# A/S „SAF Tehnika”

# Consolidated financial statements and separate financial statements

for the year ended
30 June 2017

(Translation from Latvian)

**Content**

## General information

**Information on the Parent company:**

| | |
|---|---|
| Name of the Company | A/S SAF Tehnika |
| Legal status of the Company | Joint Stock Company |
| Number, place and date of registration | 40003474109<br>Riga, Latvia, 27 December 1999<br>Registered with the Commercial Register on 10 March 2004 |
| Address | Ganību dambis 24a<br>Riga, LV-1005<br>Latvia |
| Names of shareholders | Didzis Liepkalns (17.05%)<br>Andrejs Grišāns (10.03%)<br>Normunds Bergs (9.74%)<br>Juris Ziema (8.71%)<br>Koka Zirgs SIA (8.84%)<br>Vents Lācars (6.08%)<br>Other shareholders (39.55%) |
| Names of the Council members, their positions | Vents Lācars – Chairman of the Council (6.08% or 180 546 shares)<br>Juris Ziema – Member of the Council (8.71% or 258 762 shares)<br>Andrejs Grišāns – Member of the Council (10.03% or 297 888 shares)<br>Ivars Šenbergs – Member of the Council (0.00% or 2 shares)<br>Aivis Olšteins – Member of the Council (no A/S SAF Tehnika shareholder) |
| Names of the Board members, their positions | Normunds Bergs – Chairman of the Board (9.74% or 289 377 shares)<br>Didzis Liepkalns – Member of the Board (17.05% or 506 460 shares)<br>Zane Jozepa – Member of the Board (no A/S SAF Tehnika shareholder)<br>Jānis Bergs – Member of the Board (no A/S SAF Tehnika shareholder) |
| Responsible person for accounting | Dace Langada – Chief accountant |
| Reporting period | 1 July 2016 – 30 June 2017 |
| Previous reporting year | 1 July 2015 – 30 June 2016 |
| Auditor and address | Potapoviča un Andersone SIA<br>Licence no. 99<br>Ūdens iela 12-45<br>Riga, LV-1007, Latvia<br><br>Anna Temerova - Allena<br>Responsible certified auditor<br>Certificate No.154 |

**Information on subsidiaries:**

| | |
|---|---|
| Participation share: 100% | SAF North America LLC<br>3250 Quentin Street, Unit 128<br>Aurora, Colorado 80011, USA |
| Participation share: 100% | SAF Services LLC<br>3250 Quentin Street, Unit 128<br>Aurora, Colorado 80011, USA |

## Management Report

### Business Activity

A/S "SAF Tehnika" and its subsidiaries (hereinafter referred to as the Group) are developers, manufacturers and distributors of digital microwave communication equipment. The Group provides comprehensive and cost-effective wireless broadband connection solutions for digital voice and data transmission to fixed and mobile network operators and data service providers both in the public and private sectors as an alternative to cable networks.

In the financial year (FY) 2016/2017, the Group's net turnover was 17.04 million euros, which is by 3.36 million euros or 19.6% higher than the previous financial year 2015/2016. The net turnover of the Parent company was 14.64 million euros in FY 2016/2017, which is 2.5 million euros more than last FY 2015/2016.

In the reporting year, the Group continued to work at the research and identification of customer-specific needs by developing and improving the niche product offerings. Development of a specific customer-requested functionality for A/S "SAF Tehnika" products brought additional revenues. There is still an increase in demand for radio systems that provide enhanced data transmission rate and can be enhanced and updated in order to increase data transmission capacity. This tendency increasingly determines the direction of new product development both for A/S "SAF Tehnika" and across the markets.

In the American region, where accounting records are kept of sales in the countries of both North, South, and Central Americas, the turnover was 38% higher than the previous year and made up to 58% of the Group's annual turnover. The US subsidiary company "SAF North America" LLC made a significant contribution to the Group's product marketing and sales in USA and Canada. It also provides services of product warehousing and logistics. Sales in the European and CIS region have increased by 16%. Sales growth is related to individual projects and development of customized solutions for specific customer needs. During the reporting year, there was a 9% decline of turnover in the AMEA (Asia, Middle East, Africa) region, where the competition in the market of wireless data communication equipment is still highly intense. In total, the region's turnover is equivalent to the average of recent years.

Exports made 99.36% of the Group's (99.26% of the Parent company's) turnover and amounted to 16.93 million euros (14.53 million euros, accordingly). During the reporting year, the Group exported its products to 77 countries worldwide.

In order to promote SAF brand recognition and to introduce SAF products and solutions to the existing and potential customers, the Group continued to actively participate in the most significant trade shows across Europe, America, and Asia.

Export activities of the Group were supported by the Investment and Development Agency of Latvia (LIAA), which co-funded the Group's participation in some of the industry exhibitions.

In the reporting year, CFIP product line had the highest demand and *Integra, FreeMile, Lumina,* and *Marathon* were the best-selling products of it. There is an increasing demand for newer products which is the *Spectrum Compact* line – measuring equipment for data network engineers.

With a view to building and maintaining excellent customer relationship, A/S "SAF Tehnika" has introduced the Net Promoter Score system, which allows measuring customer loyalty and satisfaction with the services provided by the company, as well as early fixing and prevention of any problems in communication with customers and partners. In the reporting year, the company completed its transition from the Quality Management System ISO 9001:2008 to ISO 9001:2015, which also includes new requirements for operational risk assessment.

At the end of the year, the Group's (Parent company's) net cash funds balance was 6.5 million euros (5.16 million euros, accordingly). The Group's net cash flow was 598 thousand euros (accordingly, the Parent company's net cash flow was negative – 513 thousand euros) in the reporting year.

During the reporting year, the Group invested 368 thousand euros into the purchase of IT infrastructure, production and research equipment, software and licenses, as well as product certification.

The Group (Parent company) closed the FY 2016/2017 with profit of 1.747 million euros (1.675 million euros, accordingly), which is 822 thousand euros (786 thousand euros, accordingly) more than the previous financial year.

### Research and Development

The Group's long-term prerequisite for the existence and a success factor is its ability to ensure continuous product development. During the financial year, the Group continued to improve the INTEGRA product line, as well as solutions were found to enhance the functionality, improve performance, and reduce production costs. At the end of the year, the Group announced the launch of the innovative Internet of Things (IoT) solution for environmental monitoring – Aranet. Aranet is an industrial-grade wireless environmental monitoring solution that allows monitoring temperature, humidity, and CO2 level. The product line consists of two solutions – Aranet MINI for smaller site size monitoring, and Aranet PRO for industrial-grade deployment. The website and the online shop aranet.com were officially launched in late May. This is the company's attempt to expand its range of products to new sectors not related to its core business activities.

Designs of new products are in progress. In the reporting period, the Latvian electrical and optical equipment industry competence center “LEO Pētījumu centrs” SIA provided 172 thousand euros.

**Management Report** (continued)

**Future Prospects**

A/S „SAF Tehnika” is the company with long-term competence in development and production of microwave radios. The company is capable of delivering excellent, high-quality products for the broad market as well as succeeding in development of niche solutions. The Group’s task is to proceed with development of next generation data transmission equipment, continue its work on manufacturing high-quality products for the microwave data communication market, providing not only standardized solutions, but also product modifications in order to meet customers’ special needs. The goal of the Company is to stabilize sales levels to ensure a positive net result in the long term.

The Group is financially stable and looks positively to the next financial year; however, the Board of the Parent company cannot provide certain prognosis for sales figures and operational results.

**Subsequent Events**

During a period of time between the year-end date and the date on which these financial statements are signed, there were no events that would materially affect the financial position of the Group and/or the Parent company as on 30 June 2017, and/or financial results and cash flows during the relevant reporting year.

**Profit Allocation Proposal by the Board**

The Board of the Parent company proposes to pay dividend of 2 million euros.

Together with this separate and consolidated financial statement 2016/2017 by A/S “SAF Tehnika”, the Corporate Governance Report 2016/2017 has also been submitted to “Nasdaq Riga” AS.

On behalf of the Board:

Normunds Bergs
Chairman of the Board

Riga, 23 October 2017

## STATEMENT OF THE BOARD'S RESPONSIBILITY

The Board of A/S “SAF Tehnika” is responsible for preparing separate and consolidated financial statements of A/S “SAF Tehnika”.

The separate and consolidated financial statements set out on pages 11 to 43 and are prepared in accordance with the source documents and present fairly the A/S “SAF Tehnika” (Parent company`s) and A/S “SAF Tehnika” and its subsidiaries (the Group) financial position as at 30 June 2017 and the results of financial performance and cash flows for the year then ended on 30 June 2017.

The above mentioned financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the European Union on a going concern basis. Appropriate accounting policies have been applied on a consistent basis. Prudent and reasonable judgments and estimates have been made by the Board in the preparation of the financial statements.

The Board of A/S “SAF Tehnika” is responsible for the maintenance of proper accounting records, the safeguarding of the Group's and the Parent company’s assets and the prevention and detection of fraud and other irregularities in the Group and the Parent company. The Board is also responsible for compliance with requirements of normative acts of the countries where Group companies and the Parent company operate.

On behalf of the Board:

Normunds Bergs
Chairman of the Board

Riga, 23 October 2017

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**Independent Auditor's Report**
(Translation from Latvian)

**To the shareholders of AS "SAF Tehnika"**

**Our Opinion on the Separate and Consolidated Financial Statements of AS "SAF Tehnika"**
We have audited the accompanying separate financial statements and consolidated financial statements of AS "SAF Tehnika" ("the Company") and its subsidiaries ("the Group") set out on pages 11 to 43 of the accompanying consolidated annual report, which comprise:

- the separate and consolidated statement of financial position as at 30 June 2017,
- the separate and consolidated statement of profit or loss and other comprehensive income for the year then ended,
- the separate and consolidated statement of changes in equity for the year then ended,
- the separate and consolidated statement of cash flows for the year then ended, and
- the notes to the separate and consolidated financial statements, which include a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying separate and consolidated financial statements give a true and fair view of the separate and consolidated financial position of AS "SAF Tehnika" and its subsidiaries as at 30 June 2017, and of their separate and consolidated financial performance and their separate and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS).

**Basis for Opinion**
In accordance with the Law on Audit Services of the Republic of Latvia we conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Separate and Consolidated Financial Statements* section of our report.
We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and independence requirements included in the Law on Audit Services of the Republic of Latvia that are relevant to our audit of the separate and consolidated financial statements in the Republic of Latvia. We have also fulfilled our other professional ethics responsibilities and objectivity requirements in accordance with the IESBA Code and Law on Audit Services of the Republic of Latvia.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Key Audit Matters**
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate and consolidated financial statements of the current period. These matters were addressed in the context of our audit of the separate and consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.
We have determined the matters described below to be the key audit matters to be communicated in our report:

| *Audit matter* | *Audit procedures performed* |
|---|---|
| <u>*Revenue completeness and periodization*</u> | |
| Net sales of goods and related services presented in the financial statements of the separate financial statements of the Parent company are EUR 14 635 022. The relevant income positions of the Group amount to EUR 17 042 574 respectively.<br><br>Detailed information on the relevant income items is presented in Note 17 to the financial statements (financial information) and section (p) of the accounting policies (income recognition principles description).<br><br>The Group is developer, manufacturer and distributor of digital microwave communication equipment in more than 70 countries around the world, that requires implementation and maintenance of adequate and consistent income recognition and control procedures, that provides precise periodization and completeness, | Our audit procedures, amidst others, included the following:<br>• meeting with the financial management of the Parent company in order to discuss the specifics of the current market situation, income structure of the Group, changes in the reporting period and chief material risks for ensuring income recognition completeness;<br>• obtaining understanding of the adequacy of the accounting methods and control procedures applied;<br>• performance of detailed analytical procedures, by evaluating level of recognized income comparing to the previous year and monthly fluctuations, and, in cases of significant fluctuations, performed substantive tests of supporting documentation and accounting records; |

