

SAF Tehnika A/S
Consolidated Interim Report
for 3 month of financial year 2005/6

TABLE OF CONTENTS

KEY DATA	3
Management Report	4
Consolidated Balance Sheet	5
Consolidated Income Statement for 3 month of the financial year 2005/6	7
Consolidated Cash Flow Statement	8
Statement of Changes in Equity	9
Notes for Consolidated Interim Report	11
Note 1 Customer Receivables	12
Note 2 Prepaid expenses	12
Note 3 Inventories	12
Note 4 Accounts payable	13
Note 5 Tax liabilities	13
Note 6 Provisions	13
Note 7 Share capital	13

KEY DATA

SAF Tehnika is a telecommunication company engaged in development, production and distribution of digital microwave radio equipment. The functionality of SAF products includes digital voice and data transmission. Company's portfolio consists of approximately 130 products and comprises solutions for mobile network operators, data service providers, state and private companies. Since its establishment in 1999, SAF Tehnika has succeeded in becoming an international player and has been able to compete with such multinational corporations as Ericsson, Nokia, Siemens and NEC. Through the acquisition of Viking Microwave on June 1, 2004, SAF Tehnika has considerably improved its R&D capacity. SAF Tehnika employs 133 people

AS SAF Tehnika is a public joint stock company incorporated under the laws of the Republic of Latvia. The shares of AS SAF Tehnika are quoted on Riga Stock Exchange.

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Aleksis Orlovs

Member of the Management Board

October 25, 2005

Management Report

The Group's consolidated non-audited net sales for the first quarter of financial year 2005/6 were 2 040 768 LVL (2 903 751 EUR), constituting nearly 80% of revenues in the same quarter of the previous financial year. This occurred primarily as a result of lower demand from a few markets (Russia, China and Poland) for several end users. However, such revenue fluctuations are within normal bounds.

As previously mentioned the Group has won the status of approved supplier with one of the leading Russian nationwide mobile operators, VimpelCom ("Beeline"). Due to the extended approval process, the Group experienced a lower flow of orders and less was delivered to this account. China remains a quiet market for the telecoms equipment industry for the present. Due to the consolidation and restructuring of several operators on the Polish market, demand for the Group's products has presently decreased.

The Group is entering several new markets in Asia and Latin America with many others performing well or showing signs of growth. For example, the Group has received its first significant order from a subsidiary of leading Indian operator BNSL, for an estimated value of EUR1m. The Group was successful in obtaining an additional contract with Colombia operator ETB with an estimated sales volume of EUR2m to be fulfilled during 2005/2006.

The consolidated net profit of the Group for the first quarter of financial year 2005/6 was 215 167 LVL (306 155 EUR). The net margin impact compared with the previous year's corresponding quarter mostly relates to decreased turnover (less beneficial economies of scale). The key determinant to better profitability measures rests solely on increased turnover due to absolute fixed cost levels.

Guidance:

While not specifying absolute amounts, management is confident of better results in FY 2005/06 than in FY 2004/5 as a result of the revenue diversification success following the unexpected slowdown encountered in the Chinese market.

On September 30, 2005 the Group employed 133 people.

