

SAF Tehnika
Consolidated Interim Report
for 3 months of financial year 2013/14
(July 1, 2013 – September 30, 2013)

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KEY DATA

SAF Tehnika ((hereinafter – the Group) 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.

Currently the Group consists of SAF Tehnika JSC (hereinafter – the Parent) operating from Riga, Latvia, a wholly owned subsidiary “SAF North America LLC” and a joint-venture company “SAF Services LLC” where the Parent holds 50% of the company’s shares. Both of the mentioned companies are operating from Denver, CO serving North American market.

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.

| | |
|------------------------------|--|
| Legal address: | Ganibu Dambis 24a Riga, LV – 1005 Latvia |
| Commercial Registry Nr.: | 40003474109 |
| VAT Registry Nr.: | LV40003474109 |
| Beginning of financial year: | 01.07.2013 |
| End of financial year: | 30.06.2014 |
| Phone: | +371 67046840 |
| Fax: | +371 67046809 |
| E-mail: | info@saftehnika.com |

Share and Shareholdings

SAF Tehnika shareholders (over 5%) as of 04.09.2013

| Name | Ownership interest (%) |
|------------------|------------------------|
| Didzis Liepkalns | 17.05% |
| Andrejs Grišāns | 10.03% |
| Normunds Bergs | 9.74% |
| Juris Ziema | 8.71% |
| Vents Lācars | 6.08% |
| SIA "Koka zirgs" | 5.27% |

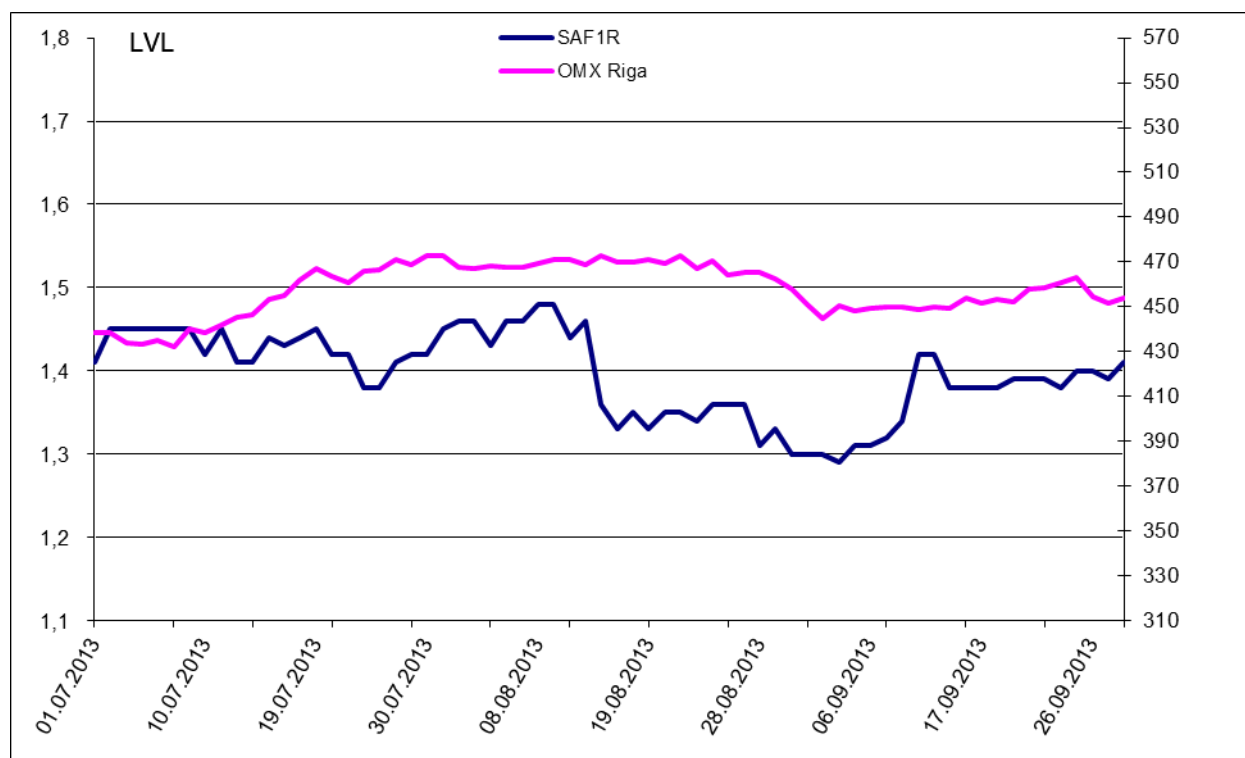
SAF Tehnika share price and OMX Riga index development for the reporting period

SAF Tehnika (SAF1R)

Period: July 1, 2013 – September 30, 2013

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 | Member | owns 17.05% of shares |
| Aira Loite | Member | owns 0.26% 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 no shares |
| Aivis Olsteins | Member | owns no shares |

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 Member 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.

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 Dzirnāvu 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 in 1986..