| *Audit matter* | *Audit procedures performed* |
|---|---|
| that is why income recognition and control matters are considered to be one of the key audit matters. | • evaluating the dynamics of receivables repayment after the end of the reporting year, performed detailed substantive tests of supporting documentation and accounting records;<br>• performing reconciliation procedures with third parties, confirming turnover during the reporting year and balance as at the end of the reporting year;<br>• in cases of material transactions, performed substantive tests of supporting documentation and accounting records. |
| <u>*Existence and net realisable value of stock*</u> | |
| The value of stock presented in the financial statements of the separate financial statements of Parent company amounts to EUR 5 299 401, that consists of gross value of stock in amount of EUR 5 796 736 and provisions for slow moving items in the amount of EUR 497 335. Net realisable value of stock in the Group's financial statements amounts to EUR 5 535 525.<br><br>Detailed information on goods for sale is included in Note 8 to the financial statements (financial information) and section (j) of the accounting policies (accounting principles).<br><br>Considering the rapid development of the technology industry and the volume of stock in the Parent company' s separate financial statements and Group's consolidated financial statements, it is essential to determine the net realisable value of stock, therefore we consider this to be one of the key audit matters. | Our audit procedures, amidst others, included the following:<br>• evaluating of the results of operations of the internal control structures in stock-count performance and other control procedures performed;<br>• reviewing the results of the stock-counts;<br>• participation in the year end stock counts, observing the stock-count procedures and performance;<br>• on a random selection basis testing the adequacy of costing of specific goods items;<br>• performing detailed analytical procedures reconciling the profit ratios on the sale of goods to the sales policies as developed by the management of the Group;<br>• review of the ageing analysis of goods for sale and evaluation of the adequacy of provisions made in accordance with the provisioning policies as developed by the management of the Group. |
| <u>*Transactions with related parties*</u> | |
| Parent company of the Group undertakes transactions also with its subsidiary. In Parent company's separate financial statements Net sales of goods and related services to its subsidiary are EUR 5 424 555, while the amount of services received amounts to EUR 74 883.<br><br>Detailed information on goods for sale is included in Note 28 to the financial statements (financial information), as well as in Notes 9, 10, 14 and 17.<br><br>We consider this a key audit matter, since IFRS compliant disclosure on related party transactions is important in proper understanding of the financial performance and financial position of the Company. | Our audit procedures, amidst others, included the following:<br>• performing procedures on related party identification and related party transactions undertaken by the Company during the reporting year, including identification of related parties from the public information sources and reconciling this information to the data provided by the management of the Company;<br>• meeting the management of the Parent Company's to discuss main principles of related party transactions;<br>• on a sample basis testing terms of related party transactions and ensuring their proper disclosure in the financial statements;<br>• testing that the related party disclosure included in the financial statements complies to IFRS requirements and reconciles to the Company's accounting data. |
| <u>*The subsidiary of the Parent company*</u> | |
| The Parent company of the Group has a subsidiary, SAF North America LLC, registered in the United States of America.<br><br>The subsidiary SAF North America LLC has made significant contributions to marketing and sales of the Group's products in the United States, providing product warehousing and logistics services and delivering goods and services to the United States. The Group's annual turnover in the United States amounts to 58% of the total sales, therefore we consider this issue to be significant in the context of auditing. | Our audit procedures, amidst others, included the following:<br>• meeting the management of the Parent company to discuss the operations and key operating risks of the subsidiary SAF North America LLC;<br>• obtaining understanding of the adequacy of the internal supervision and control procedures implemented by the subsidiary, such as the internal audit function, the advice of local tax experts and others, and we have assessed their compliance with the identified risks; |

| *Audit matter* | *Audit procedures performed* |
|---|---|
| Detailed information on this matter is disclosed in Note 28 to the financial statements (financial information), as well as Notes 9, 10, 14 and 17 (explanatory notes on financial position items).<br><br>According to the relevant US law, the SAF North America LLC Financial Report is not subject to statutory audit in the United States, therefore the audit procedures necessary to express an opinion on the Group's consolidated financial statements are performed by the Auditor of the Parent company of the Group. As the Group's subsidiary is important in the context of the consolidated financial statements of the Group, we consider this issue a significant audit matter. | • performance of detailed analytical procedures, by evaluating level of recognized income comparing to the previous year and monthly fluctuations, in cases of significant fluctuations, performed substantive tests of supporting documentation and accounting records;<br>• evaluating the dynamics of receivables repayment after the end of the reporting year, performed detailed substantive tests of supporting documentation and accounting records;<br>• performing reconciliation procedures with third parties, confirming turnover during the reporting year and balance as at the end of the reporting year. |

**Other Matter**

**Reporting on Other Information**

The Group management is responsible for the other information. The other information comprises:

- the Management Report, as set out on pages 4 to 5 of the accompanying separate and consolidated Annual report,
- the Statement on Management Responsibility, as set out on page 6 of the accompanying separate and consolidated annual report,
- the Statement of Corporate Governance that is filed with "Nasdaq Riga" AS together with the accompanying separate and consolidated annual report.

Our opinion on the separate and consolidated financial statements does not cover the other information included in the separate and consolidated annual report, and we do not express any form of assurance conclusion thereon, except as described in the *Other reporting responsibilities in accordance with the legislation of the Republic of Latvia* section of our report.

In connection with our audit of the separate and consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate and consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed and in light of the knowledge and understanding of the Group and its environment obtained in the course of our audit, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Other reporting responsibilities in accordance with the legislation of the Republic of Latvia**

In accordance with the Law on Audit Services of the Republic of Latvia with respect to the Management Report, our responsibility is to consider whether the Management Report is prepared in accordance with the requirements of the 'Law On the Annual Reports and Consolidated Annual Reports' of the Republic of Latvia.

Based solely on the work required to be undertaken in the course of our audit, in our opinion:

- the information given in the Management Report for the financial year for which the separate and consolidated financial statements are prepared is consistent with the separate and consolidated financial statements; and
- the Management Report has been prepared in accordance with the requirements of the 'Law On the Annual Reports and Consolidated Annual Reports' of the Republic of Latvia.

In accordance with the Law on Audit Services of the Republic of Latvia with respect to the Statement of Corporate Governance, our responsibility is to consider whether the Statement of Corporate Governance includes the information required in section 56.1, first paragraph, clause 3, 4, 6,, 8 and 9, as well as section 56.2, second paragraph, clause 5, and third paragraph of the Financial Instruments Market Law and if it includes the information stipulated in section 56.2 second paragraph, clause 1, 2, 3, 4, 7 and 8 of the Financial Instruments Market Law.

In our opinion, the Statement of Corporate Governance includes the information required in section 56.1, first paragraph, clause 3, 4, 6, 8 and 9, as well as section 56.2, second paragraph, clause 5, and third paragraph of the Financial Instruments Market Law and it includes the information stipulated in section 56.2 second paragraph, clause 1, 2, 3, 4, 7 and 8 of the Financial Instruments Market Law.

**Responsibilities of Management and Those Charged with Governance for the Separate and Consolidated Financial Statements**

Management is responsible for the preparation of the separate and consolidated financial statements that give a true and fair view in accordance with IFRS and for such internal control as management determines is necessary to enable the preparation of the separate and consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate and consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's separate and Group's consolidated financial reporting process.

**Auditor's Responsibility for the Audit of the Separate and Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the separate and consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate and consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate and consolidated financial statements, including the disclosures, and whether the separate and consolidated financial statements represent the underlying transactions and events in a manner that achieves a fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and objectivity, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate and consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The responsible certified auditor on the audit resulting in this independent auditors' report is Anna Temerova-Allena.

On behalf of
SIA Potapoviča un Andersone,
Ūdens street 12-45, Riga, LV-1007
Certified Auditors Company licence No. 99

Kristīne Potapoviča
Chairperson of the Board

Anna Temerova-Allena
Responsible Certified Auditor
Certificate No. 154
Member of the Board

Riga, 23 October 2017

**Statement of financial position**

| | | Group | | Parent company | |
|---|---|---|---|---|---|
| | | For the year ended 30 June | | For the year ended 30 June | |
| | Note | 2017 | 2016 | 2017 | 2016 |
| **ASSETS** | | EUR | EUR | EUR | EUR |
| **Long-term investments** | | | | | |
| Fixed assets | 6 | 733 303 | 720 448 | 703 346 | 696 362 |
| Intangible assets | 6 | 117 907 | 131 016 | 117 407 | 130 909 |
| Investments in subsidiaries | 7 | - | - | 32 893 | 32 893 |
| Investments in other companies | 7 | 2 148 | 2 148 | 2 148 | 2 148 |
| Long-term trade receivables | 9 | 2 993 | 3 878 | 2 993 | 3 878 |
| Deferred tax asset | 12 | 27 374 | 75 769 | 27 374 | 75 769 |
| **Total long term investments** | | **883 725** | **933 259** | **886 161** | **941 959** |
| **Current assets** | | | | | |
| Stock | 8 | 5 535 525 | 4 292 381 | 5 299 401 | 4 096 239 |
| Corporate income tax receivable | 25 | - | 114 629 | - | 114 629 |
| Trade receivables | 9 | 1 706 914 | 1 794 521 | 778 647 | 1 082 564 |
| Due from related parties | 9 | - | - | 1 226 485 | 833 658 |
| Other receivables | 10 | 274 614 | 168 689 | 263 685 | 159 246 |
| Prepaid expenses | | 132 808 | 126 671 | 104 152 | 107 461 |
| Cash and cash equivalents | 11 | 6 508 388 | 5 910 859 | 5 159 737 | 5 672 265 |
| **Total current assets** | | **14 158 249** | **12 407 750** | **12 832 107** | **12 066 062** |
| **Total assets** | | **15 041 974** | **13 341 009** | **13 718 268** | **13 008 021** |
| | | | | | |
| **SHAREHOLDERS' EQUITY** | | | | | |
| Share capital | 13 | 4 158 252 | 4 158 252 | 4 158 252 | 4 158 252 |
| Share premium | | 2 851 726 | 2 851 725 | 2 851 726 | 2 851 725 |
| Other reserves | | 8 530 | 8 530 | 8 530 | 8 530 |
| Translation reserve | | 5 207 | 10 496 | - | - |
| Retained earnings | | 5 065 006 | 4 327 801 | 4 927 983 | 4 263 127 |
| **Total shareholders' equity** | | **12 088 721** | **11 356 804** | **11 946 491** | **11 281 634** |
| **LIABILITIES** | | | | | |
| **Current liabilities** | | | | | |
| Trade and other payables | 14 | 738 528 | 984 400 | 686 268 | 719 896 |
| Provisions | 14 | 6 294 | 15 759 | 6 294 | 15 759 |
| Other liabilities | 14 | 1 982 095 | 904 120 | 845 799 | 878 212 |
| Due to related parties | | - | - | 62 130 | 62 821 |
| Corporate income tax | 25 | 163 738 | 1 538 | 136 225 | - |
| Loans | 15 | 10 397 | 12 095 | 10 397 | 12 095 |
| Deferred income | 16 | 52 201 | 66 293 | 24 664 | 37 604 |
| **Total liabilities** | | **2 953 253** | **1 984 205** | **1 771 777** | **1 726 387** |
| **Total equity and liabilities** | | **15 041 974** | **13 341 009** | **13 718 268** | **13 008 021** |

The accompanying notes on pages 15 to 43 form an integral part of these financial statements.

On behalf of the Board:

Normunds Bergs
Chairman of the Board

Dace Langada
Chief accountant

Riga, 23 October 2017

**Statement of profit or loss and other comprehensive income**

| | Note | Group | | Parent company | |
|---|---|---|---|---|---|
| | | For the year ended 30 June | | For the year ended 30 June | |
| | | 2017 | 2016 | 2017 | 2016 |
| | | EUR | EUR | EUR | EUR |
| Net sales | 17 | 17 042 574 | 13 706 812 | 14 635 022 | 12 135 736 |
| Cost of goods sold | 18 | (9 780 241) | (9 219 854) | (9 614 161) | (8 945 907) |
| **Gross profit** | | **7 262 333** | **4 486 958** | **5 020 861** | **3 189 829** |
| Sales and marketing expenses | 19 | (4 197 117) | (3 142 589) | (2 244 374) | (1 958 199) |
| Administrative expenses | 20 | (1 219 930) | (712 865) | (1 106 821) | (608 838) |
| **Profit from operating activities** | | **1 845 286** | **631 504** | **1 669 666** | **622 792** |
| Other income | 21 | 402 133 | 381 419 | 399 919 | 348 163 |
| Financial income | 22 | 11 247 | 6 807 | 11 209 | 6 807 |
| Financial expenses | 23 | (204 454) | (24 686) | (135 776) | (29 560) |
| **Profit before tax** | | **2 054 212** | **995 044** | **1 945 018** | **948 202** |
| Corporate income tax | 24 | (307 146) | (69 777) | (270 301) | (59 229) |
| **Profit of the reporting year** | | **1 747 066** | **925 267** | **1 674 717** | **888 973** |
| **Other comprehensive income** | | | | | |
| Foreign currency recalculation differences for foreign operations | | (5 289) | 1 260 | - | - |
| **Total comprehensive income** | | **1 741 777** | **926 527** | **1 674 717** | **888 973** |
| **Profit attributable to:** | | | | | |
| Shareholders of the Parent | | **1 747 066** | **925 267** | **-** | **-** |
| **Total comprehensive income attributable to:** | | | | | |
| Shareholders of the Parent | | **1 741 777** | **926 527** | **-** | **-** |
| **Profit per share attributable to the shareholders of the Company** (EUR per share): | | | | | |
| Basic and diluted earnings per share | 27 | 0.588 | 0.312 | 0.564 | 0.299 |

The accompanying notes on pages 15 to 43 form an integral part of these financial statements.

