

SAF Tehnika
Interim Report
for 6 months of financial year 2011/12
(July 1, 2011 – December 31, 2011)

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KEY DATA

SAF Tehnika is a telecommunications Equipment Company engaged in the development, production and distribution of digital microwave radio equipment. SAF Tehnika products provide wireless backhaul solutions for digital voice and data transmission covering wide frequency range and providing equipment for both licensed and un-licensed frequencies.

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

The complete product range offers solutions to mobile network operators, data service providers, and government and private companies. Since its establishment in 1999, SAF Tehnika competes with such multinational corporations as Ericsson, Huawei, Alcatel and NEC.

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

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Beginning of financial year:	01.07.2011
End of financial year:	30.06.2012
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Share and Shareholdings

SAF Tehnika shareholders (over 5%) as of 02.11.2011

Name	Ownership interest (%)
Didzis Liepkalns	17.05%
Andrejs Grišans	10.03%
Normunds Bergs	9.74%
SEB Luxemburg clients	9.68%
Juris Zieme	8.71%
Vents Lācars	6.08%

SAF Tehnika share price and OMX Riga index development for the reporting period

SAF Tehnika (SAF1R)

Period: July 1, 2011 – December 31, 2011

Currency: LVL

Marketplace: NASDAQ OMX Riga



Information on management and supervisory board members

SAF Tehnika Management Board:

Name	Position	Ownership interest (%)
Normunds Bergs	Chairman	owns 9.74% of shares
Didzis Liepkalns	Vice Chairman	owns 17.05% of shares
Jānis Ennitis	Member	owns 0.73% of shares
Aira Loite	Member	owns 0.24% of shares

SAF Tehnika Supervisory Board:

Name	Position	Ownership interest (%)
Vents Lacars	Chairman	owns 6.08% of shares
Juris Ziema	Vice-Chairman	owns 8.71% of shares
Andrejs Grisans	Member	owns 10.03% of shares
Ivars Senbergs	Member	owns 4.79 % of shares
Juris Imaks	Member till 11/11/2011	-

Information on professional and educational background of the management board members

Normunds Bergs

Normunds Bergs, born in 1963, is Chairman of the Board and Chief Executive Officer of SAF Tehnika AS. Mr. 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, Mr. Bergs became Chief Executive Officer of SAF Tehnika AS and a member of the Management Board of AS Microlink. From 1992 to 1999, Mr. Bergs worked for World Trade Centre Riga, where he held the position of General Director and became a Member of the Board of Directors in 1998. Mr. Bergs graduated from the Riga Technical University with a degree in radio engineering in 1986.

Didzis Liepkalns

Didzis Liepkalns, born in 1962, is Vice-Chairman of the Board and Technical Director of SAF Tehnika. D. Liepkalns founded a private enterprise SAF in 1995 and co-founded the company SAF Tehnika 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 with a degree in radio engineering in 1985.

Jānis Ennitis

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.

Aira Loite

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

Information on professional and educational background of the supervisory council members

Vents Lācars,

born in 1968, is Chairman of the Supervisory Council and Vice-President Business Development of SAF Tehnika. Before co-founding the Company, from 1992 to 1999, he worked in SIA Fortech, where throughout his career he held positions of programmer, leading programmer, and project manager in the networking department and networking department manager. 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.

Juris Zieme,

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. Zieme worked as an engineer at the Institute of Electronic Engineering and Computer Sciences. J. Zieme has graduated Riga Technical University with a degree in radio engineering in 1987.

Andrejs Grišāns

born in 1957, is Member of the Supervisory Council and Production Department Manager. A. Grisans is one of the co-founders of SAF Tehnika. 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 constructing bureau Orbita from 1980 to 1984. A. Grisans has graduated Riga Technical University with a degree in radio engineering in 1980.

Ivars Šenbergs,

born in 1962, Member of the Supervisory Council, also Chairman of the Board of SIA Juridiskais Audits, SIA Namipasumu parvalde, SIA Synergy Consulting, SIA IŠMU, SIA Dzirnavu centrs and Member of the Supervisory Council of AS MFS bookkeeping. From 1999 until 2000 he worked as Finance and Administrative Director at SIA Fortech. I. Senbergs has graduated Faculty of Law, University of Latvia.

Juris Imaks,

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

Statement of Board's Responsibilities

The Board of SAF Tehnika Jsc (hereinafter – the Company) is responsible for preparing the interim financial statements of the Company and its subsidiary. Interim financial statements of the Company have not been audited or otherwise checked by auditors.

The interim financial statements are prepared in accordance with the source documents and present fairly the financial position of the Company as at December 31, 2011 and the results of its operations and cash flows for the 6 month period ended December 31, 2011.