Aivis Olsteins,

born in 1968. A.Olsteins has 20 years of experience in telecommunications. He is CEO of a company "DataTechLabs" since year 2000. The company provides software development and support services for telecommunication operators. From 1992 till 1999 he worked in Baltcom TV, initially as a system engineer in Cable TV operations department, from 1994 till June 1996 as a CTO, but from July 1996 till the end of 1999 as technical advisor to General Manager. A. Olsteins is studying in University of Latvia in Faculty of Physics and Mathematics, bachelor of Physics program.

Statement of Board's Responsibilities

The Board of SAF Tehnika JSC (hereinafter – the Parent) is responsible for preparing the consolidated financial statements of the Parent and its subsidiaries (hereinafter - the Group).

The consolidated financial statements are prepared in accordance with the source documents and present fairly the consolidated financial position of the Group as of 30 September 2013 and the consolidated results of its financial performance and cash flows for the quarter then ended.

The above mentioned financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the European Union, and are prepared on a going concern basis. Appropriate accounting policies have been applied on a consistent basis. The consolidated interim financial statements have been prepared based on the same accounting principles applied in the Consolidated Financial Statements for the year ended on June 30, 2013. Prudent and reasonable judgments and estimates have been made by the management in the preparation of the financial statements.

The Board of SAF Tehnika JSC is responsible for the maintenance of proper accounting records, the safeguarding of the Group's assets and the prevention and detection of fraud and other irregularities in the Group. The Board is responsible for compliance with the requirements of normative acts of the countries the Group operates in (Latvia and United States of America).

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

Currency Exchange rate for LVL/EUR is 0.702804



Aira Loite

COO, Member of the Management Board

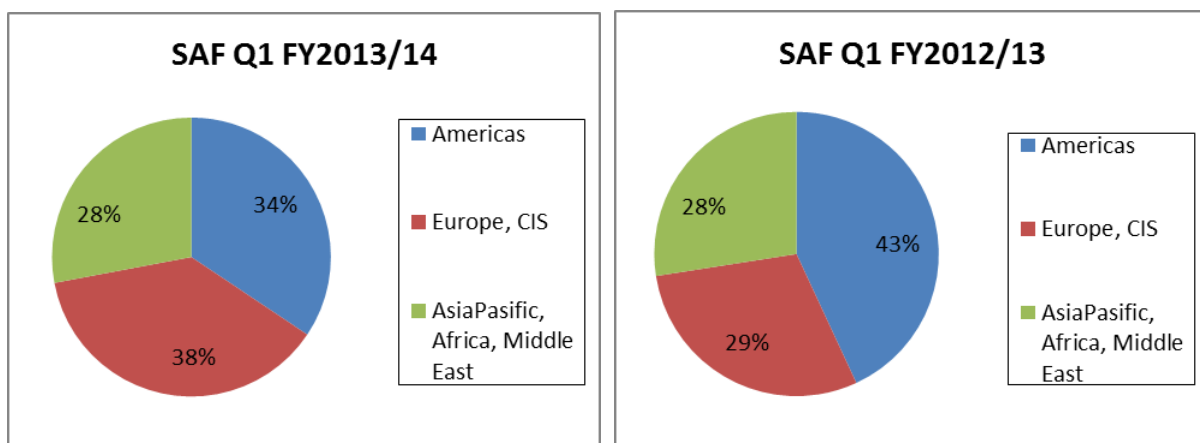
Management Report

The Group's non-audited net sales for the first quarter of financial year 2013/14 were 2.34 million LVL (3.41 million EUR), increasing by 25% compared to the first quarter of the previous financial year and being by 9% higher than sales in the previous quarter - Q4 of FY 2012/2013.

Comparing sales results with the first quarter of the financial year 2012/2013, substantial sales increase (by 60%) was achieved in Europe, CIS region where the Group has stable, local partner network supported, customer base and demand for almost all products from Group's portfolio. Sales in Asia Pacific, Africa, Middle East increased by 27% showing growing trend already fifth quarter in a row, but results from the Americas were on the same level as year before, but lower than in previous quarters as deliveries of some large orders have been postponed to next quarter due to delays in project realization on customers side.

In order to maintain presence and present recently developed products such as SAF's *Spectrum Compact*, *Integra* and low latency transmission solutions, Group has participated in regional exhibitions "NigerCom 2013", Lagos, Nigeria, Canadian Wireless show (Toronto, Canada), and "ComptelPlus" (Orlando, US). Furthermore, Europe roadshow for the recently announced product *Integra* has started and the first seminars were held in Netherlands. Roadshow events are scheduled in other European countries till the end of 2013. The participation in the main exhibitions during this financial year will be co-financed by European Regional Development Fund and Latvia government and is invaluable support to the Group for export facilitation.

Chart 1. Quarter 1 revenue breakdown comparative charts:



The Group's products were sold in 62 countries during the reporting quarter.

Ongoing demand was observed for CFIP product line equipment (slightly more than 80% out of in-house produced equipment sales). Considerably more requests and rising interest were for products and solutions developed for specific customer needs such as - *Marathon* (low

frequency product developed for different industrial applications), *Spectrum Compact* (spectrum analyzer for field engineers) and low latency data transmission solutions.