On behalf of the Board:

Normunds Bergs
Chairman of the Board

Dace Langada
Chief accountant

Riga, 23 October 2017

**Statement of changes in the shareholders’ equity of the Group**

| | Share capital EUR | Share premium EUR | Other reserves EUR | Foreign currency revaluation reserve EUR | Retained earnings EUR | Total EUR |
|---|---|---|---|---|---|---|
| ***Balance as at 30 June 2015*** | **4 158 252** | **2 851 725** | **8 530** | **9 236** | **4 412 396** | **11 440 139** |
| **Transactions with owners of the Company, recognised in equity** | **-** | **-** | **-** | **-** | **(1 009 862)** | **(1 009 862)** |
| Dividends | - | - | - | - | (1 009 862) | (1 009 862) |
| **Total comprehensive income** | | **-** | **-** | **1 260** | **925 267** | **926 527** |
| Profit of the reporting year | - | - | - | - | 925 267 | 925 267 |
| Other comprehensive income | - | - | - | 1 260 | - | 1 260 |
| ***Balance as at 30 June 2016*** | **4 158 252** | **2 851 725** | **8 530** | **10 496** | **4 327 801** | **11 356 804** |
| **Transactions with owners of the Company, recognised in equity** | **-** | **-** | **-** | **-** | **(1 009 861)** | **(1 009 861)** |
| Dividends | - | - | - | - | (1 009 861) | (1 009 861) |
| **Total comprehensive income** | **-** | **1** | **-** | **(5 289)** | **1 747 066** | **1 741 778** |
| Profit of the reporting year | - | - | - | - | 1 747 066 | 1 747 066 |
| Other comprehensive income | - | 1 | - | (5 289) | - | (5 288) |
| ***Balance as at 30 June 2017*** | **4 158 252** | **2 851 726** | **8 530** | **5 207** | **5 065 006** | **12 088 721** |

**Statement of changes in the shareholders’ equity of the Parent company**

| | Share capital EUR | Share premium EUR | Other reserves EUR | Retained earnings EUR | Total EUR |
|---|---|---|---|---|---|
| ***Balance as at 30 June 2015*** | **4 158 252** | **2 851 725** | **8 530** | **4 384 016** | **11 402 523** |
| **Transactions with owners of the Company, recognised in equity** | **-** | **-** | **-** | **(1 009 862)** | **(1 009 862)** |
| Dividends | - | - | - | (1 009 862) | (1 009 862) |
| **Total comprehensive income** | **-** | **-** | **-** | **888 973** | **888 973** |
| Profit for the reporting year | - | - | - | 888 973 | 888 973 |
| Other comprehensive income | - | - | - | - | - |
| ***Balance as at 30 June 2016*** | **4 158 252** | **2 851 725** | **8 530** | **4 263 127** | **11 281 634** |
| **Transactions with owners of the Company, recognised in equity** | **-** | **-** | **-** | **(1 009 861)** | **(1 009 861)** |
| Dividends | - | - | - | (1 009 861) | (1 009 861) |
| **Total comprehensive income** | **-** | **1** | **-** | **1 674 717** | **1 674 718** |
| Profit for the reporting year | - | - | - | 1 674 717 | 1 674 717 |
| Other comprehensive income | - | 1 | - | - | 1 |
| ***Balance as at 30 June 2017*** | **4 158 252** | **2 851 726** | **8 530** | **4 927 983** | **11 946 491** |

The accompanying notes on pages 15 to 43 form an integral part of these financial statements.

On behalf of the Board:

Normunds Bergs
Chairman of the Board

Dace Langada
Chief accountant

Riga, 23 October 2017

**Statement of cash flows**

| | Note | Group For the year ended 30 June 2017 EUR | Group For the year ended 30 June 2016 EUR | Parent company For the year ended 30 June 2017 EUR | Parent company For the year ended 30 June 2016 EUR |
|---|---|---|---|---|---|
| Profit before taxes | | 2 054 212 | 995 044 | 1 945 018 | 948 202 |
| Adjustments for: | | | | | |
| - depreciation | 6 | 300 412 | 329 291 | 281 879 | 314 483 |
| - amortization | 6 | 65 928 | 72 436 | 65 811 | 72 431 |
| - changes in adjustments to stock | 8 | (32 650) | (19 890) | (32 650) | (19 890) |
| - changes in provisions for guarantees | 14 | (9 465) | (2 452) | (9 465) | (2 452) |
| - changes in provisions for unused vacations | 14 | 35 104 | 22 089 | 35 104 | 22 089 |
| - changes in doubtful debt allowances | 9 | 28 447 | (19 083) | 29 076 | (5 875) |
| - interest income | 22 | (11 209) | (6 807) | (11 209) | (6 807) |
| - government grants | 21 | (375 938) | (291 807) | (375 938) | (291 807) |
| - (profit) on disposal of fixed assets | | (15 796) | (394) | (15 796) | (394) |
| **Operating profit before changes in working capital** | | **2 039 045** | **1 078 427** | **1 911 830** | **1 029 980** |
| (Increase)/decrease of stock | | (1 208 759) | 402 034 | (1 168 777) | 394 548 |
| (Increase)/decrease in receivables | | 5 647 | (498 378) | (158 686) | (158 506) |
| Increase/(decrease) in payables | | 911 584 | 30 614 | 12 793 | 32 203 |
| **Cash flows generated by operating activities** | | **1 747 517** | **1 012 697** | **597 160** | **1 298 225** |
| Government grants | 21 | 303 453 | 465 596 | 303 453 | 465 596 |
| Corporate income tax paid | 25 | (94 876) | (323 665) | (85 680) | (305 676) |
| **Net cash flows from operating activities** | | **1 956 094** | **1 154 628** | **814 933** | **1 458 145** |
| **Cash flows from investing activities** | | | | | |
| Purchase of fixed assets | 6 | (314 994) | (438 703) | (290 752) | (422 582) |
| Income from the disposal of fixed assets | | 15 950 | 6 539 | 15 950 | 6 539 |
| Purchase of intangible assets | 6 | (52 818) | (17 360) | (52 309) | (17 248) |
| Interest income | | 11 209 | 6 982 | 11 209 | 6 982 |
| Security deposit paid | 10 | - | (10 159) | - | (10 159) |
| Net deposits received from placements with banks/ (placed with banks) | | - | 1 893 735 | - | 1 893 735 |
| **Net cash flows from investing activities** | | **(340 653)** | **1 441 034** | **(315 902)** | **1 457 267** |
| **Cash flows used in financing activities** | | | | | |
| Loans received | | (1 698) | 3 720 | (1 698) | 3 720 |
| Dividends paid | | (1 009 861) | (1 009 862) | (1 009 861) | (1 009 862) |
| **Net cash flows used in financing activities** | | **(1 011 559)** | **(1 006 142)** | **(1 011 559)** | **(1 006 142)** |
| Result of fluctuations in the foreign exchange rates | | (6 353) | 1 046 | - | - |
| **Net increase of cash and cash equivalents** | | **597 529** | **1 590 566** | **(512 528)** | **1 909 270** |
| Cash and cash equivalents at the beginning of the year | | 5 910 859 | 4 320 293 | 5 672 265 | 3 762 995 |
| **Cash and cash equivalents at the end of the year** | 11 | **6 508 388** | **5 910 859** | **5 159 737** | **5 672 265** |

The accompanying notes on pages 15 to 43 form an integral part of these financial statements.

On behalf of the Board:

Normunds Bergs
Chairman of the Board

Dace Langada
Chief accountant

Riga, 23 October 2017

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**Notes to the financial statements**

## 1. General information

The core business activity of A/S "SAF Tehnika" (hereinafter – the Parent company) and its subsidiaries (together hereinafter referred to as the Group) is the design, production and distribution of microwave radio data transmission equipment thus offering an alternative to cable channels. The Group offers products to mobile network operators, data service providers (such as Internet service providers and telecommunications companies), as well as state institutions and private companies.

Promotion of the Parent company's products and services, marketing, market research, attraction of new clients and technical support in North America is provided by a 100% subsidiary "SAF North America" LLC. The said company is registered in the USA and operates in Aurora, Colorado.

In August 2012 another company began operations in North America – "SAF Services" LLC, in which the Parent company held 50% shares (joint venture arrangement). The objective of establishing "SAF Services" LLC was to provide local clients with services connected with the creation, long-term maintenance and management of data transmission networks. The test network set up by "SAF Services" LLC using the equipment of A/S "SAF Tehnika" was a success and the client recognised it to be compliant with the defined requirements but no cooperation agreement was signed and "SAF Services" LLC was unable to generate any income from its investments. Consequently, any further development of this business in the USA was suspended and the founder and holder of 50% shares, "STREAMNET" OU, discontinued cooperation. In April 2015 the Parent company became the sole owner of "SAF Services" LLC.

The Parent company is a public joint stock company incorporated under the laws of the Republic of Latvia. Its legal address is Ganību dambis 24a, Riga, LV-1005, Latvia.

The shares of the Parent company are listed on A/S "Nasdaq Riga" Stock Exchange, Latvia.

These separate financial statements of A/S "SAF Tehnika" and consolidated financial statements of A/S "SAF Tehnika" and its subsidiaries (hereinafter – financial statements) were approved by the Parent company's Board on 23 October 2017. The financial statements will be presented for approval to the shareholders' meeting. The shareholders have the power to reject the financial statements prepared and issued by management and the right to request that new financial statements be issued.

## 2. Summary of accounting principles used

These financial statements are prepared using the accounting policies and valuation principles set out below. These policies have been applied consistently to all the years presented, unless otherwise stated.

The previous financial statements were prepared for the financial year ended 30 June 2016 and are available at the Parent company's headquarters on Ganību dambis 24a, Riga, Republic of Latvia and at the Parent company's website: www.saftehnika.com.

### A Accounting principles

These financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS).
The financial statements have been prepared under the historical cost convention less impairment.

### New Standards and interpretations

Standards, amendments to standards and interpretations that for the first time are applicable to financial statements for year ended 30 June 2017.

Amendment to IFRS 11 "Joint arrangements" on acquisition of an interest in a joint operation (effective for annual periods beginning on or after 1 January 2016).

Amendment to IAS 16 "Property, plant and equipment" and IAS 38 "Intangible assets" on depreciation and amortisation (effective for annual periods beginning on or after 1 January 2016).

Amendments to IAS 16 "Property, plant and equipment" and IAS 41 "Agriculture" regarding bearer plants (effective for annual periods beginning on or after 1 January 2016).

Amendments to IAS 27 "Separate financial statements" on the equity method (effective for annual periods beginning on or after 1 January 2016).

Amendments to IAS 1 "Presentation of financial statements" regarding disclosure initiative effective for annual periods beginning on or after 1 January 2016).

**Notes to the financial statements** (continued)

**2. Summary of accounting principles used** (continued)

**A Accounting principles** (continued)
**New Standards and Interpretations** (continued)

Amendments to IFRS 10 "Consolidated financial statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in associates and joint ventures" (effective for annual periods beginning on or after 1 January 2016).

Amendments to IAS 19 "Employee benefits plans" regarding defined benefit plans (endorsed by EU for annual periods beginning on or after 1 February 2015).

Annual improvements 2014 (effective for annual periods beginning on or after 1 January 2016). The amendments include changes that affect 4 standards:

- IFRS 5 "Non-current assets held for sale and discontinued operations";
- IFRS 7 "Financial instruments: Disclosures" with consequential amendments to IFRS 1;
- IAS 19 "Employee benefits";
- IAS 34 "Interim financial reporting".

Annual improvements 2012 (effective for annual periods beginning on or after 1 July 2014, endorsed by EU for annual periods beginning on or after 1 February 2015). These amendments include changes that affect 6 standards:

- IFRS 2 "Share-based payment";
- IFRS 3 "Business Combinations";
- IFRS 8 "Operating segments";
- IAS 16 "Property, plant and equipment" and IAS 38 "Intangible assets";
- IAS 24 "Related party disclosures".

The following new and amended IFRS and interpretations are published and come into force in financial periods on or after 2017 or not yet endorsed by EU:

IFRS 9 "Financial Instruments: Classification and Measurement" (effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortized cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortized cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable decision to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments Standard - IAS 39. Main changes of the standard affect that companies will further present their own credit risk impact of changes into other incomes position that is estimated in fair value, calculated in profit or loss.
- IFRS 9 introduces a new model for recognition of value reductions – the expected credit loss (ECL) model. The model has three level approach, based on changes in financial assets credit quality, comparing with initial measurements. New changes in practise will mean initial credit loss recognition equal to 12-month ECL even if financial assets do not contain signals of value loss. If significant growth of credit risk occurs, value loss measurements have to be done by using lifetime ECL. The model includes some operational simplifications for trade receivables, contract assets and lease receivables.
- Credit risk management requirements are improved for credit management systems matching purposes. The standard allows to choose accounting policies between IFRS 9 and IAS 39 because IFRS 9 has not yet regulated for measuring restrictions of macro risks.

**Notes to the financial statements** (continued)

**2. Summary of accounting principles used** (continued)
**A Accounting principles** (continued)
**New Standards and Interpretations** (continued)

IFRS 9 will be effective for annual periods of Parent company and Group after its endorsing by EU. The Board estimates no influence on financial reports of Parent company and Group according to changes in IFRS 9, comparing to current classification of expected credit loss and financial instruments.

Amendment to IFRS 10, Consolidated Financial Statements, and IAS 28 Investments in Associates and Joint Ventures– Transaction of assets or sale between investor and its associate company or joint venture (not yet endorsed in the EU).

IFRS 16 “Leasing” (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019, not yet endorsed in the EU).

Amendments to IAS 12, “Income taxes “, recognition of Deferred Tax Assets for Unrealized Losses (issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017, not yet endorsed in the EU).

Amendments to IAS 7 “Statement of Cash Flows “ – initiative about disclosable information (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017, not yet endorsed in the EU).

Amendments to IFRS 15, Revenue from Contracts with Customers (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018, not yet endorsed in the EU).

Amendments to IFRS 2 “Share-based Payment “(issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018, not yet endorsed in the EU).

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4 (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018, not yet endorsed in the EU).

