closing net carrying amount	-	56 761	10 512	-	-	67 273
As at 30/06/2007						
Cost	467 373	276 627	271 981	20 653	68 683	1 105 317
Accumulated amortisation	(80 327)	(184 413)	(240 242)	-	-	(504 982)
Net carrying amount	387 046	92 214	31 739	20 653	68 683	600 335
As at 30/06/2008						
Cost	528 666	342 780	323 140	12 707	-	1 207 293
Accumulated amortisation	(126 638)	(252 468)	(298 767)	-	-	(677 873)
Net carrying amount	402 028	90 312	24 373	12 707	-	529 420
As at 30/06/2009						
Cost	-	377 021	330 115	-	-	707 136
Accumulated amortisation	-	(320 260)	(319 603)	-	-	(639 863)
Net carrying amount	-	56 761	10 512	-	-	67 273

Notes to the consolidated financial statements

Amortisation of LVL 36 588 (2007/2008: LVL 86 119) is included in the income statement caption *Cost of sales*; amortisation of LVL 54 189 (2007/2008: LVL 72 913) – in *Selling and marketing costs*; and amortisation of LVL 13 859 (2007/2008: LVL 13 859) – in *Administrative expense*.

The acquisition cost of fully depreciated Intangible assets that are still in use at the end of financial year amounted to LVL 313 900 (2007/2008: LVL 266 530).

7. Intangible assets

	Product prototypes	Trademarks and licenses	Software	Prepay - ments	Intangible assets under development	Total
	EUR	EUR	EUR	EUR	EUR	EUR
Year ended 30/06/2008						
Opening net carrying amount	550 717	131 209	45 161	29 387	97 727	854 201
Additions	-	82 821	72 793	-	-	155 614
Reclassified	96 055	11 306	-	(11 306)	(96 055)	-
Amortisation charge	(65 895)	(96 834)	(83 273)	-	-	(246 002)
Result of FX rate changes	(8 844)	-	-	-	(1 672)	(10 516)
Closing net carrying amount	572 033	128 502	34 681	18 081	-	753 297
Year ended 30/06/2009						
Opening net carrying amount	572 033	128 502	34 681	18 081	-	753 297
Additions	-	30 640	10 399	-	-	41 039
Reclassified	-	18 081	-	(18 081)	-	-
Amortisation charge	(22 776)	(96 459)	(29 648)	-	-	(148 883)
Disposal	-	-	(475)	-	-	(475)
Write-off on sale of long-term investment	(549 257)	-	-	-	-	(549 257)
Closing net carrying amount	-	80 764	14 957	-	-	95 721
As at 30/06/2007						
Cost	665 011	393 604	386 994	29 387	97 728	1 572 724
Accumulated amortisation	(114 294)	(262 396)	(341 834)	-	-	(718 524)
Net carrying amount	550 717	131 208	45 160	29 387	97 728	854 200
As at 30/06/2008						
Cost	752 223	487 732	459 788	18 081	-	1 717 824
Accumulated amortisation	(180 190)	(359 230)	(425 107)	-	-	(964 527)
Net carrying amount	572 033	128 502	34 681	18 081	-	753 297
As at 30/06/2009						
Cost	-	536 453	469 711	-	-	1 006 164
Accumulated amortisation	-	(455 689)	(454 754)	-	-	(910 443)
Net carrying amount	-	80 764	14 957	-	-	95 721

III Notes to the consolidated financial statements

Amortisation of EUR 52 058 (2007/2008: EUR 122 535) is included in the income statement caption *Cost of sales*; amortisation of EUR 77 105 (2007/2008: EUR 103 746) – in *Selling and marketing costs*; and amortisation of EUR 19 720 (2007/2008: EUR 19 720) – in *Administrative expense*.

The acquisition cost of fully depreciated Intangible assets that are still in use at the end of financial year amounted to EUR 446 639 (2007/2008: EUR 379 238).