The interim 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. The interim financial statements have been prepared based on the same accounting principles applied in the Financial Statements for the year ended on June 30, 2011. Prudent and reasonable judgments and estimates have been made by the management in the preparation of the interim financial statements.

The Board of SAF Tehnika is responsible for the maintenance of proper accounting records, the safeguarding of the Company's assets and the prevention and detection of fraud and other irregularities in the Company. The Board is also responsible for the compliance with the laws of the countries in which the Company operates.

The interim financial statements have been prepared in Latvian Lats and Euro.

Currency Exchange rate for LVL/EUR is 0.702804



Aira Loite

CFO, Member of the Management Board

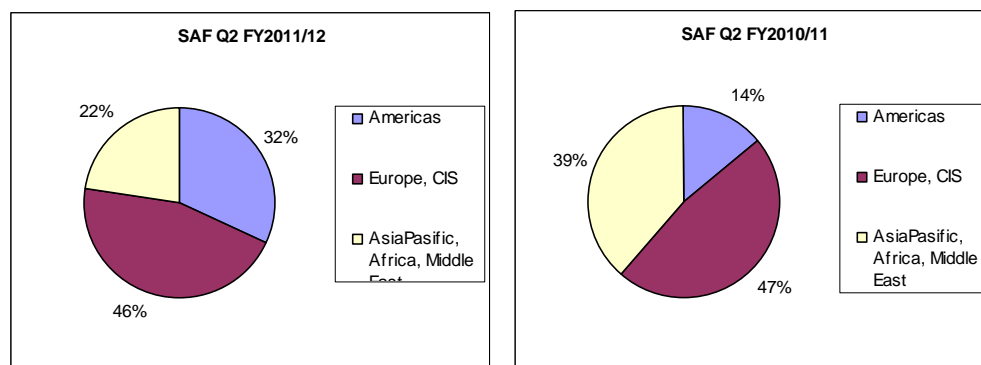
Management Report

The Company's non-audited net sales for the second quarter of financial year 2011/12 were 2.44 million LVL (3.47 million EUR), showing a 18% decrease comparing to the respective reporting quarter of the previous financial year. This directly reflects the scarcity of financing options for telecommunications development projects globally as well as the trend of overall price decrease due to the increasing competition in the market.

During the reporting quarter, the Company's products were sold in 55 countries. The largest part (46%) of the Company's revenue was generated from sales in Europe and CIS region. Comparing to the respective reporting quarter in previous financial year, the turnover in this region has dropped by 20% or 0.28 million LVL (0.40 million EUR), although at the same time it has almost doubled if compared to the previous reporting quarter of the current financial year. Absence of financing for investment projects, liquidity problems for current and potential customers, political instability in the region have been the main factors influencing the Company's results in Asia, Middle East and African regions where the revenue faced a 53% drop compared to the same reporting quarter of 2010/11 financial year and constituted 22% from the total revenues generated by the company.

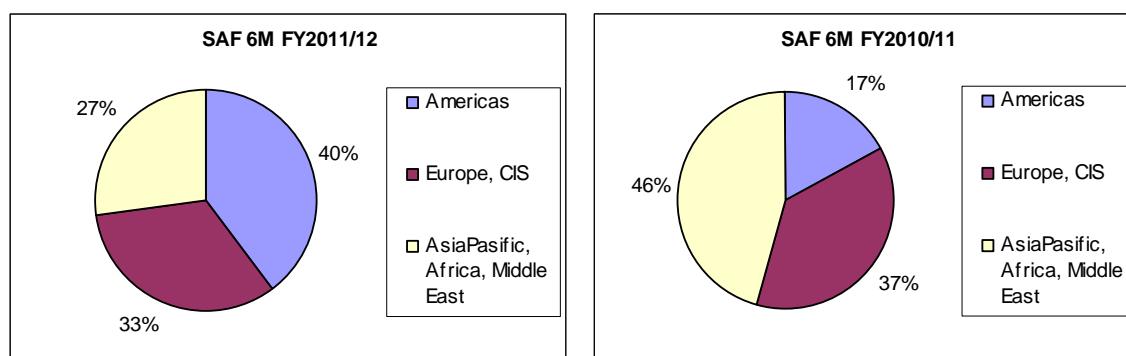
Although the turnover of Americas region comprised only 32% from the total company's revenue, the year-to-year quarter turnover grew 84% illustrating the more intense demand for the Company's products not only in USA but also in Latin America markets. Establishing a USA subsidiary *SAF North America*, significant investments in SAF brand and product recognition, further development of partner network, turnkey solution services introduction and SAF designed product manufacturing in Brazil are the activities that are expected to yield returns in the future. During the reporting quarter company has successfully taken part in several industry exhibitions, from whom the most notable have been: North America - Comptel Plus Fall 2011 (Orlando, USA), WispaPalooza 2011 (Las Vegas, USA), Europe – PMR Expo 2011 (Köln, Germany), Africa - Africa Com 2011 (Cape Town, South Africa).