The Group's expenses were in budget limits. Declining USD/ LVL exchange rate impacted negatively the Group's bottom line.

The consolidated net profit of the Group for the first quarter of 2013/14 financial year was 91 thousand LVL (130 thousand EUR), which represents an increase of 212 thousand LVL (301 thousand EUR), compared with the same quarter in the previous financial year.

The Group's net cash flow for the 3 month period of the financial year was negative – 178 thousand LVL (254 thousand EUR). As of September 30, 2013, the Group carried a net cash balance (excluding interest bearing liabilities) of 1.79 million LVL (2.55 million EUR).

Market overview

All things online continue to develop at ever increasing rate. The result is continuous and growing stress applied to backbone infrastructure of every network transporting internet traffic. Microwave radio market is no exception from this trend – customers need larger capacity and this is driving the market forward. Thirst for capacity is no longer a phenomenon of developed markets, many developing countries are catching up quickly. Majority of radios deployed are of traditional setup, split mount terminals, consisting of IDU/ODU units. The adoption of Full Outdoor radio equipment is growing, albeit slowly. Frequency wise, market is still dominated by traditional commercial microwave bands in 6 to 40 GHz space, and E-Band and V-Band frequency radios are still growing from small niche to become a major force.

Guidance

In 2013/2014 there are no changes in the Group's main focus on developing the *Integra* product line and working on specific niche products with the goal to satisfy ever increasing demand for efficient, qualitative, price attractive, high capacity data transmission products in the wide frequency range. The Group has set tasks to enlarge customer base and regain higher sales and profitability levels.

The Group remains financially stable and with positive outlook for the next operating periods, however the Board of the Group avoids giving any forward-looking sales and financial result statements.

On September 30, 2013 the Group employed 163 people (165 people on September 30, 2012).

KEY indicators

| | Q1 2013/14 | | Q1 2012/13 | | Q1 2011/12 | |
|---|------------|------------|------------|------------|------------|------------|
| | LVL | EUR | LVL | EUR | LVL | EUR |
| Net Sales | 2 399 303 | 3 413 901 | 1 916 606 | 2 727 085 | 2 892 567 | 4 115 752 |
| Earnings before interest, taxes and depreciation (EBITDA) | 235 922 | 335 687 | -14 204 | -20 210 | 488 455 | 695 009 |
| <i>share of the turnover %</i> | 10% | 10% | -0,7% | -0,7% | 17% | 17% |
| Profit/loss before interest and taxes (EBIT) | 164 403 | 233 924 | -87 427 | -124 397 | 434 367 | 618 049 |
| <i>share of the turnover %</i> | 7% | 7% | -5% | -5% | 15% | 15% |
| Net Profit | 91 333 | 129 956 | -120 277 | -171 139 | 477 619 | 679 591 |
| <i>share of the turnover %</i> | 4% | 4% | -6% | -6% | 17% | |
| Total assets | 8 391 430 | 11 939 929 | 8 615 596 | 12 258 889 | 10 038 620 | 14 283 669 |
| Total Owners equity | 7 262 995 | 10 334 311 | 7 377 218 | 10 496 836 | 8 050 476 | 11 454 795 |
| Return on equity (ROE) % | 1,09% | 1,09% | -1,40% | -1,40% | 5% | 5% |
| Return on assets (ROA) % | 1,26% | 1,26% | -1,63% | -1,63% | 6% | 6% |
| Liquidity ratio | | | | | | |
| Quick ratio % | 143% | 143% | 115% | 115% | 102% | 102% |
| Current ratio % | 325% | 325% | 268% | 268% | 194% | 194% |
| Earnings per share | 0,031 | 0,04 | -0,04 | -0,06 | 0,16 | 0,23 |
| Last share price at the end of period | 1,41 | 2,01 | 1,61 | 2,29 | 1,82 | 2,59 |
| P/E | 45,85 | | -39,76 | | 11,32 | |
| Number of employees at the end of reporting period | 163 | | 165 | | 164 | |