Consolidated balance sheet

ASSETS	Note	30.09.2005	30.09.2004	30.09.2005	30.09.2004
CURRENT ASSETS		LVL	LVL	EUR	EUR
Cash and bank		336 395	170 217	478 647	253 677
Customer receivables	1				
Accounts receivable		1 883 575	3 253 980	2 680 086	4 849 449
Allowance for uncollectible receivables		-267 523	-61 811	-380 651	-92 118
Total		1 616 052	3 192 169	2 299 435	4 757 331
Other receivables					
Other current receivables		7 716	21 726	10 979	32 379
Short-term loans given		0	65 520	0	97 645
Derivative financial instruments		0	4 446	0	6 626
Total		7 716	91 692	10 979	136 650
Accrued income		0	1 643	0	2 449
Prepaid expenses	2				
Prepaid taxes		415 002	126 526	590 495	188 563
Other prepaid expenses		103 133	24 806	146 745	36 969
Total		518 135	151 332	737 240	225 532
Inventories	3				
Raw materials		1 676 559	1 888 681	2 385 529	2 814 726
Work-in-progress		2 008 385	1 596 838	2 857 674	2 379 788
Finished goods		484 424	305 446	689 273	455 210
Merchandise purchased for resale				0	0
Prepayments to suppliers		4 337	62 205	6 171	92 705
Total		4 173 705	3 853 170	5 938 647	5 742 429
TOTAL CURRENT ASSETS		6 652 003	7 460 223	9 464 948	11 118 068
NON-CURRENT ASSETS					
Long-term financial assets					
Shares in subsidiaries		0	31 654	0	47 174
Shares in associated companies				0	0
Long-term receivables from Group companies				0	0
Other shares and bonds				0	0
Long-term accounts receivable				0	0
Other long-term receivables		15 579		22 167	0
Total		15 579	31 654	22 167	47 174
NON-CURRENT physical assets					
Rented plant and equipment		0	0	0	0
Plant and equipment		1 449 707	1 132 229	2 062 747	1 687 376
Other equipment and fixtures		630 119	530 515	896 579	790 633
Accumulated depreciation		-1 054 498	-577 055	-1 500 415	-859 993
Unfinished renovation works				0	0
Prepayments for noncurrent physical assets		409	3 475	581	5 179
Total		1 025 737	1 089 164	1 459 492	1 623 195
Intangible assets					
Formation and organization costs				0	0
Development costs				0	0
Purchased licenses, trademarks etc.		152 686	148 133	217 253	220 765
Goodwill		528 674	520 920	752 235	776 334
Prepayments for intangible assets		10 290	4 388	14 641	6 539
Total		691 650	673 441	984 129	1 003 638
TOTAL NON-CURRENT ASSETS		1 732 966	1 794 259	2 465 788	2 674 007
TOTAL ASSETS		8 384 969	9 254 482	11 930 736	13 792 075

Consolidated balance sheet

	Note	30.09.2005	30.09.2004	30.09.2005	30.09.2004
LIABILITIES AND OWNERS' EQUITY		LVL	LVL	EUR	EUR
CURRENT LIABILITIES					
Debt obligations					
Short-term loans from financial institutons		6 629	3 394	9 432	5 058
Derivative financial instruments		11 039	468	15 707	698
Total		17 668	3 862	25 139	5 756
Customer prepayments for goods and services		14 108	13 792	20 074	20 554
Accounts payable	4	221 892	613 048	315 724	913 633
Tax liabilities	5	71 153	653 436	101 242	973 824
Accrued expenses					
Salary-related accrued expenses		171 293	186 753	243 728	278 321
Other accrued expenses		1 875		2 668	0
Total		173 168	186 753	246 396	278 321
Provisions	6				
Deferred income tax liability		15 082	166 320	21 460	247 869
Other provisions		173 116	73 676	246 321	109 800
Total		188 198	239 996	267 781	357 669
TOTAL CURRENT LIABILITIES		686 187	1 710 887	976 356	2 549 757
OWNERS' EQUITY					
Share capital	7	2 970 180	990 060	4 226 185	1 475 499
Paid in capital over par		2 004 204	2 005 199	2 851 725	2 988 374
Reserves		1 023 402	10 311	1 456 170	15 367
Retained earnings		1 496 625	3 920 569	2 129 506	5 842 875
Net profit for the financial year		215 167	616 333	306 155	918 529
Currency translation reserve		-10 796	1 123	-15 361	1 674
TOTAL OWNERS' EQUITY		7 698 782	7 543 595	10 954 380	11 242 318
TOTAL LIABILITIES AND OWNERS' EQUITY		8 384 969	9 254 482	11 930 736	13 792 075

Consolidated Income Statement for 3 month of the financial year 2005/6

	30.09.2005	30.09.2004	30.09.2005	30.09.2004
	LVL	LVL	EUR	EUR
Net sales	2 040 210	2 594 784	2 902 957	3 867 040
Other operating income	558	261	794	389
Total income	2 040 768	2 595 045	2 903 751	3 867 429
Direct cost of goods sold or services rendered	-1 010 218	-1 114 777	-1 437 411	-1 661 367
Marketing, advertising and public relations expenses	-78 933	-62 488	-112 312	-93 127
Bad receivables	18 561	-42 318	26 410	-63 067
Operating expenses	-188 004	-147 422	-267 506	-219 705
Salaries, bonuses and social expenses	-337 671	-342 186	-480 463	-509 964
Depreciation expense	-157 552	-128 586	-224 176	-191 633
Other expenses	-1 657	-3 723	-2 356	-5 548
Operating expenses	-1 755 474	-1 841 500	-2 497 814	-2 744 411
EBIT	285 294	753 545	405 937	1 123 018
Financial income (except ForEx rate difference)	253	1 275	360	1 900
Financial costs (except ForEx rate difference)	-4 384	-4 296	-6 238	-6 402
Foreign exchange +gain/(loss)	-22 384	2 707	-31 850	4 034
Financial items	-26 515	-314	-37 728	-468
EBT	258 779	753 231	368 209	1 122 550
Provision for taxes	-43 612	-136 898	-62 054	-204 021
Net profit	215 167	616 333	306 155	918 529