8. Non-current financial assets

	30/06/2009 LVL	30/06/2008 LVL	30/06/2009 EUR	30/06/2008 EUR
Loan to Latvijas Elektrotehnikas un Elektronikas Rūpniecības Asociācija	44 458	44 458	63 258	63 258
Other loans	590	590	839	839
Allowance for loan to Latvijas Elektrotehnikas un Elektronikas Rūpniecības Asociācija	(44 458)	(44 458)	(63 258)	(63 258)
	590	590	839	839

9. Inventories

	30/06/2009 LVL	30/06/2008 LVL	30/06/2009 EUR	30/06/2008 EUR
Raw materials	540 075	786 448	768 457	1 119 014
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)	(235 027)	(252 750)	(334 413)
	2 552 910	2 895 414	3 632 464	4 119 802

During the reporting year, a decrease in provisions for slow-moving items of LVL 57 393 (EUR 81 663) (2007/2008: LVL 144 280 (EUR 205 292)), were established and included in cost of sales (LVL 34 024, EUR 48 419) and in loss on sale of long-term investment (LVL 23 364, EUR 33 244).

10. Trade 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 21*).

III Notes to the consolidated financial statements

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

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

II. 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	34 274	71 406	48 768	101 602
Prepayments to suppliers	25 814	19 844	36 730	28 235
Other receivables	24 651	3 175	35 075	4 518
	124 742	106 215	177 492	151 131

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

12. 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 FX contracts	-	-	61	-	-	-	87	-

III Notes to the consolidated financial statements

13. Cash and cash equivalents

	30/06/2009	30/06/2008	30/06/2009	30/06/2008
	LVL	LVL	EUR	EUR
Cash at bank	654 691	523 824	931 541	745 334
Short-term bank deposits	1 692 127	1 426 211	2 407 680	2 029 316
	2 346 818	1 950 035	3 339 221	2 774 650

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.

Split of Cash and cash equivalents by currencies expressed in LVL

	30/06/2009	30/06/2009	30/06/2008	30/06/2008
	LVL	%	LVL	%
LVL	380 275	16.20	249 390	12.79
USD	84 655	3.61	90 339	4.63
EUR	1 881 884	80.19	1 331 448	68.28
SEK	4	0.00	278 857	14.30
Cash at bank and deposits	2 346 818	100	1 950 035	100

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. Deferred corporate income tax (asset)/ liability

	Year ended 30/06/2009	Year ended 30/06/2008	Year ended 30/06/2009	Year ended 30/06/2008
	LVL	LVL	EUR	EUR
Deferred tax (asset)/ liability at the beginning of the year	(100 051)	(138 680)	(142 359)	(197 324)
Write-off on sale of long term investment	51 891	-	73 834	-
Change in deferred tax liability during the reporting year (see Note 24)	(2 865)	37 396	(4 077)	53 210
Changes in foreign exchange rates	-	1 233	-	1 755
Deferred tax (asset)/ liability at the end of the year	(51 025)	(100 051)	(72 602)	(142 359)

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

Notes to the consolidated financial statements

15. Deferred corporate income tax (asset)/ liability (contd.)

	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 (to be reversed after more than 12 months)	(4 731)	1 598	(6 732)	2 274
Temporary difference on vacation pay reserve (to be reversed within 12 months)	(17 546)	(18 009)	(24 966)	(25 624)
Temporary difference on allowance for slow-moving and obsolete inventories (to be reversed within 12 months)	(26 645)	(31 749)	(37 912)	(45 175)
Temporary difference on tax losses carried forward	-	(51 891)	-	(73 834)
Temporary difference on provisions for guarantees	(2 103)	-	(2 992)	-
Deferred tax (asset)/ liability, net	(51 025)	(100 051)	(72 602)	(142 359)

No offsetting of deferred tax liabilities and assets arising in different jurisdictions has been performed.

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

The Group has accumulated tax losses in the amount of LVL 1 374 569 (EUR 1 955 835) (2007/2008: LVL 633 102 (EUR 858 137)). These tax losses 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 Group has not recognised deferred tax asset related to these losses.