Consolidated Statement of Financial Position

As of September 30, 2013

| | Note | 30.09.2013 | 30.09.2012 | 30.09.2013 | 30.09.2012 |
|---|----------|------------------|------------------|-------------------|-------------------|
| | | LVL | LVL | EUR | EUR |
| CURRENT ASSETS | | | | | |
| Cash and bank | | 1 796 036 | 947 264 | 2 555 529 | 1 347 835 |
| Short-term investments | 1 | 411 209 | 1 866 997 | 585 098 | 2 656 497 |
| Customer receivables | 2 | | | | |
| Accounts receivable | | 1 843 538 | 1 462 387 | 2 623 118 | 2 080 789 |
| Due from joint venture | | 33 726 | 0 | 47 988 | 0 |
| Allowance for uncollectible receivables | | -374 613 | -292 550 | -533 026 | -416 261 |
| Total | | 1 502 651 | 1 169 837 | 2 090 092 | 1 664 529 |
| Other receivables | | | | | |
| Other current receivables | 3 | 58 718 | 219 343 | 83 548 | 312 097 |
| Short-term loans | 4 | 217 869 | 271 986 | 310 000 | 387 001 |
| Total | | 276 587 | 491 329 | 393 548 | 699 098 |
| Prepaid expenses | | | | | |
| Prepaid taxes | | 179 785 | 215 599 | 255 811 | 306 770 |
| Other prepaid expenses | | 130 630 | 142 101 | 185 870 | 202 192 |
| Total | | 310 415 | 357 700 | 441 681 | 508 961 |
| Inventories | 5 | | | | |
| Raw materials | | 791 731 | 421 678 | 1 126 532 | 599 994 |
| Work-in-progress | | 1 229 398 | 1 695 756 | 1 749 276 | 2 412 843 |
| Finished goods | | 1 264 280 | 890 358 | 1 798 908 | 1 266 865 |
| Prepayments to suppliers | | 64 273 | 41 973 | 91 452 | 59 722 |
| Total | | 3 349 682 | 3 049 765 | 4 766 168 | 4 339 424 |
| TOTAL CURRENT ASSETS | | 7 646 580 | 7 882 892 | 10 880 103 | 11 216 345 |
| NON-CURRENT ASSETS | | | | | |
| Long-term financial assets | | | | | |
| Equity-accounted investments | | 10 126 | 3 605 | 14 408 | 5 129 |
| Investments in other companies | | 835 | 500 | 1 188 | 711 |
| Long-term receivables | 2 | 21 876 | 49 073 | 31 127 | 69 825 |
| Deffered income tax | | 86 581 | 92 559 | 123 194 | 131 701 |
| Total | | 119 418 | 145 737 | 169 917 | 207 365 |
| NON-CURRENT physical assets | 6 | | | | |
| Plant and equipment | | 2 292 653 | 2 256 301 | 3 262 151 | 3 210 427 |
| Other equipment and fixtures | | 1 312 854 | 1 188 270 | 1 868 023 | 1 690 756 |
| Accumulated depreciation | | -3 130 082 | -2 946 846 | -4 453 705 | -4 192 984 |
| Other long-term assets | | 0 | 14 827 | 0 | 21 097 |
| Total | | 475 425 | 512 552 | 676 469 | 729 296 |
| Intangible assets | 6 | | | | |
| Purchased licenses, trademarks etc. | | 87 633 | 74 415 | 124 691 | 105 883 |
| Other long-term assets | | 62 374 | 0 | 88 750 | 0 |
| Total | | 150 007 | 74 415 | 213 441 | 105 883 |
| TOTAL NON-CURRENT ASSETS | | 744 850 | 732 704 | 1 059 826 | 1 042 544 |
| TOTAL ASSETS | | 8 391 430 | 8 615 596 | 11 939 929 | 12 258 889 |

| LIABILITIES AND OWNERS' EQUITY | Note | 30.09.2013 | 30.09.2012 | 30.09.2013 | 30.09.2012 |
|--|-------------|-------------------|-------------------|-------------------|-------------------|
| CURRENT LIABILITIES | | LVL | LVL | EUR | EUR |
| Debt obligations | | | | | |
| Short-term loans from financial institutions | | 5 099 | 13 938 | 7 255 | 19 832 |
| Customer prepayments for goods and services | | 80 507 | 55 909 | 114 551 | 79 551 |
| Accounts payable | 7 | 687 546 | 799 387 | 978 290 | 1 137 425 |
| Tax liabilities | 8 | 80 305 | 114 086 | 114 264 | 162 330 |
| Salary-related accrued expenses | 9 | 246 367 | 215 672 | 350 549 | 306 874 |
| Provisions for guarantees | | 26 298 | 31 746 | 37 419 | 45 170 |
| Prepaid revenue | | 2 313 | 7 640 | 3 291 | 10 871 |
| TOTAL CURRENT LIABILITIES | | 1 128 435 | 1 238 378 | 1 605 618 | 1 762 053 |
| 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 | | 2 196 684 | 2 523 215 | 3 125 600 | 3 590 211 |
| Net profit for the financial year | | 91 333 | -120 277 | 129 955 | -171 139 |
| Currency translation reserve | | 594 | -104 | 845 | -148 |
| TOTAL OWNERS' EQUITY | | 7 262 995 | 7 377 218 | 10 334 311 | 10 496 836 |
| TOTAL LIABILITIES AND OWNERS' EQUITY | | 8 391 430 | 8 615 596 | 11 939 929 | 12 258 889 |