Chart 1. Quarter 2 revenue breakdown comparative charts:



The Company's 2011/12 financial year's 6 month unaudited net turnover was 5.33 million LVL (7.58 million EUR), which represents 87% of the revenue generated in the respective period of the previous financial year. The revenues reduced in both Europe, CIS and Asia, Africa and Middle East regions, whereas the Americas region has shown a significant positive trend with total 6 month turnover doubling to 2.12 million LVL (3.01 million EUR), comprising 40% of the total the Company's turnover. Meanwhile the sales revenue from Asia, Africa and Middle East region summed up to 33%, European and CIS regions respectively 27% from the total revenue, which further illustrates the strategic importance of Americas region.

Chart 2. 6 months revenue breakdown comparative charts:



The demand for CFM line products has remained stable throughout the reporting quarter. The CFIP product sales volumes slightly shrunk, meanwhile the *FreeMile* product line has shown very pleasing results as the volumes have doubled compared to the previous quarter of the current year.

To ensure that the Company can offer high quality solutions according to the specific needs of its' clients, SAF Tehnika, besides it's own produced CFIP, CFM and *FreeMile* product lines, is offering complementary data transmission products and accessories. Within the structure of the Company's' current revenue, on average 70% - 75% is generated from the Company's own manufactured equipment.

Although it was possible to lower the allowance amounts accumulated for bad and doubtful receivables when receiving some of the overdue payments, still some of the Company's clients continued to experience liquidity problems keeping the risk of further delayed payments high. The high USD to LVL exchange rate had a positive impact on the Company's reporting quarter and 6 months revenue results.

Company ended the second quarter of 2011/12 financial year with a net profit of 67 527 LVL (96 083 EUR), which is by 226 thousand LVL (322 thousand EUR) , or four times lower than in respective quarter of previous financial year. Main reason – decrease in total revenue.

Company's' unaudited net profit for 2011/12 financial year's 6 months was 545 146 LVL (775 673 EUR).

The Company's net cash flow for the 6 month period of the financial year was negative - 199 thousand LVL (-284 thousand EUR). One must note that the Company paid dividends of LVL 0.23 (twenty three santims) per share or, 683 141 LVL (972 022 EUR) and as well as fulfilled its' corporate income tax obligations for financial year 2010/11 in November 2011, that amounted 209 thousand LVL (298 thousand EUR). In addition 891 thousand LVL (1.27 million EUR) were deposited in 2-6 month bank deposits. The Company carried a net cash balance (excluding interest bearing liabilities) of 1.9 million LVL (2.71 million EUR) as at December 31, 2011.

Market overview

The market outlook for year 2012 in Company's opinion remains neutral to positive. As it was forecasted year 2011 went as a trial period of LTE technology and its adoption is progressing steadily albeit slowly. Both network operators in general and mobile network operators specifically were concerned about growing traffic volume and required backhaul capacity in existing networks which they found challenging to support. Although first trial LTE networks are already running for more than a year, in most regions the telecom operators are not ready yet for large scale investments due to LTE still not being a fully mature technology. Global uncertainties with financial, economical and political situation are not helping to positively change the above mentioned.

As a result the demand from main consumer of microwave radios – mobile network operators is somewhat slowing down. This is contributing to reported performance of many suppliers of telecom solutions. Some of the largest market actors are considering shifting their focus, for example, Nokia Siemens Networks announcing plans to sell off their microwave business among offloading some other activities. At the same time there are new players appearing on the market, offering both original and rebranded OEM radio products.

Regrettably price erosion is ever present in nearly all markets where SAF Tehnika is active.

It is clear that to keep up with the customer requirements for data services, as internet access new networks should be built/existing upgraded. Main uncertainty relates to who, when and what amount of investments will be made.

SAF Tehnika products are well positioned to suit all above mentioned applications and we are fully prepared for these market changes and already are providing solutions that meet customer requirements.

Guidance

Today SAF Tehnika is seen as the company with the long-term competence in the market niche of microwave radio, capable to deliver excellent quality products for general market and differentiating on specially customer tailored solutions. Besides recently introduced license free *FreeMile* 17 and 24GHz products SAF is also proposing to the customers a low-frequency long-haul 1,4GHz and 300MHz product *Marathon*. We believe that SAF is financially stable and capable to withstand economical turmoil in the situation when others fail. The results in the near future still mainly depend on how successfully the company reaches the customers which are interested in its particular product proposal. As it was explained in previous reports the goal of the company is to continue focus on development of next generation wireless data transmission devices, strengthening local presence in target markets, customer satisfaction and provide an excellent product quality which is already recognized in the market. This strategy together with right product mix and services will sustain company long-term operations and drive future development more independently for general conditions in the market segment.