16. Payables

	30/06/2009 LVL	30/06/2008 LVL	30/06/2009 EUR	30/06/2008 EUR
Trade payables	365 925	733 702	520 664	1 043 964
Advances from customers	148 606	70 836	211 447	100 791
Vacation pay reserve	116 971	223 323	166 435	317 760
Taxes and social insurance contributions	54 385	114 585	77 383	163 040
Other payables	269 722	236 931	383 780	337 122
	955 609	1 379 377	1 359 709	1 962 677

During the reporting period decrease in unused vacation pay included in Income Statement amounted to LVL 106 352 (EUR 151 325) (2007/2008: increase LVL 26 936 (EUR 38 326)).

Notes to the consolidated financial statements

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	21.82	106 701	14.54
USD	98 894	27.03	226 003	30.80
EUR	186 779	51.04	374 320	51.02
GBP	410	0.11	1 753	0.24
SEK	-	-	24 925	3.40
Trade payables	365 925	100	733 702	100

17. 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 Group 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 LVL3 514 020 (EUR 5 000 000). The bank overdraft has been secured by a commercial pledge of all the Group's assets.

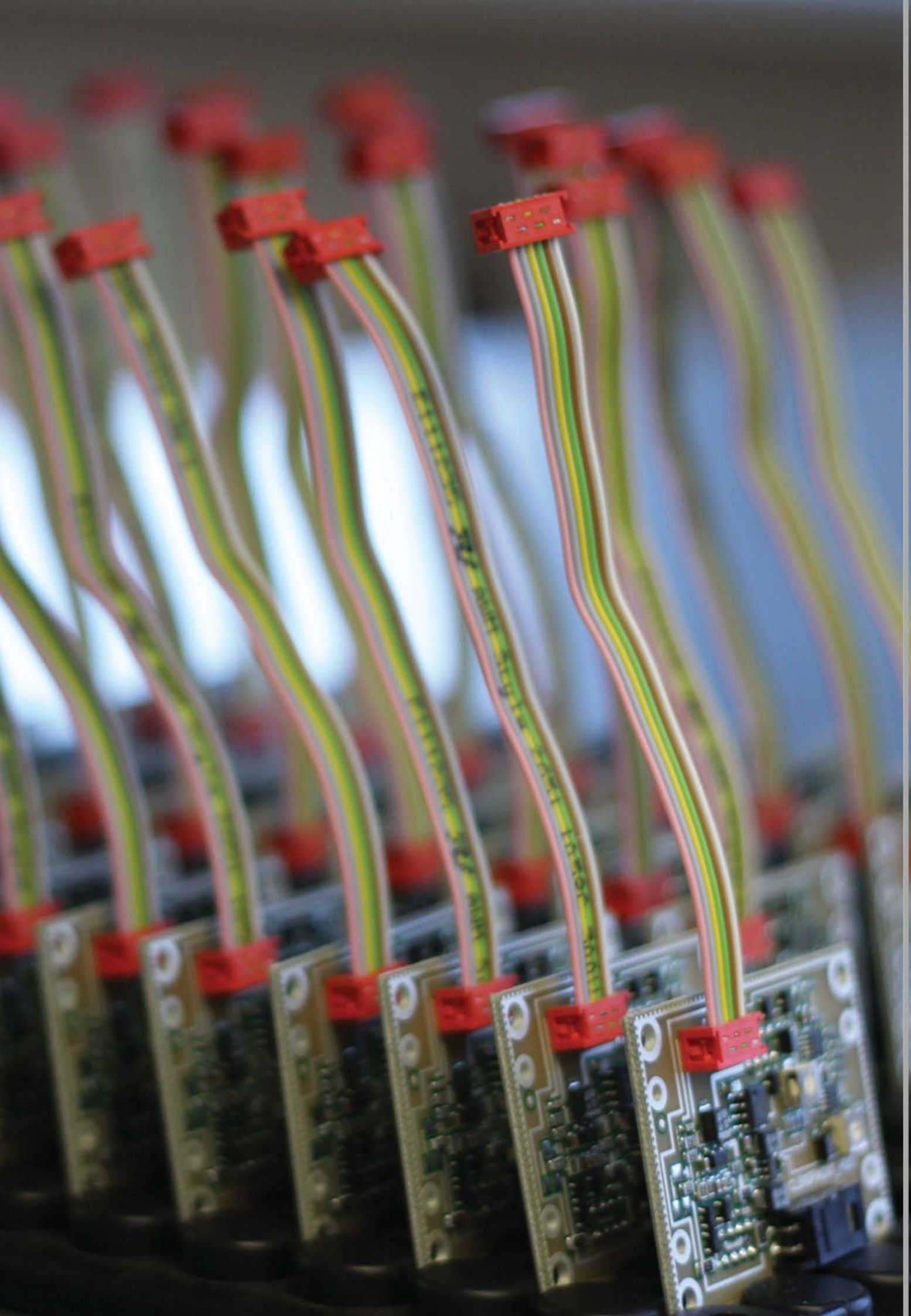
18. Segment information

a) The Group's operations may be divided into two major structural units by product type –CFM (PDH) and CFQ (SDH) product lines. These structural units are used as a basis for providing information about the primary segments of the Group, 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 consolidated financial statements

18. Segment information

	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	1 349 690	3 223 325	4 880 449	439 315	658 257	5 048 432	6 888 396
Undivided assets							2 604 422	2 393 824
Total assets							7 652 854	9 282 220
Segment liabilities	214 237	256 586	520 346	824 736	116 625	180 124	851 208	1 261 446
Undivided liabilities							150 814	123 090
Total liabilities							1 002 022	1 384 536
Income	2 246 456	1 444 963	5 255 622	7 553 502	1 323 550	1 651 663	8 825 628	10 650 128
Segment results	450 758	(405 397)	674 812	1 457 705	280 254	315 812	1 405 824	1 368 120
Undivided expense							(2 368 647)	(2 078 245)
Loss from operations							(962 823)	(710 125)
Other income							56 542	334 203
Financial income (expense), net							98 232	(59 174)
Loss on sale of long-term investment							(436 562)	-