Consolidated Statement of Profit or Loss for 3 month of the financial year 2013/2014

| | Note | 30.09.2013 | 30.09.2012 | 30.09.2013 | 30.09.2012 |
|--|-------------|-------------------|-------------------|-------------------|-------------------|
| | | LVL | LVL | EUR | EUR |
| Net sales | 10 | 2 399 303 | 1 916 606 | 3 413 901 | 2 727 085 |
| Other operating income | | 2 239 | 7 222 | 3 186 | 10 276 |
| Total income | | 2 401 542 | 1 923 828 | 3 417 086 | 2 737 361 |
| Direct cost of goods sold or services rendered | | -1 344 475 | -1 076 799 | -1 913 016 | -1 532 147 |
| Marketing, advertising and public relations expenses | | -67 795 | -125 167 | -96 464 | -178 097 |
| Bad receivables | 11 | -18 580 | 2 631 | -26 437 | 3 744 |
| Operating expenses | | -181 339 | -189 537 | -258 022 | -269 687 |
| Salaries and social expenses | 12 | -523 066 | -521 879 | -744 256 | -742 567 |
| Bonuses and social expenses | 12 | -14 026 | -23 403 | -19 957 | -33 299 |
| Depreciation expense | | -71 519 | -73 223 | -101 762 | -104 187 |
| Other expenses | | -16 339 | -3 878 | -23 248 | -5 518 |
| Operating expenses | | -2 237 139 | -2 011 255 | -3 183 162 | -2 861 758 |
| EBIT | | 164 403 | -87 427 | 233 924 | -124 396 |
| Financial income (except ForEx rate difference) | | 3 331 | 4 987 | 4 740 | 7 096 |
| Foreign exchange +gain/(loss) | | -67 652 | -36 901 | -96 260 | -52 505 |
| Financial items | | -64 321 | -31 914 | -91 521 | -45 411 |
| Share of profit/(loss) of equity-accounted investees | | -4 633 | 56 | -6 592 | 80 |
| EBT | | 95 449 | -119 285 | 135 812 | -169 728 |
| Corporate income tax | | -4 116 | -992 | -5 857 | -1 411 |
| Profit after taxes | | 91 333 | -120 277 | 129 955 | -171 139 |
| Net profit | | 91 333 | -120 277 | 129 955 | -171 139 |

*Earnings per share

EPS 30.09.2013. = 0.03 LVL (0.04 EUR)

EPS 30.09.2012. = -0.04 LVL (-0.06 EUR)

Consolidated cash flow statement for 3 months of the financial year 2013/14

| | 30.09.2013 | 30.09.2012 | 30.09.2013 | 30.09.2012 |
|---|-----------------|-----------------|-----------------|-----------------|
| | LVL | LVL | EUR | EUR |
| CASH GENERATED FROM OPERATIONS (of which) | -190 133 | -57 117 | -270 535 | -81 270 |
| Cash received from customers | 2 569 850 | 1 897 113 | 3 656 568 | 2 699 350 |
| Cash paid to suppliers and employees | -2 780 560 | -1 897 048 | -3 956 380 | -2 699 256 |
| Paid/Received VAT, corporate income tax | 20 577 | -57 182 | 29 278 | -81 363 |
| NET CASH USED IN INVESTING ACTIVITIES (of which) | -51 805 | -85 192 | -73 712 | -121 217 |
| Investment in equity-accounted investees | -4 570 | -3 605 | -6 503 | -5 129 |
| Cash paid/received for short-term investments | 3 854 | -8 604 | 5 484 | -12 242 |
| Cash paid for purchasing non-current physical assets | -52 690 | -81 633 | -74 971 | -116 153 |
| Interest received | 1 601 | 8 650 | 2 278 | 12 308 |
| NET CASH USED IN FINANCING ACTIVITIES (of which) | 65 710 | -238 863 | 93 497 | -339 871 |
| Repayment of short-term loans | 35 140 | 8 453 | 50 000 | 12 028 |
| Repayment of long-term loans | 0 | 5 694 | 0 | 8 102 |
| Cash paid of short-term loans | 0 | -253 010 | 0 | -360 001 |
| Cash received from EU funds | 30 570 | 0 | 43 497 | 0 |
| Effects of exchange rate changes | -2 122 | -334 | -3 019 | -475 |
| TOTAL CASH FLOW: | -178 349 | -381 506 | -253 768 | -542 834 |
| Cash and cash equivalents as at the beginning of period | 1 974 385 | 1 328 770 | 2 809 297 | 1 890 669 |
| Cash and cash equivalents as at the end of period | 1 796 036 | 947 264 | 2 555 529 | 1 347 835 |
| NET INCREASE / DECREASE IN CASH AND CASH EQUIVALENTS | -178 349 | -381 506 | -253 768 | -542 834 |

Statement of changes in consolidated equity for the 3 months period ended September 30 2013

| | Share capital | Share premium | Currency translation reserve | Retained earnings | Total |
|---------------------------------|------------------|------------------|------------------------------|-------------------|------------------|
| | LVL | LVL | LVL | LVL | LVL |
| As at 30 June 2012 | 2 970 180 | 2 004 204 | - | 2 523 215 | 7 497 650 |
| Dividend relating to 2010/2011 | - | - | - | -297 018 | -297 018 |
| Currency translation difference | 0 | 0 | -86 | - | -86 |
| Loss for the year | - | - | - | -29 513 | -29 513 |
| As at 30 June 2013 | 2 970 180 | 2 004 204 | -35 | 2 196 684 | 7 171 033 |
| Currency translation difference | - | - | 629 | 0 | 629 |
| Profit for the period | - | - | - | 91 333 | 91 333 |
| As at 30 September 2013 | 2 970 180 | 2 004 204 | 594 | 2 288 017 | 7 262 995 |