Due to uncertainty in the global financial situation and telecommunication market the Board of the Company cannot provide certain prognosis for sales figures and operational results despite positive results of the reporting quarter.

On December 31, 2011 the Company employed 162 people (159 people on December 31, 2011).

Balance sheet
As of December 31, 2011

	Note	31.12.2011	31.12.2010	31.12.2011	31.12.2010
CURRENT ASSETS		LVL	LVL	EUR	EUR
Cash and bank		1 907 044	2 377 847	2 713 479	3 383 371
Short-term investments	1	891 985	949 355	1 269 180	1 350 810
Customer receivables	2				
Accounts receivable		2 256 342	2 209 830	3 210 485	3 144 305
Allowance for uncollectible receivables		-415 294	-424 135	-590 910	-603 490
Total		1 841 048	1 785 695	2 619 575	2 540 815
Other receivables					
Other current receivables	3	65 463	479	93 145	682
Short-term loans	4	22 772	22 772	32 402	32 402
Total		88 235	23 251	125 547	33 083
Prepaid expenses					
Prepaid taxes		78 867	27 451	112 218	39 059
Other prepaid expenses		46 882	50 262	66 707	71 516
Total		125 749	77 713	178 925	110 576
Inventories	5				
Raw materials		1 081 800	1 069 822	1 539 263	1 522 220
Work-in-progress		1 511 550	1 065 393	2 150 742	1 515 918
Finished goods		899 841	941 641	1 280 358	1 339 834
Prepayments to suppliers		28 990	35 732	41 249	50 842
Total		3 522 181	3 112 588	5 011 612	4 428 814
TOTAL CURRENT ASSETS		8 376 242	8 326 449	11 918 319	11 847 470
NON-CURRENT ASSETS					
Long-term financial assets					
Shares in subsidiaries	6	511	0	727	0
Shares in companies		500	500	711	711
Long-term receivables	2	0	239 388	0	340 618
Deffered income tax		73 032	57 179	103 915	81 358
Long-term loans	4	13 284	36 056	18 901	51 303
Total		87 327	333 123	124 255	473 991
NON-CURRENT physical assets	7				
Plant and equipment		2 174 342	2 050 097	3 093 810	2 917 025
Other equipment and fixtures		1 142 026	1 140 676	1 624 957	1 623 036
Accumulated depreciation		-2 821 135	-2 699 048	-4 014 113	-3 840 399
Prepayments for noncurrent physical assets		8 116	0	11 548	0
Total		503 349	491 725	716 201	699 662
Intangible assets					
Purchased licenses, trademarks etc.		95 912	52 720	136 470	75 014
Prepayments for intangible assets		0	4 157	0	5 915
Total		95 912	56 877	136 470	80 929
TOTAL NON-CURRENT ASSETS		686 588	881 725	976 927	1 254 582
TOTAL ASSETS		9 062 830	9 208 174	12 895 245	13 102 051

	Note	31.12.2011	31.12.2010	31.12.2011	31.12.2010
LIABILITIES AND OWNERS' EQUITY					
CURRENT LIABILITIES		LVL	LVL	EUR	EUR
Debt obligations					
Short-term loans from financial institutons		3 520	4 398	5 010	6 259
Customer prepayments for goods and services		41 156	138 202	58 560	196 644
Accounts payable	8	1 117 506	1 143 403	1 590 068	1 626 916
Tax liabilities	9	166 678	205 637	237 161	292 595
Salary-related accrued expenses	10	246 331	349 526	350 497	497 331
Provisions for guarantees		39 948	19 789	56 841	28 157
Prepaid revenue		12 829	4 768	18 255	6 785
TOTAL CURRENT LIABILITIES		1 627 968	1 865 723	2 316 393	2 654 688
OWNERS' EQUITY					
Share capital		2 970 180	2 970 180	4 226 185	4 226 185
Paid in capital over par		2 004 204	2 004 204	2 851 725	2 851 725
Retained earnings		1 915 332	1 797 640	2 725 272	2 557 811
Net profit for the financial year		545 146	570 427	775 673	811 644
TOTAL OWNERS' EQUITY		7 434 862	7 342 451	10 578 855	10 447 366
TOTAL LIABILITIES AND OWNERS' EQUITY		9 062 830	9 208 174	12 895 245	13 102 051