*Earnings per share

EPS 30.09.2005. = 0.07 LVL

EPS 30.09.2004. = 0.21 LVL (adjusted for bonus issue)

Consolidated cash flow statement for 3 months of the financial year 2005/06

	30.09.2005	30.09.2004	30.09.2005	30.09.2004
	LVL	LVL	EUR	EUR
CASH GENERATED FROM OPERATIONS (of which)	377 290	-306 688	536 835	-457 061
Cash received from customers	1 883 679	2 120 206	2 680 233	3 159 770
Cash paid to suppliers and employees	-1 300 929	-2 426 894	-1 851 055	-3 616 833
Paid income tax	-205 460		-292 343	0
NET CASH USED IN INVESTING ACTIVITIES (of which)	-143 774	-370 180	-204 572	-551 684
Business acquisition		-134 497	0	-200 443
Cash paid for purchasing non-current physical assets	-129 000	-173 181	-183 550	-258 094
Cash received from the sale of non-current physical assets	558		794	0
Loans given	-15 579	-65 520	-22 167	-97 645
Interest received	247	3 018	351	4 498
NET CASH USED IN FINANCING ACTIVITIES (of which)	-2 278	-5 172	-3 241	-7 708
Short-term loans received		-875	0	-1 304
Paid interest	-2 278	-4 297	-3 241	-6 404
Effects of exchange rate changes	-33		-47	
TOTAL CASH FLOW:	231 205	-682 040	328 975	-1 016 453
Cash and cash equivalents as at the beginning of period	105 190	852 257	149 672	1 270 130
Cash and cash equivalents as at the end of period	336 395	170 217	478 647	253 677
NET INCREASE / DECREASE IN CASH AND CASH EQUIVALENTS	231 205	-682 040	328 975	-1 016 453

Statement of changes in consolidated equity for the 3 months period ended September 30 2005

	Share capital	Share premium	Other reserves	Currency translation reserves	Retained earnings	Total
	Ls	Ls	Ls	Ls	Ls	Ls
As at 30 June 2004	990 060	2 005 199	10 311	-2 272	3 920 569	6 923 867
Issue of share capital	1 980 120	-	-	-	-1 980 120	-
Costs of issue of share capital	-	-995	-	-	-	-995
Dividend relating to 2003/2004	-	-	-	-	-990 060	-990 060
Allocation of profit	-	-	1 013 091	-	-1 013 091	-
Issue of share capital	-	-	-	-	-	-
Currency translation difference	-	-	-	1 182	-	1 182
Profit for the year	-	-	-	-	-	1 559 327
As at 30 June 2005	2 970 180	2 004 204	1 023 402	-1 090	1 496 625	7 493 321
Issue of share capital	-	-	-	-	-	-
Costs of issue of share capital	-	-	-	-	-	-
Dividend relating to 2004/2005	-	-	-	-	-	-
Allocation of profit	-	-	-	-	-	-
Currency translation difference	-	-	-	-9 706	-	-9 706
Profit for the year	-	-	-	-	215 167	215 167
As at 30 September 2005	2 970 180	2 004 204	1 023 402	-10 796	1 711 792	7 698 782

Statement of changes in consolidated equity for the 3 months period ended September 30 2005