Statement of changes in consolidated equity for the 3 months period ended September 30 2013

| | Share capital | Share premium | Currency translation reserve | Retained earnings | Total |
|---------------------------------|------------------|------------------|------------------------------|-------------------|-------------------|
| | EUR | EUR | EUR | EUR | EUR |
| As at 30 June 2012 | 4 226 185 | 2 851 725 | - | 3 590 211 | 10 668 195 |
| Dividend relating to 2010/2011 | - | - | - | -422 619 | -422 619 |
| Currency translation difference | - | - | -122 | - | -122 |
| Loss for the year | - | - | - | -41 994 | -41 994 |
| As at 30 June 2013 | 4 226 185 | 2 851 725 | -50 | 3 125 599 | 10 203 460 |
| Currency translation difference | - | - | 895 | 0 | 895 |
| Profit for the period | - | - | - | 129 955 | 129 955 |
| As at 30 September 2013 | 4 226 185 | 2 851 725 | 845 | 3 255 554 | 10 334 310 |

Notes for interim report

Note 1 Short-term investments

| | 30.09.2013 LVL | 30.09.2012 LVL | 30.09.2013 EUR | 30.09.2012 EUR |
|------------------------|-------------------|-------------------|-------------------|-------------------|
| Short-term investments | 411 209 | 1 866 997 | 585 098 | 2 656 497 |

Short-term investments consist of deposits with a maturity period of more than 90 days.

Note 2 Customer receivables

| | 30.09.2013 LVL | 30.09.2012 LVL | 30.09.2013 EUR | 30.09.2012 EUR |
|---|-------------------|-------------------|-------------------|-------------------|
| Long-term receivables | 21 876 | 49 073 | 31 127 | 69 825 |
| Accounts receivable | 1 843 538 | 1 462 387 | 2 623 118 | 2 080 789 |
| Due from joint venture | 33 726 | - | 47 988 | - |
| Provisions for bad and doubtful accounts receivable | (374 613) | (292 550) | (533 026) | (416 261) |
| Total accounts receivable | 1 502 651 | 1 169 837 | 2 090 092 | 1 664 529 |
| Total receivables | 1 524 527 | 1 218 910 | 2 121 219 | 1 734 354 |

Total receivables increased by 25% comparing with the previous year reflecting increased sales volumes and increased sales on credit. Provisions for doubtful accounts receivable has increased by 25% as Groups had to record additional provisions for customers who delayed agreed payments terms. Calculations were done according to Group's provision calculation policy.

Note 3 Other current receivables

| | 30.09.2013 LVL | 30.09.2012 LVL | 30.09.2013 EUR | 30.09.2012 EUR |
|---------------------------|-------------------|-------------------|-------------------|-------------------|
| Other current receivables | 58 718 | 219 343 | 83 548 | 312 097 |

Three research projects initiated by the Parent were realized in competence center "LEO pētījumu centrs"(LEO) till the end of 2012. LEO is the company co-founded by Latvian Electrical Engineering and electronic Industry Association (LETERA) members. As government made a decision to change principles of co-financing for competence centers by decreasing support SAF Tehnika decided to finish research projects. The LEO keeps 56 thousand LVL (EUR 80 thousand) which the Group has paid-in for LEO as a deposit for execution of projects until all financial issues be clarified with government structures.

Note 4 Loans

| | 30.09.2013 LVL | 30.09.2012 LVL | 30.09.2013 EUR | 30.09.2012 EUR |
|------------------|-------------------|-------------------|-------------------|-------------------|
| Short-term loans | 217 869 | 271 986 | 310 000 | 387 001 |

The Parent has lent 182 729 LVL (EUR 260 000) to related party SIA Namīpašumu pārvalde based on a loan agreement. The initial loan repayment date was prolonged till December 30, 2013.

Note 5 Inventories

| | 30.09.2013 LVL | 30.09.2012 LVL | 30.09.2013 EUR | 30.09.2012 EUR |
|---------------------------------|-------------------|-------------------|-------------------|-------------------|
| Raw materials | 1 187 678 | 1 019 437 | 1 689 914 | 1 450 528 |
| Allowance for slow-moving items | (395 947) | (597 759) | (563 382) | (850 534) |
| Work-in- progress | 1 229 398 | 1 695 756 | 1 749 276 | 2 412 843 |
| Finished goods | 1 264 280 | 890 358 | 1 798 908 | 1 266 865 |
| Prepayments to suppliers | 64 273 | 41 973 | 91 452 | 59 722 |
| | 3 349 682 | 3 049 765 | 4 766 168 | 4 339 424 |

Inventories in comparison with September 30, 2012 increased by 10%. The main increase is in component stock due to increased sales and respectively production volumes, and in finished goods part as some deliveries were postponed on customers' request.