Income Statement for 6 month of the financial year 2011/12

	Note	31.12.2011	31.12.2010	31.12.2011	31.12.2010
		LVL	LVL	EUR	EUR
Net sales	11	5 330 018	6 129 129	7 583 932	8 720 965
Other operating income		16 925	8 899	24 082	12 662
Total income		5 346 943	6 138 028	7 608 014	8 733 627
Direct cost of goods sold or services rendered		-2 966 912	-3 209 059	-4 221 535	-4 566 080
Marketing, advertising and public relations expenses		-208 273	-157 371	-296 346	-223 919
Bad receivables	12	32 169	-220 802	45 772	-314 173
Operating expenses		-397 101	-363 246	-565 024	-516 852
Salaries and social expenses	13	-999 799	-900 881	-1 422 586	-1 281 838
Bonuses and social expenses	13	-215 287	-329 409	-306 326	-468 707
Depreciation expense		-115 081	-100 361	-163 746	-142 801
Other expenses		-25 328	-114 323	-36 038	-162 667
Operating expenses		-4 895 612	-5 395 452	-6 965 828	-7 677 037
EBIT		451 331	742 576	642 186	1 056 590
Financial income (except ForEx rate difference)		21 357	51 440	30 388	73 193
Financial costs (except ForEx rate difference)		-649	0	-923	0
Foreign exchange +gain/(loss)		161 739	-89 653	230 134	-127 565
Financial items		182 447	-38 213	259 599	-54 372
EBT		633 778	704 363	901 785	1 002 218
Corporate income tax		-88 632	-133 936	-126 112	-190 574
Net profit		545 146	570 427	775 673	811 644

*Earnings per share

EPS 31.12.2011. = 0.18 LVL (0.26 EUR)

EPS 31.12.2010. = 0.19 LVL (0.27 EUR)

Income Statement for Q2 of the financial year 2010/11

	31.12.2011	31.12.2010	31.12.2011	31.12.2010
	LVL	LVL	EUR	EUR
Net sales	2 437 451	2 970 603	3 468 180	4 226 787
Other operating income	9 873	6 312	14 048	8 981
Total income	2 447 324	2 976 915	3 482 228	4 235 768
Direct cost of goods sold or services rendered	-1 441 257	-1 683 955	-2 050 724	-2 396 052
Marketing, advertising and public relations expenses	-118 333	-95 440	-168 373	-135 799
Bad receivables	-29 242	27 747	-41 608	39 480
Operating expenses	-225 315	-190 544	-320 594	-271 120
Salaries and social expenses	-495 543	-485 489	-705 094	-690 789
Bonuses and social expenses	-51 799	-147 611	-73 703	-210 032
Depreciation expense	-60 993	-49 114	-86 785	-69 883
Other expenses	-7 879	-107 574	-11 211	-153 064
Operating expenses	-2 430 361	-2 731 980	-3 458 092	-3 887 257
EBIT	16 963	244 935	24 136	348 511
Financial income (except ForEx rate difference)	15 391	42 186	21 899	60 025
Financial costs (except ForEx rate difference)	0	0	0	0
Foreign exchange +gain/(loss)	63 103	46 977	89 787	66 842
Financial items	78 494	89 163	111 688	126 869
EBT	95 457	334 098	135 824	475 380
Corporate income tax	-27 930	-40 271	-39 741	-57 300
Net profit	67 527	293 827	96 083	418 079

*Earnings per share

EPS 31.12.2011. = 0.02 LVL (0.03 EUR)

EPS 31.12.2010. = 0.10 LVL (0.14 EUR)

Cash flow statement for 6 months of the financial year 2011/12

	31.12.2011	31.12.2010	31.12.2011	31.12.2010
	LVL	LVL	EUR	EUR
CASH GENERATED FROM OPERATIONS (of which)	-80 943	-103 483	-115 172	-147 243
Cash received from customers	5 325 940	5 821 266	7 578 131	8 282 916
Cash paid to suppliers and employees	-5 197 670	-5 926 702	-7 395 618	-8 432 937
Received tax	-209 213	1 953	-297 683	2 779
NET CASH USED IN INVESTING ACTIVITIES (of which)	506 934	746 098	721 302	1 061 602
Cash paid for purchasing shares in subsidiary	-511	0	-727	0
Cash paid for other long-term investments (e.g. purchase of <50% shares)	0	-500	0	-711
Cash paid/received for short-term investments	587 096	710 534	835 362	1 010 999
Cash paid for purchasing non-current physical assets	-118 686	-42 717	-168 875	-60 781
Interest received	39 035	78 781	55 542	112 095
NET CASH USED IN FINANCING ACTIVITIES (of which)	-625 607	-678 455	-890 159	-965 354
Repayment of short-term loans	-5 584	-1 783	-7 945	-2 537
Repayment of long-term loans	11 387	9 490	16 202	13 503
Cash paid of long-term loans	0	-68 317	0	-97 206
Cash received from EU funds	51 731	65 296	73 607	92 908
Dividends paid	-683 141	-683 141	-972 022	-972 022
TOTAL CASH FLOW:	-199 616	-35 840	-284 028	-50 996
Cash and cash equivalents as at the beginning of period	2 106 660	2 413 687	2 997 507	3 434 367
Cash and cash equivalents as at the end of period	1 907 044	2 377 847	2 713 479	3 383 371
NET INCREASE / DECREASE IN CASH AND CASH EQUIVALENTS	-199 616	-35 840	-284 028	-50 996