Annual IFRS improvements 2016. These amendments include changes that affect 3 standards:

- IFRS 12 “Disclosure of Interests in Other Entities” (effective for annual periods beginning on or after 1 January 2017, not yet endorsed in the EU);
- IFRS 1 “First-time Adoption of International Financial Reporting Standards” (effective for annual periods beginning on or after 1 January 2018, not yet endorsed in the EU);
- IAS 28 “Investments in Associates and Joint Ventures” (effective for annual periods beginning on or after 1 January 2018, not yet endorsed in the EU).

IFRIC 22 “Foreign Currency Transactions and Advance Consideration” (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018, not yet endorsed in the EU).

Transfers of Investment Property - Amendments to IAS 40 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018, not yet endorsed in the EU).

Board of the Parent company and Group decided not to initiate new standards and interpretations before endorsing them in EU. Management of the Company believes that new standards and interpretations listed above does not have significant impact on Company’s and Group’s financial statements.

There are no other new or revised standards or interpretations that are not yet effective that would be expected to have a material impact on the Company or Group.

**B Consolidation**

*(a) Subsidiaries*

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. Subsidiary was established; therefore acquisition accounting was not applied.

**Notes to the financial statements** (continued)

**2. Summary of accounting principles used** (continued)

**B Consolidation** (continued)

*(b) Investment in equity-accounted investees*

Investment in equity-accounted investees was an investment in a joint venture, which became a subsidiary after the acquisition of additional shares in 2015. Joint venture is a structure over which the Group has joint control ensuring that the Group is entitled to net assets of this structure rather than has rights with regard to assets and obligations with regard to liabilities. Investments in joint ventures are accounted for on equity basis. Investments are disclosed at cost including directly attributable transaction costs. The consolidated financial statements include the share of the Group in the profit or loss and other comprehensive income of joint venture until the joint control ends.

Subsidiaries and joint ventures controlled by the Parent company:

| Name | Country of residence | Participation % | Subsidiary and joint venture's equity | | Subsidiary and joint venture's (profit/losses) | |
|---|---|---|---|---|---|---|
| | | | 30.06.2017 EUR | 30.06.2016 EUR | 2016/2017 EUR | 2015/2016 EUR |
| „SAF North America" LLC | United States of America | 100% | 176 091 | 108 983 | 70 068 | 37 923 |
| „SAF Services" LLC | United States of America | 100% | (1 825) | (920) | (968) | (1 649) |

At the end of the reporting year "SAF Services" LLC is a dormant entity.

The accounting policies of subsidiaries are changed when necessary in order to ensure consistency with those of the Group.

*(c) Transactions eliminated on consolidation*

Internal transactions, account balances and unrealized gains from transactions between the Group companies are eliminated. Unrealized loss is also eliminated unless objective evidence exists that the asset involved in the transaction has impaired. Unrealized gain or loss arising from transactions with a joint venture is also eliminated.

**C Foreign currency revaluation**

*(a) Functional and reporting currency*

Items included in the financial statements of each structural unit are measured using the currency of the economic environment in which the structural unit operates (the functional currency).

Financial accounting of the Group and the Parent company is carried out in euro and the financial statements are prepared and presented in euro.

*(b) Transactions and balances*

All amounts in these financial statements are expressed in the Latvian official currency – euro (EUR). Transactions in foreign currencies are translated into euros at the reference exchange rate set by the European Central Bank as at the transaction date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the reporting date exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement of the respective period.

All monetary asset and liability items were revalued to the functional currency of the Group (Parent company) according to the reference exchange rate of the European Central Bank on the reporting date. Non-monetary items of assets and liabilities are revalued to the functional currency of the Group in accordance with the reference exchange rate set by the European Central Bank on the transaction date.

| | 30.06.2017. | 30.06.2016. |
|---|---|---|
| 1 USD | 1.14120 | 1.11020 |
| 1 GBP | 0.87933 | 0.82650 |

**Notes to the financial statements** (continued)

**2. Summary of accounting principles used** (continued)

**C Foreign currency revaluation** (continued)

*(c) Group companies*

The results of operations and the financial position of the Group companies (none of which are operating in hyperinflation economics) that operate with functional currencies other than the reporting currency are translated to the reporting currency as follows:

(i) Assets and liabilities are converted according to exchange rate as at the date of statement of financial position;

(ii) Transactions of the statement of profit and loss and other comprehensive income are revalued according to exchange rate as at the date of transaction; and

(iii) All currency exchange differences are recognized as a separate item of equity.

**D Fixed assets**

Fixed assets are carried at cost less accumulated depreciation and impairment losses. Cost includes expenses directly related to acquisition of fixed assets. Such cost includes the cost of replacing part of such fixed asset if the asset recognition criteria are met.

Leasehold improvements are capitalized and disclosed as fixed assets. Depreciation of these assets is calculated over the shorter of the leasehold period or the estimated useful life on a straight line basis.

Where an item of fixed assets has different useful lives, they are accounted for as separate items of fixed assets.

The cost of replacing part of an item of fixed assets is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group (Parent company) and its cost can be measured reliably. The costs of the day-to-day servicing of fixed assets is recognised in the profit or loss statement as incurred.

Current maintenance costs of tangible assets are recognized in the profit and loss statement as incurred.

Depreciation is calculated on a straight-line basis over the entire useful lives of the respective fixed asset to write down each asset to its estimated residual value over its estimated useful life using the following rates:

| | **% per year** |
|---|---|
| Equipment | 25 |
| Vehicles | 20 |
| Other equipment and machinery | 20 – 50 |

Capital repair costs on leased fixed assets are written off on a straight line basis during the shortest of the useful lifetime of the capital repairs and the period of lease.

The assets residual values, useful lives and methods are reviewed, and adjusted if appropriate, at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount exceeds its estimated recoverable amount (see Note G).

Profit and losses on disposals are determined by comparing proceeds with the respective carrying amount and included in the profit or loss statement.

**E Intangible assets**

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

*(b) Software*
The acquired software licenses are capitalised on the basis of the purchase and installation costs. These costs are amortised over their estimated useful lives of 4 years.

**Notes to the financial statements** (continued)

**2. Summary of accounting principles used** (continued)

**F Cost of research and development activities**

Research costs are recognized in profit and loss statement as incurred. An intangible asset arising from the development expenditure on an individual project is recognized only when the Group (Parent company) can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intentions to complete and its ability to use or sell the asset, and when the Group (Parent company) can demonstrate how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure during the development. Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and impairment losses. Any expenditure capitalized is amortized over the period of the expected future sales from the related project.

**G Impairment of long term investments**

Intangible assets that are not put in use nor have an indefinite useful life are not subject to amortisation and are reviewed for impairment on an annual basis.

Moreover, the carrying amounts of the Group’s (Parent company’s) fixed assets and intangible assets that are subject to amortisation and depreciation and other non-current assets except for inventory and deferred tax asset are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognized in respect of cash-generating units are allocated to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset in relation to which the future cash flows have not been adjusted.

All Group’s (Parent company’s) assets are allocated to two cash generating units that are identified as Group’s (Parent company’s) operating segments (see Note 17). No impairment indicators have been noted.

In respect of non-current assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

**H Segments**

Information on the Group’s (Parent company’s) operating segments is disclosed in Note 17. Segment results that are reported to the Chief Executive Officer of the Group (Parent company) include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Group’s (Parent company’s) headquarters), head office expenses, and tax assets and liabilities.

**I Government grants**

Government grants are recognized where there is a reasonable assurance that the grant will be received and all attaching conditions will be complied with. Government grants are systematically recognized as income in the respective periods in order to balance them with compensated expenses thus recognizing receivables. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the profit or loss statement over the expected useful life of the relevant asset by equal annual instalments.

**Notes to the financial statements** (continued)

**2. Summary of accounting principles used** (continued)

**I Government grants** (continued)

Within the framework of the contract signed between A/S “SAF Tehnika” and “LEO Pētījumu centrs” SIA a cooperation project “Support for development of new products and technologies within the competence centers” are implemented since June 2016, regarding which “LEO Pētījumu centrs” SIA had signed a contract with “The Central Finance and Contracting Agency”, in order to obtain financing from the European Regional Development Fund as part of the above project. A/S “SAF Tehnika” conducts individual research activities to develop new products within the framework of the above mentioned project. For the implementation of this project activity co-financing to cover remuneration of project staff and other costs related to this project are provided. Co-financing received relates to expense items recognized in Statement of Profit or Loss and Other Comprehensive Income and thus was recognized as income in order to compensate the costs incurred.

In case the co-financing is granted, however the cash is not yet received, respective receivables are recognized in Statement of Financial Position under Other receivables.

**J Stock**

Stock is stated at the lower of cost or net realizable value. Cost is measured based on the first in – first out (FIFO) method. Costs of finished goods and work-in-progress include cost of materials, personnel and depreciation.

Net realisable value is the estimated selling price in the ordinary course of Group`s (Parent company`s) business, less the estimated costs necessary to make the sale. Estimating the net sales value of inventory, the carrying amount is reduced in relation to the slow-moving inventory. Slow-moving inventory is the inventory which movement in 12, 9 or 6-month period respectively has been less than 30% comparing with the amount at beginning of period. Provisions for slow-moving inventory are made according to the following rates:

| **The time interval where has not been movement** | **Provisions rate %** |
|---|---|
| 6 to 8 months | 20 |
| 9 to 11 months | 50 |
| 12 months and more | 100 |

**K Financial Instruments**

The Group’s (Parent company’s) financial instruments consist of trade receivables, equity-accounted investees, investments in subsidiaries and joint ventures, investments in other companies’ equity, other receivables, cash and cash equivalents, borrowings, trade payables and other payables and derivatives. All other financial assets except for equity-accounted investees and derivatives are classified as loans and receivables but liabilities – as liabilities at amortised cost. Financial instruments of the Group (Parent company) except for derivatives are initially recognised at fair value plus directly attributable transaction costs. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group (Parent company) has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized if the Group’s (Parent company’s) obligations specified in the contract expire or are discharged or cancelled.

*Loans, receivables and other debts*

Loans, receivables and other debts are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than held for trading. Loans and receivables are stated at their amortized cost after deducting allowance for estimated irrecoverable amounts. Amortized cost is determined using the effective interest rate method, less any impairment losses.

The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset. When calculating the effective interest rate, the Group (Parent company) estimates future cash flows considering all contractual terms of the financial instruments. An allowance for impairment of loans and receivables is established when there is objective evidence that the Group (Parent company) will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the loan or trade receivable is impaired. The amount of the allowance is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the profit or loss statement. When a loan, receivables and other debts are uncollectible, it is written off.

**Notes to the financial statements** (continued)

**2. Summary of accounting principles used** (continued)

**K Financial Instruments** (continued)

*Available for sale financial investments*

Financial investments available-for-sale are acquired to be held for an indefinite period of time. Financial investments, whose market value is not determined in an active market and whose fair value cannot be reliably measured, are carried at acquisition cost less impairment. All other financial investments available-for-sale are carried at fair value. Profit or losses resulting from the change in fair value of financial investments available-for-sale, except for impairment losses, are recognised in other comprehensive income until the financial asset is derecognised; thereafter, the cumulative gain or loss previously recognised in other comprehensive income is recognised in profit or loss.

*Liabilities*

Liabilities are recognised initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method.

For the description of accounting policy for derivatives see Note 3 (2).

**L Cash and cash equivalents**

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

**M Share capital**

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

**N Corporate income tax and deferred tax**

Corporate income tax comprises current and deferred tax of the reporting year.

The calculated current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred taxation arising from temporary differences between carrying amounts for accounting purposes and for tax purposes is calculated using the liability method. However, if the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business acquisition that at the time of the transaction affects neither accounting, non- taxable profit or loss, it is not accounted for. Deferred tax is determined using tax rates (and laws) that have been enacted by the financial position date and are expected to apply when the related deferred tax asset is realised or the deferred income tax liability is settled. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Income taxes are recognized through profit or loss unless they relate to items recognized directly in equity.

**O Employee benefits**

The Group (Parent company) makes social insurance contributions under the State's health, retirement benefit and unemployment schemes at the statutory rates in force during the year, based on gross salary payments. The Group (Parent company) will have no legal or constructive obligations to pay further contributions if the statutory fund cannot settle their liabilities towards the employees. Social insurance and pension plan contributions are included in the expenditures in the same period as the related salary cost.

**P Revenue recognition**

Revenue comprises the fair value of the goods and services sold, net of value-added tax and discounts. Revenue is recognized as follows:

*(a)Sales of goods*

Sale of goods is recognised when a Group (Parent company) has passed the significant risks and rewards of ownership of the goods to the customer, i.e. delivered products to the customer and the customer has accepted the products in accordance with the contract terms, and it is probable that the economic benefits associated with the transaction will flow to the Group (Parent company).

**Notes to the financial statements** (continued)

**2. Summary of accounting principles used** (continued)

**P Revenue recognition** (continued)

*(b) Provision of services*

Revenue is recognized in the period when services are provided.

*(c) Provision of extended warranty service*

The Group (Parent company) provides extended warranty service of three to five years in addition to standard one to five years period depending on product. Revenue is recognized over the warranty extension period.

**Q Lease**

Leases of fixed assets in which the risks and rewards of ownership are retained by the lessor are classified as operating leases (lease). Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit or loss statement on a straight-line basis over the lease period.