	Share capital	Share premium	Other rezerves	Currency translation rezerves	Retained earnings	Total
	EUR	EUR	EUR	EUR	EUR	EUR
As at 30 June 2004	1 408 728	2 853 141	14 671	-3 233	5 578 467	9 851 774
Issue of share capital	2 817 457	-	-	-	-2 817 457	-
Costs of issue of share capital	-	-1 416	-	-	-	-1 416
Dividend relating to 2003/2004	-	-	-	-	-1 408 728	-1 408 728
Allocation of profit	-	-	1 441 499	-	-1 441 499	-
Issue of share capital	-	-	-	-	-	-
Currency translation difference	-	-	-	1 682	-	1 682
Profit for the year	-	-	-	-	2 218 722	2 218 722
As at 30 June 2005	4 226 185	2 851 725	1 456 170	-1 551	2 129 505	10 662 034
Issue of share capital	-	-	-	-	-	-
Costs of issue of share capital	-	-	-	-	-	-
Dividend relating to 2004/2005	-	-	-	-	-	-
Allocation of profit	-	-	-	-	-	-
Currency translation difference	-	-	-	-13 810	-	-13 810
Profit for the year	-	-	-	-	306 155	306 155
As at 30 September 2005	4 226 185	2 851 725	1 456 170	-15 361	2 435 660	10 954 379

Notes for consolidated interim report

Accounting methods and principles used in preparing the consolidated interim report.

This consolidated Interim Report of SAF Tehnika Group has been prepared in accordance with the source documents and present fairly the financial position of the Group as of 30 September 2005 and the results of its operations and cash flows for the 3 month period ended 30 September 2005

This consolidated Interim Report has been prepared in accordance with International Financial Reporting Standards (IFRS) on a going concern basis. Appropriate accounting policies have been applied on a consistent basis. The Interim Report has been prepared based on the same accounting principles applied in the Consolidated Financial Statements for the year ended on June 30, 2005.

This Interim Report has not been audited or otherwise checked by auditors.

The Interim Report has been prepared in Latvian Lats and Euro.

Currency Exchange rate for LVL/EUR 0.6710, as on 30.09.2004

Currency Exchange rate for LVL/EUR 0.7028, as on 30.09.2005

Note 1 Customer receivables

	30.09.2005	30.09.2004
	Ls	Ls
Accounts receivables	1 883 575	3 253 980
Provisions for bad and doubtful accounts receivable	-267 523	-61 811
	1 616 052	3 192 169

Accounts receivables, in comparison with the 3 month period of the previous financial year 2004/5, decreased due to the discounting of Letters of Credit in order to optimize working capital and lower turnover. Provisions for bad and doubtful accounts receivable, in comparison with the 3 month period of the previous financial year 2004/5, increased due to sales portfolio diversification and new market entry.

Note 2 Prepaid expenses

	30.09.2005	30.09.2004
	Ls	Ls
Prepaid taxes	415 002	126 526
Prepaid participation at exhibition	25 513	-
Prepaid insurance fees	12 689	5 506
Prepaid software maintenance year fees	28 664	11 564
Other prepaid expenses	36 267	7 736
	518 135	151 332

Prepaid expenses, in comparison with the 3 month period of the previous financial year 2004/5, increased due to the paid in advance Income tax in Financial Year 2004-2005.

Note 3 Inventories

	30.09.2005.	30.09.2004.
	Ls	Ls
Raw materials	1 676 559	1 888 681
Work-in- progress	2 008 385	1 596 838
Finished goods	484 424	305 446
Prepayments to suppliers	4 337	62 205
	4 173 705	3 853 170

Inventories, in comparison with the 3 month period of the previous financial year 2004-2005, increased as the group created additional reserves for a wider product assortment as a result of the ongoing revenue diversification process.

Note 4 Accounts payable

	30.09.2005.	30.09.2004.
	Ls	Ls
Accounts payable	221 892	613 048

Supplier payables, in comparison with the 3 month period of the previous financial year 2004-2005, decreased due to lower turnover.

Note 5 Tax liabilities

	30.09.2005.	30.09.2004.
	Ls	Ls
Previous financial year income tax liabilities	-	588 887
Personal income tax	26 679	25 981
Social tax	44 430	31 900
Insolvency risk duty	44	37
VAT (SAF Tehnika Sweden)	-	6 931
	71 153	653 436

Tax liabilities, in comparison with the 3 month period of the previous financial year 2004-2005, decreased due to the paid in advance Income tax in Financial Year 2004-2005.

Note 6 Provisions

	30.09.2005.	30.09.2004.
	Ls	Ls
Provisions for current income tax	-	136 898
Deferred tax	15 082	29 422
Provisions for slow moving inventories	173 116	73 676
	188 198	239 996

Note 7 Share capital

The total number of authorized, issued and fully paid ordinary shares with voting rights is 2 970 180 shares following the 2 for 1 bonus issue in December 2004 (30.09.2004: 990 060 shares). The nominal value of one share is Ls 1.

SAF Tehnika FY06 3 month revenue breakdown comparative charts