Loss before taxes							(1 244 611)	(435 096)
Corporate income tax							2 865	(37 396)
Loss for the year							(1 241 746)	(472 492)
Other information								
Additions of property plant and equipment and intangible assets	23 955	1 302	65 683	94 206	-	210	89 638	95 718
Undivided additions of property plant and equipment and intangible assets							49 049	122 960
Total additions of property plant and equipment and intangible assets							138 687	218 678
Depreciation and amortization	49 817	101 864	238 348	352 045	1 292	3 213	289 457	457 122
Undivided depreciation and amortization							166 543	198 152
Total depreciation and amortization							456 000	655 274

III Notes to the consolidated financial statements

18. Segment information (contd.)

	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	1 920 436	4 586 378	6 944 253	625 088	936 616	7 183 270	9 801 305
Undivided assets							3 705 760	3 406 104
Total assets							10 889 030	13 207 409
Segment liabilities	304 832	365 089	740 386	1 173 494	165 942	256 293	1 211 160	1 794 876
Undivided liabilities							214 589	175 142
Total liabilities							1 425 749	1 970 018
Income	3 196 419	2 055 997	7 478 076	10 747 665	1 883 242	2 350 105	12 557 737	15 153 767
Segment results	641 371	(576 828)	960 171	2 074 127	398 765	449 360	2 000 307	1 946 659
Undivided expense							(3 370 281)	(2 957 076)
Loss from operations							(1 369 974)	(1 010 417)
Other income							80 452	475 528
Financial income (expense), net							139 772	(84 197)
Loss on sale of long-term investment							(621 172)	-
Loss before taxes							(1 770 922)	(619 086)
Corporate income tax							4 077	(53 210)
Loss for the year							(1 766 845)	(672 296)
Other information								
Additions of property plant and equipment and intangible assets	34 085	1 853	93 458	134 043	-	299	127 543	136 195
Undivided additions of property plant and equipment and intangible assets							69 790	174 957
Total additions of property plant and equipment and intangible assets							197 333	311 152
Depreciation and amortization	70 883	144 939	339 139	500 915	1 838	4 572	411 860	650 426
Undivided depreciation and amortization							236 969	281 945
Total depreciation and amortization							648 829	932 371