The Group is keeping inventory reserves in order to be able to produce orders in competitive terms for products currently being in the Group's product list. Group also keeps components for previously produced and sold product types for repair and maintenance purpose.

Note 6 Non-current assets

| | 30.09.2013 LVL | 30.09.2012 LVL | 30.09.2013 EUR | 30.09.2012 EUR |
|-------------------------------------|-------------------|-------------------|-------------------|-------------------|
| Plant and equipment | 2 292 653 | 2 256 301 | 3 262 151 | 3 210 427 |
| Other equipment and fixtures | 1 312 854 | 1 188 270 | 1 868 023 | 1 690 756 |
| Accumulated depreciation | (3 130 082) | (2 946 846) | (4 453 705) | (4 192 984) |
| Other long term assets | - | 14 827 | - | 21 097 |
| | 475 425 | 512 552 | 676 469 | 729 296 |
| Purchased licenses, trademarks etc. | 87 633 | 74 415 | 124 691 | 105 883 |
| Other long term intangible assets | 62 374 | - | 88 750 | - |
| | 150 007 | 74 415 | 213 441 | 105 883 |

The Group invested 66 thousand LVL (94 thousand EUR) in Q1 of FY 2013/2014 – mainly in IT HW and certification.

Note 7 Accounts payable

| | 30.09.2013 LVL | 30.09.2012 LVL | 30.09.2013 EUR | 30.09.2012 EUR |
|------------------|-------------------|-------------------|-------------------|-------------------|
| Accounts payable | 687 546 | 799 387 | 978 290 | 1 137 425 |

Note 8 Tax liabilities

| | 30.09.2013 LVL | 30.09.2012 LVL | 30.09.2013 EUR | 30.09.2012 EUR |
|-----------------|-------------------|-------------------|-------------------|-------------------|
| Tax liabilities | 80 305 | 114 086 | 114 264 | 162 330 |

Note 9 Salary-related accrued expenses

| | 30.09.2013 LVL | 30.09.2012 LVL | 30.09.2013 EUR | 30.09.2012 EUR |
|---------------------------------|-------------------|-------------------|-------------------|-------------------|
| Salary-related accrued expenses | 246 367 | 215 672 | 350 549 | 306 874 |

Salary– related accrued expenses increased by 14% in comparison with September 30, 2012. Main reason – increase in fixed salaries for several group of specialists providing market remuneration level.

Note 10 Segment information

a) The Group'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 3 models covering unlicensed frequency bands in 5.8, 17 and 24 GHz, which are made available for use in a growing number of countries around the globe.

This note provides information about division of the Group's turnover and balance items by structural units by product type for 3 month of the financial year 2013/14 and financial year 2012/13.

| | CFM; CFIP; FreeMile | | Other | | Total | |
|--|---------------------|------------------|------------------|------------------|------------------|------------------|
| | 2012/13 | 2011/12 | 2012/13 | 2011/12 | 2012/13 | 2011/12 |
| | LVL | LVL | LVL | LVL | LVL | LVL |
| Segment assets | 3 801 868 | 3 968 466 | 1 818 116 | 1 542 132 | 5 619 984 | 5 510 598 |
| Undivided assets | | | | | 2 771 446 | 3 104 998 |
| Total assets | | | | | 8 391 430 | 8 615 596 |
| Segment liabilities | 665 029 | 885 498 | 287 456 | 190 324 | 952 485 | 1 075 822 |
| Undivided liabilities | | | | | 175 950 | 162 556 |
| Total liabilities | | | | | 1 128 435 | 1 238 378 |
| Net sales | 1 753 959 | 1 481 705 | 645 344 | 434 901 | 2 399 303 | 1 916 606 |
| Segment results | 498 646 | 310 318 | 214 556 | 212 572 | 713 202 | 522 890 |
| Undivided expenses | | | | | -581 401 | -617 476 |
| Profit from operations | | | | | 131 801 | -94 586 |
| Other income | | | | | 34 926 | 12 116 |
| Financial income/expenses, net | | | | | -66 645 | -36 871 |
| Share of profit/(loss) of equity-accounted investees | | | | | -4 633 | 56 |
| Profit before taxes | | | | | 95 449 | -119 285 |
| Corporate income tax | | | | | -4 116 | -992 |
| Profit after taxes | | | | | 91 333 | -120 277 |
| Net profit | | | | | 91 333 | -120 277 |
| Other information | | | | | | |
| Additions of property plant and equipment and intangible assets | 22 879 | 28 980 | 0 | 0 | 22 879 | 28 980 |
| Undivided additions | | | | | 54 888 | 36 523 |
| Total additions of property plant and equipment and intangible assets | | | | | 77 767 | 65 503 |
| Depreciation and amortization | 28 109 | 39 571 | 197 | 457 | 28 306 | 40 028 |
| Undivided depreciation | | | | | 43 213 | 33 195 |
| Total depreciation and amortization | | | | | 71 519 | 73 223 |