**R Payment of dividends**

Dividends payable to the shareholders are recognised as a liability in the financial statements in the period in which the dividends are approved by the shareholders.

**S Financial income and expenses**

Financial income and expenses comprise interest payable on borrowings calculated using the effective interest rate method, interest receivable on funds invested and foreign exchange gains and losses. Interest income is recognised in the income statement as it accrues, using the effective interest method. The interest expenses of finance lease payments are recognized in profit or loss using the effective interest rate method.

**3. Financial risk management**

**(1) Financial risk factors**

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

(a) foreign currency risk;

(b) credit risk;

(c) liquidity risk:

(d) interest rate risk.

The Group's overall risk management focuses on the unpredictability of financial markets and seeks to minimise its potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures. The responsibility for risk management lies with the Finance Department. The Finance Department identifies and evaluates risks and seeks for solutions to avoid financial risks in close co-operation with other operating units of the Group. Financial risks are managed both on Parent company and consolidated level.

*(a) Foreign currency risk*

The Group operates in the international market and is subject to foreign currency risk arising primarily from USD fluctuations.

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

The following schedule summarises net open positions for currencies expressed in EUR as at 30 June 2017:

| **Group** | **EUR** | **USD** | **Other currencies** | **Total** |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Gross trade receivables | 482 914 | 1 260 845 | - | 1 743 759 |
| Cash and cash equivalents | 985 556 | 5 521 754 | 1 078 | 6 508 388 |
| **Total** | **1 468 470** | **6 782 599** | **1 078** | **8 252 147** |
| | | | | |
| **Financial liabilities** | | | | |
| Liabilities | (257 554) | (480 482) | (492) | (738 528) |
| Other liabilities | (9 756) | - | - | (9 756) |
| Loans | (10 397) | - | - | (10 397) |
| **Total** | **(277 707)** | **(480 482)** | **(492)** | **(758 681)** |
| **Net open positions** | **1 190 763** | **6 302 117** | **586** | **7 493 466** |

**Notes to the financial statements** (continued)

**3. Financial risk management** (continued)

**(1) Financial risk factors** (continued)

*(a) Foreign currency risk*

The following schedule summarises net open positions for currencies expressed in EUR as at 30 June 2017 (continued):

| **Parent company** | **EUR** | **USD** | **Other currencies** | **Total** |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Gross trade receivables | 482 914 | 1 559 063 | - | 2 041 977 |
| Cash and cash equivalents | 985 556 | 4 173 103 | 1 078 | 5 159 737 |
| **Total** | **1 468 470** | **5 732 166** | **1 078** | **7 201 714** |
| | | | | |
| **Financial liabilities** | | | | |
| Liabilities | (257 554) | (428 222) | (492) | (686 268) |
| Other liabilities | (9 756) | - | - | (9 756) |
| Loans | (10 397) | - | - | (10 397) |
| **Total** | **(277 707)** | **(428 222)** | **(492)** | **(706 421)** |
| **Net open positions** | **1 190 763** | **5 303 944** | **586** | **6 495 293** |

The following schedule summarises net open positions for currencies expressed in EUR as at 30 June 2016:

| **Group** | **EUR** | **USD** | **Other currencies** | **Total** |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Gross trade receivables | 660 166 | 1 143 638 | - | 1 803 804 |
| Cash and cash equivalents | 1 933 286 | 3 977 573 | - | 5 910 859 |
| **Total** | **2 593 452** | **5 121 211** | **-** | **7 714 663** |
| | | | | |
| **Financial liabilities** | | | | |
| Liabilities | (309 920) | (492 844) | (324) | (803 088) |
| Other liabilities | (181 312) | - | - | (181 312) |
| Loans | (12 095) | - | - | (12 095) |
| **Total** | **(503 327)** | **(492 844)** | **(324)** | **(996 495)** |
| **Net open positions** | **2 090 125** | **4 628 367** | **(324)** | **6 718 168** |

| **Parent company** | **EUR** | **USD** | **Other currencies** | **Total** |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Gross trade receivables | 660 166 | 1 264 709 | - | 1 924 875 |
| Cash and cash equivalents | 1 933 286 | 3 738 979 | - | 5 672 265 |
| **Total** | **2 593 452** | **5 003 688** | **-** | **7 597 140** |
| | | | | |
| **Financial liabilities** | | | | |
| Liabilities | (309 920) | (228 340) | (324) | (538 584) |
| Other liabilities | (181 312) | - | - | (181 312) |
| Loans | (12 095) | - | - | (12 095) |
| **Total** | **(503 327)** | **(228 340)** | **(324)** | **(731 991)** |
| **Net open positions** | **2 090 125** | **4 775 348** | **(324)** | **6 865 149** |

*Sensitivity analysis*

A 10 % weakening of the euro against USD on 30 June would increase (decrease) profit or loss and equity of the Group (Parent company) by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

| | **Group** | | **Parent company** | |
|---|---|---|---|---|
| | **2016/2017 effect in EUR** | **2015/2016 effect in EUR** | **2016/2017 effect in EUR** | **2015/2016 effect in EUR** |
| USD | 630 212 | 462 836 | 530 394 | 477 534 |
| | **630 212** | **462 836** | **530 394** | **477 534** |

**Notes to the financial statements** (continued)

**3. Financial risk management** (continued)

**(1) Financial risk factors** (continued)

*(b) Credit risk*

The Group (including Parent company) has significant exposure of credit risk with its customers. The Group’s policy is to ensure that wholesale of products is carried out with customers having appropriate credit history. If the customers are residing in countries with high credit risk, then Letters of Credit issued by reputable credit institutions are used as credit risk management instruments. In situations where no Letters of Credit can be obtained from reputable credit institutions, the prepayments from the customers are requested or State Export Guarantees purchased. Customers’ financial position is monitored on regular basis and assigned credit limits has been changed based on credit history and customer’s paying behaviour.

As at 30 June 2017, the Group’s credit risk exposure to a single customer amounted to 36.82% of the total short and long-term receivables and 24.32% from total net sales (30.06.2016.: 16.76% and 9.24.% accordingly), and Parent company’s credit risk exposure to a single customer amounted to – 7.29% and 2.75% from total net sales (30.06.2016: 15.50% and 10.29% accordingly). With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, the Group’s exposure to credit risk arises from the default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The Group's maximum credit risk exposure amounts to EUR 8 627 865 or 57.36% of total assets (30.06.2016.: EUR 8 120 666 or 50.87% of total assets), and Parent company’s maximum credit risk exposure amounts to EUR 7 533 874 or 54.92% of total assets. For more information on the Group’s and Parent company’s exposure to credit risk please refer to Note 9.

*(c) Liquidity risk*

The Group follows a prudent liquidity risk management and hence maintain a sufficient quantity of liquid funds. The Group’s current liquidity ratio is 4.79 (30.06.2016: 6.25 quick liquidity ratio is: 2.92 (30.06.2016: 4.09), and Parent company’s current liquidity ratio is 7.24 (30.06.2016: 6.89), quick liquidity ratio is: 4.25 (30.05.2016: 4.55).

The Group's management monitors liquidity reserves for the operational forecasting, based on estimated cash flows. Most of the Group's liabilities are short term. Management believes that the Group will have sufficient liquidity to be generated from operating activities and does not see significant exposure to liquidity risk. For more information on the Group’s and Parent company’s exposure to liquidity risk please refer to note 14.

*(d) Interest rate risk*

As the Group does not have significant interest bearing liabilities, thus the Group's cash flows and net results are largely independent of changes in market interest rates. The Group's cash flows from interest bearing assets are dependent on current market interest rates; however, as the Group and Parent company mainly has short- term interest-bearing liabilities, the exposure is not significant.

**(2) Accounting for derivative financial instruments**

The Group uses derivative financial instruments such as forward currency contracts to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are initially recognized at fair value on the date on which derivative contract is entered to and are subsequently re- measured at fair value through profit or loss. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

Any profit or losses arising from changes in fair value of derivatives that do not qualify as hedge accounting are taken directly to profit or loss for the year.

As at 30 June 2017 and 30 June 2016 the Group and parent company did not have any open derivative financial instruments agreements.

**(3) Fair value**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of liabilities represents default risk. When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. Fair value is classified in various levels in the fair value hierarchy according to data used in measurement methods:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

**Notes to the financial statements** (continued)
**3. Financial risk management** (continued)

**(3) Fair value** (continued)

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. The Group recognizes reclassification among fair value hierarchy levels in the end of the reporting period in which the reclassification was performed.

Level 1 includes cash and its equivalents. Cash and cash equivalents are financial assets with maturities below 3 months. The Group believes that the fair value of these financial assets corresponds to their initial nominal value and carrying amount at any of the subsequent dates.

The Group does not have financial assets and liabilities included in Level 2.

Level 3 include trade receivables, other debts, other financial assets, trade payables and other payables, loans and other financial liabilities. These financial assets and liabilities usually mature within 6 months, therefore the Group believes that the air value of these financial assets correspond to their initial nominal value and carrying amount at any of the subsequent dates.

## 4. Management of the capital structure

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance. The capital structure indicator of the Group consists of debt, which includes the borrowings disclosed in Note 15, cash and cash equivalents and equity, comprising issued capital, retained earnings and share premium. The gearing ratio at the year-end was as follows:

| | **Group** | | **Parent company** | |
|---|---|---|---|---|
| | **30/06/2017** | **30/06/2016** | **30/06/2017** | **30/06/2016** |
| | **EUR** | **EUR** | **EUR** | **EUR** |
| Liabilities | 2 953 253 | 1 984 205 | 1 771 777 | 1 726 387 |
| Cash | (6 508 388) | (5 910 859) | (5 159 737) | (5 672 265) |
| **Net debt** | **(3 555 135)** | **(3 926 654)** | **(3 387 960)** | **(3 945 878)** |
| **Shareholders' equity** | **12 088 721** | **11 356 804** | **11 946 491** | **11 281 634** |
| Debt to equity ratio | 24% | 17% | 15% | 15% |
| Net debt to equity ratio | -29% | -35% | -28% | -35% |

## 5. Key estimates and assumptions

The management of the Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

*Recoverable amount and impairment of non-current assets*

When the events and circumstances indicate a potential impairment, the Group performs impairment tests for items of fixed and intangible assets. According to these tests assets are written down to their recoverable amounts, if necessary. When carrying out impairment tests management uses various estimates for the cash flows arising from the use of the assets, sales, maintenance, and repairs of the assets, as well as in respect of the inflation and growth rates. If the situation changes in the future, either additional impairment could be recognised, or the previously recognised impairment could be partially or fully reversed. See also Note 2G.

At the reporting date there are no indications of impairment of fixed and intangible assets. The Group's cash flows from operating activities in the reporting year amount to EUR 1 956 thousand (2015/2016: EUR 1 155 thousand), and the Parent company's cash flows from operating activities in the reporting year amount to EUR 815 thousand (2015/2016: EUR 1 458 thousand). The Group will continue pursuing its strategy to develop competitive wireless data transmission products and solutions for new export markets, and maintain the current sound financial position and control over the production process with the aim to increase sales and profitability.

*Useful lives of fixed assets*

Management estimates the useful lives of individual fixed assets in proportion to the expected duration of use of the asset based on historical experience with similar fixed assets and future plans. Depreciation of fixed assets is charged to the profit or loss statement on a straight-line basis over the estimated useful lives of the individual assets. Depreciation of fixed assets is calculated over the shortest period – lease term or over the useful life. No depreciation is calculated for land. See also Note 2D.

**Notes to the financial statements** (continued)

**5. Key estimates and assumptions** (continued)

*Impairment of loans and receivables*

The Group recognizes allowances for doubtful loans and receivables. In order to set unrecoverable amount of receivables, management estimates the basis of which is the historical experience are used. Allowances for doubtful debts are recognized based on an individual management assessment of recoverability of each receivable. See also Note 2K.

*Net sales value of the inventory*

The Group (Parent company) makes provisions in for slow-moving inventories. Inventories net realizable value are recognized, reducing inventory costs for the total amount of provisions. See also Note 2 J.

*Provisions and accruals*

Provisions are recognized when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required from the Group to settle the obligation, and the amount of obligation can be measured reasonably. If the Group foresees that the expenses required for recognizing an allowance will be partly or fully repaid, for example, within an insurance contract, the recovery of such expenses is recognized as a separate assets only when it is certain that such expenses will be recovered. Expenses connected with any provisions are recognized in the profit or loss statement less recovered amounts.

As at the reporting date, the following provisions and accruals were recognized:

- provisions for potential warranty expenses are recognized based on the management assessment of the risk of expected warranty repairs relating to the concluded contracts. The standard warranty period is one to five years depending from product;
- accrued liabilities for unused vacations are calculated in accordance with the number of vacation days unused as at 30 June 2017 and the average remuneration during the last six months of the reporting year.

*Deferred tax asset*

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax amounts are reduced to the extent that it is no longer probable that the related tax benefit will be realised. See also Note 2N.