Notes to the consolidated financial statements

18. Segment information (contd.)

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

	Net sales		Assets	
	2008/9 LVL	2007/8 LVL	30/06/2009 LVL	30/06/2008 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	2 604 506	2 625 372	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
	8 825 628	10 650 128	1 746 412	2 521 670
Unallocated assets	-	-	5 906 442	6 760 550
	8 825 628	10 650 128	7 652 854	9 282 220

	Net sales		Assets	
	2008/9 EUR	2007/8 EUR	30/06/2009 EUR	30/06/2008 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	3 705 877	3 735 567	929 017	686 119
CIS	2 432 828	3 757 387	139 719	749 370
Middle East	944 933	894 108	63 783	1 151 592
	12 557 737	15 153 767	2 484 920	3 588 014
Unallocated assets	-	-	8 404 110	9 619 395
	12 557 737	15 153 767	10 889 030	13 207 409

19. 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	5 543 991	6 385 563	7 888 388	9 085 838
Salary expenses (including accruals for vacation pay)	962 478	1 362 223	1 369 483	1 938 269
Depreciation and amortization (see Note 6-7)	289 456	462 088	411 859	657 492
Social insurance (including accruals for vacation pay)	238 063	360 879	338 733	513 485
Rent of premises	90 232	108 273	128 388	154 059
Inventory impairment	(33 439)	144 280	(47 579)	205 292

III Notes to the consolidated financial statements

19. Cost of sales (contd.)

	Year ended 30/06/2009 LVL	Year ended 30/06/2008 LVL	Year ended 30/06/2009 EUR	Year ended 30/06/2008 EUR
Public utilities costs	93 945	98 076	133 672	139 550
Low value inventory	2 149	9 228	3 057	13 130
Car expenses	24 428	23 738	34 758	33 775
Other production costs	96 253	214 736	136 956	305 541
	7 307 556	9 169 084	10 397 715	13 046 431

Research and development related expenses of LVL 1 178 730 (EUR 1 677 182) (2007/2008: LVL 1 400 489 (EUR 1 992 716)) are included in the income statement caption cost of sales.

20. 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	633 896	483 941	901 953	688 586
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
Delivery costs	116 467	105 025	165 718	149 437
Depreciation and amortisation (<i>see Note 6-7</i>)	113 702	122 475	161 783	174 266
Social insurance contributions (incl. vacation pay reserve)	96 468	86 824	137 262	123 539
Other selling and distribution costs	95 001	77 662	135 174	110 504
	1 613 713	1 450 140	2 296 107	2 063 363

21. 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)	213 194	270 397	303 348	384 740
Depreciation and amortisation (<i>see Note 6-7</i>)	51 067	68 808	72 662	97 905
IT services	35 354	43 139	50 304	61 381
Social insurance contributions (incl. vacation pay reserve)	48 889	66 090	69 563	94 038
Representation expense	14 601	26 218	20 775	37 305
Bank charges	21 473	31 323	30 553	44 569
Sponsorship	4 050	6 000	5 763	8 537
Office maintenance costs	4 082	10 326	5 808	14 692
Business trips	1 181	12 817	1 680	18 237
Communications expense	5 958	7 416	8 477	10 552

III Notes to the consolidated financial statements

21. Administrative expense (contd.)

	Year ended 30/06/2009 LVL	Year ended 30/06/2008 LVL	Year ended 30/06/2009 EUR	Year ended 30/06/2008 EUR
Allowance for bad and doubtful receivables	318 995	(33 976)	453 889	(48 342)
Other administration expense	148 338	232 471	211 067	330 775
	867 182	741 029	1 233 889	1 054 389

22. 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	24 479	8 270	34 830
	56 542	334 202	80 452	475 526

The Group 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 17).