Statement of changes in consolidated equity for the 6 months period ended December 31 2011

	Share capital	Share premium	Retained earnings	Total
	LVL	LVL	LVL	LVL
As at 30 June 2010	2 970 180	2 004 204	2 480 781	7 455 165
Dividend relating to 2009/2010	-	-	-683 141	-683 141
Profit for the year	-	-	800 833	800 833
As at 30 June 2011	2 970 180	2 004 204	2 598 473	7 572 857
Dividend relating to 2010/2011	-	-	-683 141	-683 141
Profit for the period	-	-	545 146	545 146
As at 31 December 2011	2 970 180	2 004 204	2 460 478	7 434 862

Statement of changes in consolidated equity for the 6 months period ended December 31 2011

	Share capital	Share premium	Retained earnings	Total
	EUR	EUR	EUR	EUR
As at 30 June 2010	4 226 185	2 851 725	3 529 833	10 607 744
Dividend relating to 2009/2010	-	-	-972 022	-972 022
Profit for the year	-	-	1 139 482	1 139 482
As at 30 June 2011	4 226 185	2 851 725	3 697 293	10 775 204
Dividend relating to 2010/2011	-	-	-972 022	-972 022
Profit for the period	-	-	775 673	775 673
As at 31 December 2011	4 226 185	2 851 725	3 500 944	10 578 855

Notes for interim report

Note 1 Short-term investments

	31.12.2011 LVL	31.12.2010 LVL	31.12.2011 EUR	31.12.2010 EUR
Short-term investments	891 985	949 355	1 269 180	1 350 810

Short-term investments consist of deposits with a maturity period of more than 90 days commencing from 31/12/2011.

Note 2 Customer receivables

	31.12.2011 LVL	31.12.2010 LVL	31.12.2011 EUR	31.12.2010 EUR
Long-term receivables	-	239 388	-	340 618
Accounts receivable	2 256 342	2 209 830	3 210 485	3 144 305
Provisions for bad and doubtful accounts receivable	(415 294)	(424 135)	(590 910)	(603 490)
Total accounts receivable	1 841 048	1 785 695	2 619 575	2 540 815
Total receivables	1 841 048	2 025 083	2 619 575	2 881 433

Total receivables were by 9% lower compared with the previous year reflecting decreasing sales in the reporting quarter Q2. Provisions for doubtful accounts receivable has decreased by 2%. Previously reported bad debtors from Africa started to settle their overdue debts although slower than it was promised.

Long term receivables include those whose due date is more than 360 days from the balance date. There are no long term receivables on reporting date.

Note 3 Other current receivables

	31.12.2011 LVL	31.12.2010 LVL	31.12.2011 EUR	31.12.2010 EUR
Other current receivables	65 463	479	93 145	682

Three research projects initiated by the Company are realised in "LEO competences centres"(LEO) since summer 2011. LEO is the company co-founded by Latvian Electrical Engineering and electronic Industry Association (LETERA) members. The Company has paid-in for LEO 64 thousand LVL as a deposit for execution of projects.

Note 4 Loans

	31.12.2011 LVL	31.12.2010 LVL	31.12.2011 EUR	31.12.2010 EUR
Short-term loans	22 772	22 772	32 402	32 402
Long-term loans	13 284	36 056	18 901	51 303
	36 056	58 828	51 303	83 705

In order to facilitate the Company's product sales, encourage clients to buy the Company's products and at the same time following tender requirements, financing was assigned for a Belorussian client in 2010. Up to now all payments have been made according to schedule.

Note 5 Inventories

	31.12.2011 LVL	31.12.2010 LVL	31.12.2011 EUR	31.12.2010 EUR
Raw materials	1 428 902	1 282 932	2 033 144	1 825 448
Allowance for slow-moving items	(347 102)	(213 110)	(493 882)	(303 228)
Work-in- progress	1 511 550	1 065 393	2 150 742	1 515 918
Finished goods	899 841	941 641	1 280 358	1 339 834
Prepayments to suppliers	28 990	35 732	41 249	50 842
	3 522 181	3 112 588	5 011 612	4 428 814

Inventories in comparison with December 31, 2010 increased by 13% as the Company had to make inventory reserves in order to be able to produce large scale orders in competitive terms for all kind of products currently being in the Company's product list. Company also keeps components for previously produced and sold product types for repair and maintenance purpose.