| | CFM; CFIP; FreeMile | | Other | | Total | |
|--|---------------------|----------------|----------------|----------------|-------------------|-------------------|
| | 2012/13 EUR | 2011/12 EUR | 2012/13 EUR | 2011/12 EUR | 2012/13 EUR | 2011/12 EUR |
| Segment assets | 5 409 571 | 5 646 618 | 2 586 945 | 2 194 256 | 7 996 515 | 7 840 875 |
| Undivided assets | | | | | 3 943 414 | 4 418 014 |
| Total assets | | | | | 11 939 929 | 12 258 889 |
| Segment liabilities | 946 251 | 1 259 950 | 409 013 | 270 807 | 1 355 264 | 1 530 757 |
| Undivided liabilities | | | | | 250 354 | 231 299 |
| Total liabilities | | | | | 1 605 618 | 1 762 056 |
| Net sales | 2 495 659 | 2 108 276 | 918 242 | 618 808 | 3 413 901 | 2 727 085 |
| Segment results | 709 509 | 441 543 | 305 286 | 302 464 | 1 014 795 | 744 005 |
| Undivided expenses | | | | | -827 258 | -878 589 |
| Profit from operations | | | | | 187 536 | -134 584 |
| Other income | | | | | 49 695 | 17 240 |
| Financial expenses, net | | | | | -94 827 | -52 463 |
| Share of profit/(loss) of equity-accounted investees | | | | | -6 592 | 80 |
| Profit before taxes | | | | | 135 812 | -169 727 |
| Corporate income tax | | | | | -5 857 | -1 411 |
| Profit after taxes | | | | | 129 955 | -171 139 |
| Net profit | | | | | 129 955 | -171 139 |
| Other information | | | | | | |
| Additions of property plant and equipment and intangible assets | 32 554 | 41 235 | 0 | 0 | 32 554 | 41 235 |
| Undivided additions | | | | | 78 099 | 51 968 |
| Total additions of property plant and equipment and intangible assets | | | | | 110 653 | 93 203 |
| Depreciation and amortization | 39 996 | 56 304 | 280 | 650 | 40 276 | 56 955 |
| Undivided depreciation | | | | | 61 486 | 47 231 |
| Total depreciation and amortization | | | | | 101 762 | 104 186 |

b) This note provides information about division of the Group's turnover and assets by geographical regions (customer location) for 3 month of the financial year 2013/14 and financial year 2012/13.

| | Net sales | | Assets | | Net sales | | Assets | |
|---------------------------|------------------|------------------|-------------------|-------------------|------------------|------------------|-------------------|-------------------|
| | 2013/14 LVL | 2012/13 LVL | 30.09.2013 LVL | 30.09.2012 LVL | 2013/14 EUR | 2012/13 EUR | 30.09.2013 EUR | 30.09.2012 EUR |
| Americas | 824 894 | 825 704 | 676 616 | 399 678 | 1 173 719 | 1 174 871 | 962 739 | 568 691 |
| Europe, CIS | 903 422 | 564 285 | 290 516 | 208 056 | 1 285 454 | 802 905 | 413 367 | 296 036 |
| Asia, Africa, Middle East | 670 987 | 526 616 | 535 788 | 562 103 | 954 729 | 749 309 | 762 357 | 799 799 |
| | 2 399 303 | 1 916 606 | 1 502 920 | 1 169 837 | 3 413 902 | 2 727 085 | 2 138 463 | 1 664 526 |
| Unallocated assets | - | - | 6 888 510 | 7 445 759 | - | - | 9 801 466 | 10 594 362 |
| | 2 399 303 | 1 916 606 | 8 391 430 | 8 615 596 | 3 413 902 | 2 727 085 | 11 939 929 | 12 258 888 |

Note 11 Bad receivables

| | 30.09.2013 LVL | 30.09.2012 LVL | 30.09.2013 EUR | 30.09.2012 EUR |
|-----------------|-------------------|-------------------|-------------------|-------------------|
| Bad receivables | (18 580) | 2 631 | (26 437) | 3 744 |

Provisions for doubtful and bad accounts receivable were calculated according to Group's provision calculation policy. The Group starts to calculate provisions for customers who delays payment terms more than 3 months. Additional provisions were calculated for debts where probability not to receive payment is high, although agreed payment term has not come yet.

Note 12 Salaries, bonuses and social expenses

| | 30.09.2013 | 30.09.2012 | 30.09.2013 | 30.09.2012 |
|------------------------------|-------------------|-------------------|-------------------|-------------------|
| | LVL | LVL | EUR | EUR |
| Salaries and social expenses | (523 066) | (521 879) | (744 256) | (742 567) |
| Bonuses and social expenses | (14 026) | (23 403) | (19 957) | (33 299) |
| | (537 092) | (545 282) | (764 213) | (775 866) |

Salaries and social expenses, in comparison with the 3 months period of the previous financial year were on par with the same period last financial year.

As the Group's financial targets were not reached bonuses and respective social expenses were lower by 40%.