23. Financial 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
Interest expense	4 170	24 070	5 933	34 249
Currency exchange loss, net	-	66 227	-	94 233
	4 170	90 297	5 933	128 482

24. 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 asset (see Note 15)	(2 865)	37 396	(4 077)	53 210
Corporate income tax charge for the current reporting year	-	-	-	-
	(2 865)	37 396	(4 077)	53 210

III Notes to the consolidated financial statements

24. Corporate income tax (contd.)

Corporate income tax differs from the theoretically calculated tax amount that would arise applying the statutory 15% rate to the Group'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	(1 244 611)	(435 096)	(1 770 921)	(619 086)
Tax rate	15%	15%	15%	15%
Theoretically calculated tax	(186 692)	(65 264)	(265 638)	(92 863)
Expenses not deductible for tax purposes	53 895	(2 934)	76 686	(4 175)
Effect of different tax rates	5 807	17 864	8 262	25 419
Other	12 905	(7 236)	18 362	(10 295)
Unrecognized deferred tax asset	111 220	94 966	158 252	135 124
Tax charge	(2 865)	37 396	(4 077)	53 210

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

25. Earnings per share

Basic 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
(Loss)/Profit for the reporting year (a)	(1 241 746)	(472 492)	(1 766 845)	(672 296)
Ordinary shares as at 1 July (b)	2 970 180	2 970 180	2 970 180	2 970 180
Basic earnings per share for the reporting year (a/b), LVL	-0.42	-0.16	-0.59	-0.23

26. Related party transactions

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

III Notes to the consolidated financial statements

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

27. 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	1 580 051	2 030 906	2 248 210	2 889 718
Social insurance contributions	383 420	513 793	545 558	731 062
Contributions to pension funds*	16 399	88 975	23 334	126 600
Total	1 979 870	2 633 674	2 817 102	3 747 380

* Contributions to pension funds are made on behalf of the employees of *SAF Sweden Tehnika AB*.

28. Average number of employees of the Group

	Year ended 30/06/2009	Year ended 30/06/2008
Average number of personnel employed by the group during the reporting year:	152	172

Till November 2008 the average number of employees includes 13 employees hired for subsidiary *SAF Tehnika Sweden AB*.

29. Operating lease

Lease agreement No. S-116/02, dated 10 December 2002, was signed with Dambis A/S. According to the agreement, the lessor commissioned and *SAF Tehnika AS* accepted the premises of the total area of 5 851 m² until 16.09.2009. Since 17.09.2009 total leased area was decreased to 5 672 m². The premises are located at 24a, Ganību dambis, Riga, Latvia. The agreement expires on 1 March 2016.

According to the signed agreement, the Group 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

30. Contingent liabilities

The Group 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.

III Notes to the consolidated financial statements

31. Going concern

The Group closed the reporting year with positive operating cash flow of LVL 421 thousand (EUR 599 thousand), (2007/2008: LVL 3 312 thousand (EUR 4 712 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 1 242 thousand (EUR 1 767 thousand).

The 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 its functionality and competitive pricing.

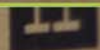
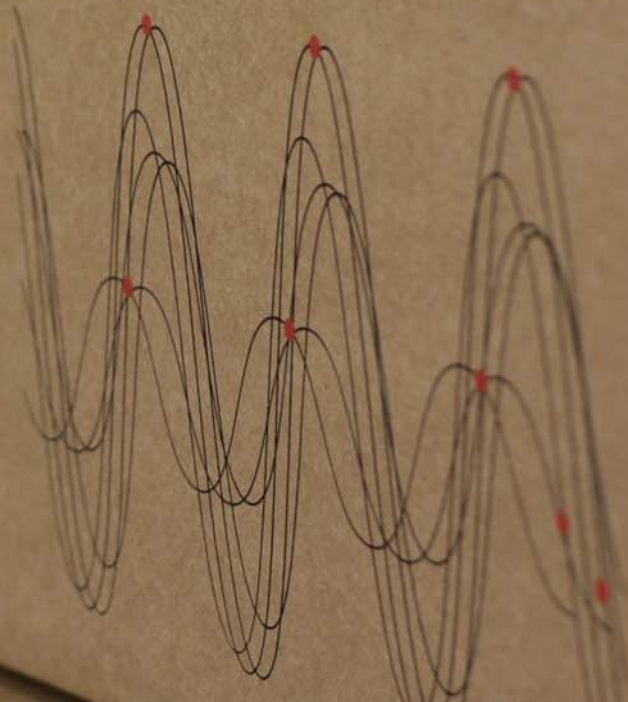
There are no outstanding borrowings. Currently the Group is operating utilising its own resources.

32. 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 Group as at 30 June 2009 or its financial performance and cash flows for the year then ended.



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