During Q2 additional allowances for slow-moving items was recorded and in total increased year-to-year by 63% as components were consumed slower due to turnover decrease.

Note 6 Shares in Subsidiaries

	31.12.2011 LVL	31.12.2010 LVL	31.12.2011 EUR	31.12.2010 EUR
Shares in subsidiaries	511	-	727	-

With the aim to facilitate demand for SAF Tehnika products in USA and provide efficient local support for current and potential USA clients a subsidiary SAF North America was established. The Company owns 100% of SAF North America shares and has invested 511 LVL (1 000 USD) in its share capital.

Note 7 Non-current assets

	31.12.2011 LVL	31.12.2010 LVL	31.12.2011 EUR	31.12.2010 EUR
Plant and equipment	2 174 342	2 050 097	3 093 810	2 917 025
Other equipment and fixtures	1 142 026	1 140 676	1 624 957	1 623 036
Accumulated depreciation	(2 821 135)	(2 699 048)	(4 014 113)	(3 840 399)
Prepayments for noncurrent physical assets	8 116	-	11 548	-
	503 349	491 725	716 201	699 662
Purchased licences, trademarks etc.	95 912	52 720	136 470	75 014
Prepayments for intangible assets	-	4 157	-	5 915
	95 912	56 877	136 470	80 929

During 6 months of financial year 2011/12 the Company invested 137 thousand LVL (195 thousand EUR) in product certification, product development software, production equipment and IT.

Note 8 Accounts payable

	31.12.2011 LVL	31.12.2010 LVL	31.12.2011 EUR	31.12.2010 EUR
Accounts payable	1 117 506	1 143 403	1 590 068	1 626 916

Note 9 Tax liabilities

	31.12.2011 LVL	31.12.2010 LVL	31.12.2011 EUR	31.12.2010 EUR
Tax liabilities	<u>166 678</u>	<u>205 637</u>	<u>237 161</u>	<u>292 595</u>

As the Company operates with profit corporate income tax (CIT) liabilities were calculated and accrued. Actually 53% out of all tax liabilities are accruals for CIT. The remaining part are running liabilities for social tax and personal income tax.

Note 10 Salary-related accrued expenses

	31.12.2011 LVL	31.12.2010 LVL	31.12.2011 EUR	31.12.2010 EUR
Salary-related accrued expenses	<u>246 331</u>	<u>349 526</u>	<u>350 497</u>	<u>497 331</u>

Salary-related accrued expenses were decreased by 30% in comparison with December 31, 2010. As financial targets were not reached lower individual bonus amounts were accrued.

Note 11 Segment information

a) The Company's operations are divided into two major structural units – SAF branded equipment designed and produced in-house – CFM (Hybrid/ PDH Radios), CFIP (Ethernet/Hybrid/ superPDH systems) and FreeMile (Hybrid Radios for unlicensed frequency bands) as the first structural unit and 3rd party products for resale, like Antennas, cables, some OEMed products and accessories as the second unit.

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

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

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

PhoeniX radio represents the type of microwave radio which is taking the commanding role on the market at present. Full Outdoor units of Lumina and 108 modifications are of growing and developing radio type 'all-in-one' which has biggest potential as part of future data/packet networks.

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

CFM microwave radio product line has been the main type of radio SAF has been supplying to the market over many years and is still demanded. Such medium capacity, mature, yet

extremely reliable and feature rich radio is still required to deploy telecom networks in developing markets.

FreeMile product line is represented by 2 models covering unlicensed frequency bands in 17 and 24 GHz, which are made available for use in a growing number of countries around the globe.

As demand for CFQ products has decreased substantially, it has been decided to phase out the entire CFQ product line starting from summer 2011, providing the CFQ basic functionality with CFIP Phoenix M split mount system. The clients' requirements will be covered by full spectrum of CFIP and CFM products. Information about phased out CFQ line is included in the other products unit in order to provide unequivocal information for comparison purpose.

This note provides information about division of the Group's turnover and balance items by structural units by product type for 6 month of the financial year 2011/12 and financial year 2010/11.