**Notes to the financial statements** (continued)

**6. Fixed and intangible assets**

| Group | Software and licenses | Leasehold improvements | Equipment and machinery | Other fixed assets | Total |
|---|---|---|---|---|---|
| | **EUR** | **EUR** | **EUR** | **EUR** | **EUR** |
| **Reporting year ended 30 June 2016** | | | | | |
| Opening balance | 186 092 | 67 119 | 334 431 | 215 453 | 803 095 |
| Acquisitions | 17 360 | 2 150 | 347 503 | 89 050 | 456 063 |
| Disposals | - | - | (3 741) | (2 404) | (6 145) |
| Result of fluctuations in the foreign exchange rates | - | - | 39 | 139 | 178 |
| Charge for the period | (72 436) | (67 206) | (172 464) | (89 621) | (401 727) |
| **Closing balance** | **131 016** | **2 063** | **505 768** | **212 617** | **851 464** |
| **Reporting year ended 30 June 2017** | | | | | |
| Opening balance | 131 016 | 2 063 | 505 768 | 212 617 | 851 464 |
| Acquisitions | 52 818 | 8 994 | 200 915 | 105 085 | 367 812 |
| Disposals | - | - | (1 735) | (154) | (1 889) |
| Result of fluctuations in the foreign exchange rates | 1 | - | 182 | (20) | 163 |
| Charge for the period | (65 928) | (2 180) | (200 554) | (97 678) | (366 340) |
| **Closing balance** | **117 907** | **8 877** | **504 576** | **219 850** | **851 210** |
| **30 June 2015** | | | | | |
| Historical cost | 874 480 | 1 113 869 | 3 512 402 | 784 136 | 6 284 887 |
| Accumulated depreciation | (688 388) | (1 046 750) | (3 177 971) | (568 683) | (5 481 792) |
| **Carrying amount** | **186 092** | **67 119** | **334 431** | **215 453** | **803 095** |
| **30 June 2016** | | | | | |
| Historical cost | 852 205 | 1 071 704 | 3 753 968 | 836 267 | 6 514 144 |
| Accumulated depreciation | (721 189) | (1 069 641) | (3 248 200) | (623 650) | (5 662 680) |
| **Carrying amount** | **131 016** | **2 063** | **505 768** | **212 617** | **851 464** |
| **30 June 2017** | | | | | |
| Historical cost | 900 513 | 1 080 698 | 3 900 609 | 878 008 | 6 759 828 |
| Accumulated depreciation | (782 606) | (1 071 821) | (3 396 033) | (658 158) | (5 908 618) |
| **Carrying amount** | **117 907** | **8 877** | **504 576** | **219 850** | **851 210** |

During the reporting year, the Group did not enter into any operating or finance lease agreements (see Note 31).

Historical cost of disposals for the reporting year ended 30 June 2017 is EUR 84 690 and accumulated depreciation is EUR 82 801 (2015/2016: EUR 149 659 and EUR 143 515).

Depreciation of EUR 196 674 is included in the profit or loss statement item *Cost of sales* (2015/2016: EUR 201 865); depreciation of EUR 116 082 in *Sales and marketing costs* (2015/2016: EUR 124 919); depreciation of EUR 53 583 in Administrative expenses (2015/2016: EUR 74 943), including depreciation of EUR 187 under Other administrative expenses (2015/2016: EUR 171).

The acquisition costs of fully depreciated fixed assets that is still in use at the reporting date amounted to EUR 4 836 527 (30.06.2016.: EUR 4 801 248).

**Notes to the financial statements** (continued)

**6. Fixed and intangible assets** (continued)

| **Parent company** | **Software and licenses** | **Leasehold improvements** | **Equipment and machinery** | **Other fixed assets** | **Total** |
|---|---|---|---|---|---|
| | **EUR** | **EUR** | **EUR** | **EUR** | **EUR** |
| **Reporting year ended 30 June 2016** | | | | | |
| Opening balance | 186 092 | 67 119 | 329 614 | 197 675 | 780 500 |
| Acquisitions | 17 248 | 2 150 | 339 239 | 81 193 | 439 830 |
| Disposals | - | - | (3 741) | (2 404) | (6 145) |
| Charge for the period | (72 431) | (67 206) | (167 180) | (80 097) | (386 914) |
| **Closing balance** | **130 909** | **2 063** | **497 932** | **196 367** | **827 271** |
| **Reporting year ended 30 June 2017** | | | | | |
| Opening balance | 130 909 | 2 063 | 497 932 | 196 367 | 827 271 |
| Acquisitions | 52 309 | 8 994 | 183 399 | 98 359 | 343 061 |
| Disposals | - | - | (1 735) | (154) | (1 889) |
| Charge for the period | (65 811) | (2 180) | (191 469) | (88 230) | (347 690) |
| **Closing balance** | **117 407** | **8 877** | **488 127** | **206 342** | **820 753** |
| **30 June 2015** | | | | | |
| Historical cost | 874 480 | 1 113 869 | 3 501 305 | 755 302 | 6 244 956 |
| Accumulated depreciation | (688 388) | (1 046 750) | (3 171 691) | (557 627) | (5 464 456) |
| **Carrying amount** | **186 092** | **67 119** | **329 614** | **197 675** | **780 500** |
| **30 June 2016** | | | | | |
| Historical cost | 852 093 | 1 071 704 | 3 734 519 | 800 328 | 6 458 644 |
| Accumulated depreciation | (721 184) | (1 069 641) | (3 236 587) | (603 961) | (5 631 373) |
| **Carrying amount** | **130 909** | **2 063** | **497 932** | **196 367** | **827 271** |
| **30 June 2017** | | | | | |
| Historical cost | 899 895 | 1 080 698 | 3 864 174 | 836 436 | 6 681 203 |
| Accumulated depreciation | (782 488) | (1 071 821) | (3 376 047) | (630 094) | (5 860 450) |
| **Carrying amount** | **117 407** | **8 877** | **488 127** | **206 342** | **820 753** |

During the reporting year, the Parent company did not enter into any operating or finance lease agreements (see Note 31).

Historical cost of disposals for the reporting year ended 30 June 2017 is EUR 84 690 and accumulated depreciation is EUR 82 801 (2015/2016: EUR 145 827 and EUR 139 682).

Depreciation of EUR 196 674 is included in the profit or loss statement item Cost of sales (2015/2016: EUR 201 865); depreciation of EUR 97 433 in Sales and marketing costs (2015/2016: EUR 110 106); depreciation of EUR 53 583 in Administrative expenses (2015/2016: EUR 74 943), including depreciation of EUR 187 under Other administrative expenses (2015/2016: EUR 171).

The acquisition costs of fully depreciated fixed assets that is still in use at the reporting date amounted to EUR 4 810 025 (30.06.2016.: EUR 4 780 931).

**Notes to the financial statements** (continued)

### 7. Parent company`s investments in subsidiaries and other companies

| Name | Investment in equity % | | Carrying value of the investment | |
|---|---|---|---|---|
| | 30/06/2017 % | 30/06/2016 % | 30/06/2017 EUR | 30/06/2016 EUR |
| „SAF North America” LLC | 100 | 100 | 32 893 | 32 893 |
| „SAF Sevices” LLC | 100 | 100 | 65 552 | 65 552 |
| Impairment | | | (65 552) | (65 552) |
| **Investments in subsidiaries** | | | **32 893** | **32 893** |
| | | | | |
| „Zinātnes parks” SIA | 24 | 24 | 960 | 960 |
| „LEITC” SIA | 16.75 | 16.75 | 477 | 477 |
| „LEO Pētījumu centrs” SIA | 10 | 10 | 711 | 711 |
| **Investments in other companies** | | | **2 148** | **2 148** |
| **Total investments in subsidiaries and other companies** | | | **35 041** | **35 041** |

„SAF North America” LLC is a 100% subsidiary of the Parent company that operates in Aurora, Colorado State in USA, that started active operations in the spring of 2012 and promotes the Group`s products and services, performs marketing, market research, attraction of new clients and provides technical support in North America. Since 1 October 2014 the subsidiary is engaged in the distribution of goods in the North American region. As at 30 June 2017 the share capital of the subsidiary amounted to EUR 32 893 (30.06.2016.: EUR 32 893). 100% participation ensures absolute control of the subsidiary's assets and liabilities.

In August 2012, a joint of the Parent company, “SAF Services” LLC began operations in North America and the Company invested in it EUR 65 420 which was a 50% holding. The objective of establishing “SAF Services” LLC was to provide local clients with services connected with the creation, long-term maintenance and management of data transmission networks. Joint control was established through equal voting rights and contractual arrangement. The test network set up by “SAF Services” LLC using the equipment of SAF Tehnika AS was a success and the client recognised it to be compliant with the defined requirements but no cooperation agreement was signed and “SAF Services” LLC was unable to generate any income from its investments. Consequently, any further development of this business in the USA was suspended and the founder, holder of 50% shares, “STREAMNET” OU, discontinued cooperation. In April 2015 the Parent company became the sole owner of “SAF Services” LLC. During 2014/2015 the Parent company's investment in “SAF Services” LLC share capital was increased by EUR 132 and as at 30 June 2017 its gross value amounted to EUR 65 552 (30.06.2016.: EUR 65 552). 100% participation ensures absolute control of the subsidiary's assets and liabilities. As at 30 June 2017 “SAF Services” LLC equity is negative, therefore the Parent company has made 100% provision for residual value impairment.

„Zinātnes parks” SIA is a limited liability company founded in April 2015 by the leading companies of electronics, telecommunications and optics industry. The aim of *Zinātnes parks* is to commence creating infrastructure for the next decade research, innovations and knowledge economics in cooperation with the industry's association and competence centres. The Parent company has invested EUR 960 in its share capital and has become the owner of 24% of its shares.

In September 2012, the Parent company acquired the shares of “LEITC” SIA (Latvijas Elektronikas iekārtu testēšanas centrs) and became the owner of 16.75% shares through an investment of EUR 477. The mission of LEITC is to support research of electromagnetic compatibility (EMC) and educational projects that aim to expand the knowledge base, the range of equipment and to set up a group of specialists capable of addressing today's and future EMC issues.

“LEO Pētījumu centrs” is a limited liability company established in 2010 by the members of the Latvian Electrical Engineering and Electronic Industry Association (LETERA) and the company's objective is to attract EU funding for research and development of new products in the sphere of electronics and electrical engineering. The Company has invested EUR 711 in its share capital and has become the owner of 10% of its shares.

**Notes to the financial statements** (continued)

**8. Stock**

| | Group | | Parent company | |
|---|---|---|---|---|
| | **30/06/2017** | **30/06/2016** | **30/06/2017** | **30/06/2016** |
| | **EUR** | **EUR** | **EUR** | **EUR** |
| Raw materials | 2 238 871 | 1 352 356 | 2 238 871 | 1 352 356 |
| Work in progress | 1 962 771 | 1 741 669 | 1 962 771 | 1 741 669 |
| Finished goods | 1 333 883 | 1 198 356 | 1 097 759 | 1 002 214 |
| | **5 535 525** | **4 292 381** | **5 299 401** | **4 096 239** |

The Group makes provisions for impairment of net realizable value of stock. As at 30 June 2017 total amount of respective provisions amounted to EUR 497 335 (30.06.2016.: EUR 529 985). During the reporting year impairment of net realizable value of stock was decreased by EUR 32 650 (2015/2016: decrease of EUR 19 890) and income was recognised and included in *Cost of sales*.

The item *Finished goods* within Stock include fixed assets sent to clients for trial with an option to buy or return the equipment and the equipment sent to substitute damaged equipment. As at 30 June 2017 the value of equipment sent due to the above reasons amounted to EUR 74 307 (30.06.2016.: EUR 58 886) for Group and EUR 48 606 (30.06.2016.: EUR 40 790) for Parent company.

Under stock items *Work in Progress* and *Finished goods* are included overhead costs of production (salary expenses and social insurance of production units' employees, depreciation and amortization expenses of equipment, lease, service and other costs of production process) in amount of EUR 170 985 (30.06.2016.: EUR 168 984).

**9. Trade receivables**

| | Group | | Parent company | |
|---|---|---|---|---|
| | **30/06/2017** | **30/06/2016** | **30/06/2017** | **30/06/2016** |
| | **EUR** | **EUR** | **EUR** | **EUR** |
| **Long-term trade receivables** | **2 993** | **3 878** | **2 993** | **3 878** |
| Receivables from related companies | - | - | 1 226 485 | 833 658 |
| Trade receivables | 1 740 766 | 1 799 926 | 812 499 | 1 087 339 |
| Allowances for bad and doubtful trade receivables | (33 852) | (5 405) | (33 852) | (4 775) |
| **Short-term trade receivables** | **1 706 914** | **1 794 521** | **2 005 132** | **1 916 222** |
| **Total trade receivables** | **1 709 907** | **1 798 399** | **2 008 125** | **1 920 100** |

Long-term receivables mature on 31 March 2022.

As at 30 June 2017 and 30 June 2016 the fair value of receivables approximated their carrying amount.

**Movement in allowances for bad and doubtful trade receivables:**

| | Group | Parent company |
|---|---|---|
| | **EUR** | **EUR** |
| **As at 30 June 2015** | **24 488** | **10 650** |
| Written-off | (41 693) | (1 747) |
| Additional allowances | 40 589 | 13 |
| Debts recovered | (17 979) | (4 141) |
| **As at 30 June 2016** | **5 405** | **4 775** |
| Written-off | (6 964) | (61) |
| Additional allowances | 36 270 | 9 409 |
| Debts recovered | (859) | 19 729 |
| **As at 30 June 2017** | **33 852** | **33 852** |

Changes in allowances for bad and doubtful trade receivables are recognized in Statement of profit or loss as administration costs.