	CFM; CFIP; FreeMile		Other		Total	
	2011/12 LVL	2010/11 LVL	2011/12 LVL	2010/11 LVL	2011/12 LVL	2010/11 LVL
Segment assets	3 928 713	3 554 308	2 215 649	2 189 952	6 144 362	5 744 260
Undivided assets					2 918 468	3 463 914
Total assets					9 062 830	9 208 174
Segment liabilities	925 587	942 131	428 756	498 149	1 354 343	1 440 280
Undivided liabilities					273 625	425 443
Total liabilities					1 627 968	1 865 723
Net sales	3 792 286	4 528 691	1 537 732	1 600 438	5 330 018	6 129 129
Segment results	1 212 108	2 063 795	456 182	464 572	1 668 290	2 528 367
Undivided expenses					-1 233 620	-1 794 710
Profit from operations					434 670	733 657
Other income					38 335	8 911
Financial expenses, net					160 773	-38 205
Profit before taxes					633 778	704 363
Net profit					545 146	570 427
Other information						
intangible assets	72 692	17 635	2 359	1 340	75 051	18 975
Undivided additions					62 237	22 988
Total additions of property plant and equipment and intangible assets					137 288	41 963
Depreciation and amortization	62 286	51 632	5 268	5 277	67 554	56 909
Undivided depreciation					47 527	43 452
Total depreciation and amortization					115 081	100 361

	CFM; CFIP; FreeMile		Other		Total	
	2011/12	2010/11	2011/12	2010/11	2011/12	2010/11
	EUR	EUR	EUR	EUR	EUR	EUR
Segment assets	5 590 055	5 057 325	3 152 584	3 116 021	8 742 637	8 173 344
Undivided assets					4 152 608	4 928 708
Total assets					12 895 245	13 102 051
Segment liabilities	1 316 992	1 340 532	610 065	708 802	1 927 056	2 049 334
Undivided liabilities					389 333	605 350
Total liabilities					2 316 389	2 654 684
Net sales	5 395 937	6 443 747	2 187 996	2 277 218	7 583 932	8 720 965
Segment results	1 724 674	2 936 516	649 089	661 027	2 373 763	3 597 542
Undivided expenses					-1 755 282	-2 553 641
Profit from operations					618 480	1 043 900
Other income					54 546	12 679
Financial expenses, net					228 759	-54 361
Profit before taxes					901 785	1 002 218
Net profit					775 673	811 644
Other information						
Additions of property plant and equipment and intangible assets	103 431	25 092	3 357	1 907	106 788	26 999
Undivided additions					88 555	32 709
Total additions of property plant and equipment and intangible assets					195 343	59 708
Depreciation and amortization	88 625	73 466	7 496	7 508	96 121	80 974
Undivided depreciation					67 624	61 826
Total depreciation and amortization					163 745	142 800

b) This note provides information about division of the Company's turnover and assets by geographical regions (customer location) for 6 month of the financial year 2011/12 and financial year 2010/11.

	Net sales		Assets		Net sales		Assets	
	2011/12	2010/11	31.12.2011	31.12.2010	2011/12	2010/11	31.12.2011	31.12.2010
	LVL	LVL	LVL	LVL	EUR	EUR	EUR	EUR
America	2 117 238	1 055 065	629 250	218 557	3 012 558	1 501 223	895 342	310 978
Europe, CIS	1 767 212	2 268 875	424 310	584 107	2 514 516	3 228 318	603 739	831 109
Asia, Africa, Middle	1 445 568	2 805 189	787 488	1 222 419	2 056 858	3 991 424	1 120 494	1 739 346
	5 330 018	6 129 129	1 841 048	2 025 083	7 583 932	8 720 965	2 619 575	2 881 433
Unallocated assets	-	-	7 221 782	7 183 091	-	-	10 275 670	10 220 618
	5 330 018	6 129 129	9 062 830	9 208 174	7 583 932	8 720 965	12 895 245	13 102 051

Note 12 Bad receivables

	31.12.2011	31.12.2010	31.12.2011	31.12.2010
	LVL	LVL	EUR	EUR
Bad receivables	32 169	(220 802)	45 772	(314 173)

The Company records accruals based on its accrual policy for bad and doubtful debtors. Africa customers' who delayed payments substantially continued debt repayment although payments were made slower than promised in a schedule submitted by customers.

Note 13 Salaries, bonuses and social expenses

	31.12.2011	31.12.2010	31.12.2011	31.12.2010
	LVL	LVL	EUR	EUR
Salaries and social expenses	(999 799)	(900 881)	(1 422 586)	(1 281 838)
Bonuses and social expenses	(215 287)	(329 409)	(306 326)	(468 707)
	(1 215 086)	(1 230 290)	(1 728 912)	(1 750 545)

Salaries and social expenses, in comparison with the 6 month period of the previous financial year increased due to increased headcount and changes in fixed salaries for employees of Product development and Production department.

As the Company's financial targets for Q2 were not fulfilled - Bonuses for Q2 were much lower than for Q1 FY 2011/12. In total bonuses and social expenses for 6 months of FY 2011/12 were by 35% lower than for 6 months of FY 2010/11.