**Notes to the financial statements** (continued)

**9. Trade receivables** (continued)

**Split of Gross Trade receivables by currencies expressed in EUR**

| **Group** | **30/06/2017 EUR** | **30/06/2017 %** | **30/06/2016 EUR** | **30/06/2016 %** |
|---|---|---|---|---|
| USD | 1 260 845 | 73.91 | 1 143 638 | 63.47 |
| EUR | 482 914 | 26.09 | 660 166 | 36.53 |
| **Total trade receivables** | **1 743 759** | **100%** | **1 803 804** | **100%** |

| **Parent company** | **30/06/2017 EUR** | **30/06/2017 %** | **30/06/2016 EUR** | **30/06/2016 %** |
|---|---|---|---|---|
| USD | 1 559 063 | 76.35 | 1 264 709 | 65.70 |
| EUR | 482 914 | 23.65 | 660 166 | 34.30 |
| **Total trade receivables** | **2 041 977** | **100%** | **1 924 875** | **100%** |

**Ageing analysis of Trade receivables**

| **Group** | **30/06/2017 Gross EUR** | **30/06/2017 Allowance EUR** | **30/06/2016 Gross EUR** | **30/06/2016 Allowance EUR** |
|---|---|---|---|---|
| Not overdue | 1 523 427 | - | 1 290 358 | - |
| Overdue by 0 – 89 days | 195 890 | (9 410) | 508 054 | (13) |
| Overdue by 90 and more days | 24 442 | (24 442) | 5 392 | (5 392) |
| **Total trade receivables** | **1 743 759** | **(33 852)** | **1 803 804** | **(5 405)** |

| **Parent company** | **30/06/2017 Gross EUR** | **30/06/2017 Allowance EUR** | **30/06/2016 Gross EUR** | **30/06/2016 Allowance EUR** |
|---|---|---|---|---|
| Not overdue | 1 868 015 | - | 1 249 004 | - |
| Overdue by 0 – 89 days | 149 520 | (9 410) | 671 109 | (13) |
| Overdue by 90 and more days | 24 442 | (24 442) | 4 762 | (4 762) |
| **Total trade receivables** | **2 041 977** | **(33 852)** | **1 924 875** | **(4 775)** |

**10. Other receivables**

| | **Group** | | **Parent company** | |
|---|---|---|---|---|
| | **30/06/2017 EUR** | **30/06/2016 EUR** | **30/06/2017 EUR** | **30/06/2016 EUR** |
| Government grants* | 134 467 | 77 917 | 134 467 | 77 917 |
| Overpaid value added tax (see Note 25) | 49 766 | 16 542 | 49 766 | 16 542 |
| Advance payments to suppliers | 35 523 | 32 945 | 38 229 | 23 203 |
| Other receivables | 44 699 | 31 126 | 29 239 | 30 505 |
| Other receivables of subsidiaries (see Note 28) | - | - | 1 825 | 920 |
| Security deposit | 10 159 | 10 159 | 10 159 | 10 159 |
| | **274 614** | **168 689** | **263 685** | **159 246** |

* The government grants related to the employee training project and the development project, which are implemented with the “LEO Pētījumu centrs” SIA.

**Notes to the financial statements** (continued)

## 11. Cash and cash equivalents

| | Group | | Parent company | |
|---|---|---|---|---|
| | **30/06/2017 EUR** | **30/06/2016 EUR** | **30/06/2017 EUR** | **30/06/2016 EUR** |
| Cash in bank | 6 508 388 | 5 910 859 | 5 159 737 | 5 672 265 |
| | **6 508 388** | **5 910 859** | **5 159 737** | **5 672 265** |

**Split of cash and cash equivalents by currencies expressed in EUR**

| **Group** | **30/06/2017 EUR** | **30/06/2017 %** | **30/06/2016 EUR** | **30/06/2016 %** |
|---|---|---|---|---|
| USD | 5 521 754 | 84.84 | 3 977 573 | 65.92 |
| EUR | 985 556 | 15.14 | 1 933 286 | 34.08 |
| GBP | 1 078 | 0.02 | - | - |
| **Cash and cash equivalents** | **6 508 388** | **100%** | **5 910 859** | **100%** |

| **Parent company** | **30/06/2017 EUR** | **30/06/2017 %** | **30/06/2016 EUR** | **30/06/2016 %** |
|---|---|---|---|---|
| USD | 4 173 103 | 80.88 | 3 738 979 | 65.92 |
| EUR | 985 556 | 19.10 | 1 933 286 | 34.08 |
| GBP | 1 078 | 0.02 | - | - |
| **Cash and cash equivalents** | **5 159 737** | **100%** | **5 672 265** | **100%** |

**Split of cash and cash equivalents by banks**

| | Group | | Parent company | |
|---|---|---|---|---|
| | **30/06/2017 EUR** | **30/06/2016 EUR** | **30/06/2017 EUR** | **30/06/2016 EUR** |
| Swedbank AS | 1 068 565 | 1 664 498 | 1 068 565 | 1 664 498 |
| Nordea bank AB Latvian branch* | 2 812 948 | 2 016 940 | 2 812 948 | 2 016 940 |
| DNB Banka AS* | 1 273 207 | 1 984 550 | 1 273 207 | 1 984 550 |
| SEB Banka AS | 4 998 | 6 277 | 4 998 | 6 277 |
| US Bank | 1 348 652 | 238 594 | - | - |
| Other banks | 18 | - | 19 | - |
| | **6 508 388** | **5 910 859** | **5 159 737** | **5 672 265** |

*As of October 2017- LUMINOR BANK AS.

## 12. Deferred tax (assets)/liabilities

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

| *Temporary difference on:* | **Recognized in profit or loss 2015/ 2016 EUR** | **Balance as at 30/06/2016 EUR** | **Recognized in profit or loss 2016/ 2017 EUR** | **Balance as at 30/06/2017 EUR** |
|---|---|---|---|---|
| fixed asset depreciation and intangible asset amortisation | 2 459 | 42 310 | 5 860 | 48 170 |
| accrued liabilities for unused vacations | (3 313) | (36 217) | 36 217 | - |
| adjustment of valuation of stock | 2 983 | (79 498) | 4 898 | (74 600) |
| provisions for guarantees | 368 | (2 364) | 1 420 | (944) |
| provisions on doubtful debts | 3 442 | - | - | - |
| Unrecognized temporary differences (related to foreign trade receivables recoverability) | (3 442) | - | - | - |
| **Deferred tax (asset), net** | **2 497** | **(75 769)** | **48 395** | **(27 374)** |

Deferred income tax asset for the Group and Parent company is recognised to the extent that the realisation of the related tax benefit through the future taxable profits is probable. Management believes that there is reasonable probability that taxable profits in the next taxation periods will be sufficient to recover the recognized deferred tax asset in full during the taxation periods following the reporting year; this is also supported by the generation of taxable profits in the current year.

**Notes to the financial statements** (continued)

**13. Share capital**

As at 30 June 2017, the registered and paid-up share capital of the Parent company is EUR 4 158 252 (30.06.2015.: EUR 4 158 252) and consists of 2 970 180 ordinary bearer shares (30.06.2015.: 2 970 180 shares) with unlimited voting rights. Nominal value per share is EUR 1,4.

**14. Payables, provisions and other liabilities**

| | Group | | Parent company | |
|---|---|---|---|---|
| | 30/06/2017 EUR | 30/06/2016 EUR | 30/06/2017 EUR | 30/06/2016 EUR |
| Trade accounts payable | 728 772 | 803 088 | 676 512 | 538 584 |
| Other accounts payable | 9 756 | 181 312 | 9 756 | 181 312 |
| **Trade and other payables** | **738 528** | **984 400** | **686 268** | **719 896** |
| Provisions for guarantees | 6 294 | 15 759 | 6 294 | 15 759 |
| **Provisions** | **6 294** | **15 759** | **6 294** | **15 759** |
| Accrued liabilities for unused vacations | 276 551 | 241 447 | 276 551 | 241 447 |
| Customer advances | 705 865 | 225 195 | 54 069 | 225 195 |
| Taxes (See Note 25) | 94 028 | 128 629 | 94 028 | 128 629 |
| Other liabilities | 905 651 | 308 849 | 421 151 | 282 941 |
| **Other liabilities** | **1 982 095** | **904 120** | **845 799** | **878 212** |
| **Total payables, provisions and other liabilities** | **2 726 917** | **1 904 279** | **1 538 361** | **1 613 867** |

During the reporting period the increase in accrued liabilities for unused vacation pay included in profit or loss statement amounted to EUR 35 104 (2015/2016: increase of EUR 22 089).

| **Movement in provisions** | Group | | Parent company | |
|---|---|---|---|---|
| | Warranties EUR | Total EUR | Warranties EUR | Total EUR |
| **Balance at 30.06.2015** | **18 211** | **18 211** | **18 211** | **18 211** |
| Provisions used during the year | (2 452) | (2 452) | (2 452) | (2 452) |
| **Balance at 30.06.2016** | **15 759** | **15 759** | **15 759** | **15 759** |
| Provisions used during the year | (9 465) | (9 465) | (9 465) | (9 465) |
| **Balance at 30.06.2017** | **6 294** | **6 294** | **6 294** | **6 294** |

Movement in provisions in the reporting year included in the profit or loss statement under Cost of goods sold.

**Ageing analysis of trade payables and other payables**

| | Group | | Parent company | |
|---|---|---|---|---|
| | 30/06/2017 EUR | 30/06/2016 EUR | 30/06/2017 EUR | 30/06/2016 EUR |
| Not overdue | 723 853 | 962 970 | 671 593 | 703 480 |
| Overdue by 0 – 30 days | 14 675 | 21 430 | 14 675 | 16 416 |
| **Trade and other payables** | **738 528** | **984 400** | **686 268** | **719 896** |

The carrying amounts of the Group’s and Parent company’s financial liabilities do not significantly differ from the fair value, as the impact of discounting is not significant for short-term financial instruments.

**Split of trade payables and other payables by currencies expressed in EUR**

| **Group** | 30/06/2017 EUR | 30/06/2017 % | 30/06/2016 EUR | 30/06/2016 % |
|---|---|---|---|---|
| USD | 480 482 | 65.06 | 492 844 | 53.39 |
| EUR | 257 554 | 34.87 | 491 232 | 46.58 |
| GBP | 492 | 0.07 | 324 | 0.03 |
| **Trade and other payables** | **738 528** | **100%** | **984 400** | **100%** |

| **Parent company** | 30/06/2017 EUR | 30/06/2017 % | 30/06/2016 EUR | 30/06/2016 % |
|---|---|---|---|---|
| USD | 428 222 | 62.40 | 228 340 | 31.72 |
| EUR | 257 554 | 37.53 | 491 232 | 68.24 |
| GBP | 492 | 0.07 | 324 | 0.04 |
| **Trade and other payables** | **686 268** | **100%** | **719 896** | **100%** |

**Notes to the financial statements** (continued)

## 15. Loans

| | Group | | Parent company | |
|---|---|---|---|---|
| | 30/06/2017 EUR | 30/06/2016 EUR | 30/06/2017 EUR | 30/06/2016 EUR |
| Credit cards | **10 397** | **12 095** | **10 397** | **12 095** |

## 16. Deferred income

| | Group | | Parent company | |
|---|---|---|---|---|
| | 30/06/2017 EUR | 30/06/2016 EUR | 30/06/2017 EUR | 30/06/2016 EUR |
| Other deferred income | **52 201** | **66 293** | **24 664** | **37 604** |

## 17. Segment information and sales

a) The Group’s (Parent company’s) operations are divided into two major structural units:

- SAF branded equipment designed and produced in-house - as one of the structural units containing CFIP and FreeMile (Etherent/Hybrid/ superPDH systems), Integra (Integrated carrier-grade Ethernet microwave radio), Spectrum Compact (measurement tools for radio engineers).

  **CFIP** – product line is represented by:
  - a split mount (IDU+ODU) PhoeniX hybrid radio system with Gigabit Ethernet and 20E1 interfaces;

  - Lumina high capacity Full Outdoor all-in-one radio with Gigabit Ethernet traffic interface;

  - CFIP-108 entry level radio system with Ethernet and 4xE1 interfaces - perfect for upgrade of E1 networks into packet data networks;

  - Marathon FIDU low frequency low capacity system for industrial applications, energy companies and rural telecom use.

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

  **FreeMile 17/24**, an all outdoor hybrid radio system to be used in 17 and 24 GHz unlicensed frequency bands and providing Ethernet/E1 interfaces for user traffic.

  **Integra** – is a next generation radio system employing latest modem technology on the market as well as radio technology in an innovative packaging.

  **Spectrum Compact** is the latest product line in SAF’s portfolio, it is a measurement tool for field engineers for telecom, broadcasting and other industries using radio technologies. It comprises of a number of units covering several frequency bands and proving various functionality.

- operations related to sales of products purchased from other suppliers, like antennas, cables, SAF renamed (OEMed) products and different accessories - as the second unit.

**Notes to the financial statements** (continued)

**17. Segment information and sales** (continued)

| | CFIP; FreeMile, Integra, Spectrum Compact | | Other | | Total | |
|---|---|---|---|---|---|---|
| **Group** | **2016/17** | **2015/16** | **2016/17** | **2015/16** | **2016/17** | **2015/16** |
| | **EUR** | **EUR** | **EUR** | **EUR** | **EUR** | **EUR** |
| Segment assets | 7 086 826 | 6 132 005 | 1 234 519 | 1 090 929 | 8 321 345 | 7 222 934 |
| Unallocated assets | | | | | 6 720 629 | 6 118 075 |
| **Total assets** | | | | | **15 041 974** | **13 341 009** |
| Segment liabilities | 1 587 837 | 1 101 097 | 59 881 | 96 232 | 1 647 718 | 1 197 329 |
| Unallocated liabilities | | | | | 1 305 535 | 786 876 |
| **Total liabilities** | | | | | **2 953 253** | **1 984 205** |
| Income | 15 972 955 | 11 842 914 | 1 069 619 | 1 863 898 | 17 042 574 | 13 706 812 |
| **Segment result** | **6 522 131** | **3 253 162** | **977 021** | **1 359 680** | **7 499 152** | **4 612 842** |
| Unallocated expenses | | | | | (5 653 866) | (3 981 338) |
| **Profit from operating activities** | | | | | **1 845 286** | **631 504** |
| Other income | | | | | 402 133 | 381 419 |
| Financial income | | | | | 11 247 | 6 807 |
| Financial expenses | | | | | (204 454) | (24 686) |
| **Profit before taxes** | | | | | **2 054 212** | **995 044** |
| Corporate income tax | | | | | (307 146) | (69 777) |
| **Profit after tax** | | | | | **1 747 066** | **925 267** |
| Foreign currency fluctuations | | | | | (5 289) | 1 260 |
| **Profit of the reporting year** | | | | | **1 741 777** | **926 527** |
| **Other information of segment:** | | | | | | |
| Additions of fixed and intangible assets | 120 120 | 288 935 | - | 12 470 | 120 120 | 301 405 |
| Unallocated additions of fixed and intangible assets | | | | | 247 692 | 154 658 |
| **Total additions of fixed and intangible assets** | | | | | **367 812** | **456 063** |
| Depreciation and amortization | 152 529 | 201 605 | 609 | 260 | 153 138 | 201 865 |
| Unallocated depreciation and amortization | | | | | 213 202 | 199 862 |
| **Total depreciation and amortisation** | | | | | **366 340** | **401 727** |

**Notes to the financial statements** (continued)

**17. Segment information and sales** (continued)

| | CFIP; FreeMile, Integra, Spectrum Compact | | Other | | Total | |
|---|---|---|---|---|---|---|
| **Parent company** | **2016/17** | **2015/16** | **2016/17** | **2015/16** | **2016/17** | **2015/16** |
| | **EUR** | **EUR** | **EUR** | **EUR** | **EUR** | **EUR** |
| Segment assets | 7 255 019 | 6 141 702 | 1 093 294 | 977 841 | 8 348 313 | 7 119 543 |
| Unallocated assets | | | | | 5 369 955 | 5 888 478 |
| **Total assets** | | | | | **13 718 268** | **13 008 021** |
| Segment liabilities | 941 105 | 1 088 704 | 64 688 | 103 225 | 1 005 793 | 1 191 929 |
| Unallocated liabilities | | | | | 765 984 | 534 458 |
| **Total liabilities** | | | | | **1 771 777** | **1 726 387** |
| Income | 13 095 709 | 10 039 587 | 1 539 313 | 2 096 149 | 14 635 022 | 12 135 736 |
| **Segment result** | **4 155 642** | **2 006 407** | **968 835** | **1 361 551** | **5 124 477** | **3 367 958** |
| Unallocated expenses | | | | | (3 454 811) | (2 745 166) |
| **Profit from operating activities** | | | | | **1 669 666** | **622 792** |
| Other income | | | | | 399 919 | 348 163 |
| Financial income | | | | | 11 209 | 6 807 |
| Financial expenses | | | | | (135 776) | (29 560) |
| **Profit before taxes** | | | | | **1 945 018** | **948 202** |
| Corporate income tax | | | | | (270 301) | (59 229) |
| **Profit of the reporting year** | | | | | **1 674 717** | **888 973** |

**Other information of segment:**

| | | | | | | |
|---|---|---|---|---|---|---|
| Additions of fixed and intangible assets | 120 120 | 288 935 | - | 12 470 | 120 120 | 301 405 |
| Unallocated additions of fixed and intangible assets | | | | | 222 941 | 138 425 |
| **Total additions of fixed and intangible assets** | | | | | **343 061** | **439 830** |
| Depreciation and amortization | 208 851 | 201 605 | 609 | 260 | 209 460 | 201 865 |
| Unallocated depreciation and amortization | | | | | 138 230 | 185 049 |
| **Total depreciation and amortisation** | | | | | **347 690** | **386 914** |

**Notes to the financial statements** (continued)

**17. Segment information and sales** (continued)

b) This note provides information on division of the Group's and Parent company's net sales and assets by geographical segments (only trade receivables are allocated to regions based on customer residency, all other assets remain unallocated). Information about credit risk concentration to individual customers see in Note 3 (1b).

| | **Net sales** | | **Assets** | |
|---|---|---|---|---|
| **Group** | **2016/ 2017** | **2015/ 2016** | **30/06/2017** | **2015/ 2016** |
| | **EUR** | **EUR** | **EUR** | **EUR** |
| North and South America | 9 830 112 | 7 103 066 | 1 160 660 | 1 055 020 |
| Europe, CIS | 5 605 141 | 4 831 516 | 308 680 | 601 765 |
| Asia, Africa, Middle East | 1 607 321 | 1 772 230 | 240 567 | 141 614 |
| | **17 042 574** | **13 706 812** | **1 709 907** | **1 798 399** |
| Unallocated assets | **-** | **-** | 13 332 067 | 11 542 610 |
| | **17 042 574** | **13 706 812** | **15 041 974** | **13 341 009** |

| | **Net sales** | | **Assets** | |
|---|---|---|---|---|
| **Parent company** | **2016/ 2017** | **2015/ 2016** | **30/06/2017** | **2015/ 2016** |
| | **EUR** | **EUR** | **EUR** | **EUR** |
| North and South America | 7 422 560 | 5 531 990 | 1 458 878 | 1 176 721 |
| Europe, CIS | 5 605 141 | 4 831 516 | 308 680 | 601 765 |
| Asia, Africa, Middle East | 1 607 321 | 1 772 230 | 240 567 | 141 614 |
| | **14 635 022** | **12 135 736** | **2 008 125** | **1 920 100** |
| Unallocated assets | **-** | **-** | 11 710 143 | 11 087 921 |
| | **14 635 022** | **12 135 736** | **13 718 268** | **13 008 021** |

**18. Cost of goods sold**

| | **Group** | | **Parent company** | |
|---|---|---|---|---|
| | **01.07.2016-30.06.2017 EUR** | **01.07.2015-30.06.2016 EUR** | **01.07.2016-30.06.2017 EUR** | **01.07.2015-30.06.2016 EUR** |
| Purchases of components and subcontractors' services | 6 668 782 | 6 285 566 | 6 502 702 | 6 011 619 |
| Salary expenses* | 1 991 079 | 1 879 604 | 1 991 079 | 1 879 604 |
| Depreciation and amortization (See Note 6) | 196 674 | 201 865 | 196 674 | 201 865 |
| Social insurance * | 464 701 | 433 183 | 464 701 | 433 183 |
| Rent of premises | 205 062 | 195 773 | 205 062 | 195 773 |
| Public utilities | 101 525 | 100 298 | 101 525 | 100 298 |
| Transport | 25 524 | 21 446 | 25 524 | 21 446 |
| Communication expenses | 10 199 | 10 573 | 10 199 | 10 573 |
| Business trip expenses | 7 162 | 2 776 | 7 162 | 2 776 |
| Low value articles | 6 737 | 3 012 | 6 737 | 3 012 |
| Other production costs | 102 796 | 85 758 | 102 796 | 85 758 |
| | **9 780 241** | **9 219 854** | **9 614 161** | **8 945 907** |

* Including accrued liabilities for unused vacations.

Research and development related expenses of EUR 1 376 762 (2015/ 2016: EUR 1 364 767) are included in the profit or loss statement caption Purchases of components and subcontractors services.

**Notes to the financial statements** (continued)

### 19. Sales and marketing expenses

| | Group | | Parent company | |
|---|---|---|---|---|
| | **01.07.2016-30.06.2017 EUR** | **01.07.2015-30.06.2016 EUR** | **01.07.2016-30.06.2017 EUR** | **01.07.2015-30.06.2016 EUR** |
| Salary expenses * | 2 409 789 | 1 666 202 | 1 118 658 | 946 975 |
| Delivery costs | 396 838 | 370 553 | 268 900 | 258 728 |
| Business trip expenses | 347 553 | 290 865 | 191 707 | 176 193 |
| Social insurance * | 346 286 | 267 489 | 264 291 | 212 017 |
| Depreciation and amortization (See Note 6) | 116 082 | 124 919 | 97 433 | 110 106 |
| Advertisement and marketing expenses | 285 358 | 152 507 | 207 491 | 147 412 |
| Other selling and distribution costs | 295 211 | 270 054 | 95 894 | 106 768 |
| | **4 197 117** | **3 142 589** | **2 244 374** | **1 958 199** |

* Including accrued liabilities for unused vacations.

### 20. Administrative expenses

| | Group | | Parent company | |
|---|---|---|---|---|
| | **01.07.2016-30.06.2017 EUR** | **01.07.2015-30.06.2016 EUR** | **01.07.2016-30.06.2017 EUR** | **01.07.2015-30.06.2016 EUR** |
| Salary expenses * | 521 286 | 259 145 | 521 286 | 259 145 |
| Social insurance * | 122 718 | 49 899 | 122 718 | 49 899 |
| Depreciation and amortization (See Note 6) | 53 396 | 74 772 | 53 396 | 74 772 |
| IT services | 33 423 | 35 805 | 33 423 | 35 805 |
| Public utilities | 29 676 | 18 339 | 29 676 | 18 339 |
| Representation expenses | 41 988 | 31 538 | 17 378 | 13 420 |
| Training | 88 434 | 29 671 | 68 805 | 14 393 |
| Rent of premises | 25 046 | 25 043 | 25 046 | 25 043 |
| Insurance | 20 401 | 17 450 | 20 401 | 17 450 |
| Expenses on cash turnover | 20 658 | 19 042 | 12 602 | 11 009 |
| Business trip expenses | 2 837 | 9 571 | 2 837 | 9 571 |
| Communication expenses | 3 574 | 3 484 | 3 574 | 3 484 |
| Office maintenance | 5 104 | 6 221 | 5 104 | 6 221 |
| Sponsorship | 56 243 | 17 800 | 55 500 | 17 800 |
| Allowances for doubtful trade receivables | 29 795 | (35 290) | 30 437 | (61 933) |
| Other administrative expense ** | 165 351 | 150 375 | 104 638 | 114 420 |
| | **1 219 930** | **712 865** | **1 106 821** | **608 838** |

* Including accrued liabilities for unused vacations.
** Other administrative expenses include the annual statutory audit fee.

### 21. Other income

| | Group | | Parent company | |
|---|---|---|---|---|
| | **01.07.2016-30.06.2017 EUR** | **01.07.2015-30.06.2016 EUR** | **01.07.2016-30.06.2017 EUR** | **01.07.2015-30.06.2016 EUR** |
| Government grants* | 375 938 | 291 807 | 375 938 | 291 807 |
| Other income | 26 195 | 89 612 | 23 981 | 56 356 |
| | **402 133** | **381 419** | **399 919** | **348 163** |

* Government grants are received from LIAA and LETERA, and they relate to development project realized in cooperation with “LEO Pētījumu centrs” SIA.

During the reporting year the Group (Parent company) has received a government grants of EUR 303 453 (2015/ 2016: EUR 465 596). Government grants that are approved by the end of the reporting year, but not yet received, are included in Other receivables (see Note 10).

**Notes to the financial statements** (continued)

## 22. Financial income

| | Group | | Parent company | |
|---|---|---|---|---|
| | 01.07.2016-30.06.2017 EUR | 01.07.2015-30.06.2016 EUR | 01.07.2016-30.06.2017 EUR | 01.07.2015-30.06.2016 EUR |
| Interest income | 11 209 | 6 807 | 11 209 | 6 807 |
| Result of currency exchange fluctuations, net | 38 | - | - | - |
| | **11 247** | **6 807** | **11 209** | **6 807** |

## 23. Financial expenses

| | Group | | Parent company | |
|---|---|---|---|---|
| | 01.07.2016-30.06.2017 EUR | 01.07.2015-30.06.2016 EUR | 01.07.2016-30.06.2017 EUR | 01.07.2015-30.06.2016 EUR |
| Interest expenses | 235 | - | - | - |
| Result of currency exchange fluctuations, net | 204 219 | 24 686 | 135 776 | 29 560 |
| | **204 454** | **24 686** | **135 776** | **29 560** |

## 24. Corporate income tax

| | Group | | Parent company | |
|---|---|---|---|---|
| | 01.07.2016-30.06.2017 EUR | 01.07.2015-30.06.2016 EUR | 01.07.2016-30.06.2017 EUR | 01.07.2015-30.06.2016 EUR |
| Changes in deferred tax asset (see Note 12) | 48 395 | 2 497 | 48 395 | 2 497 |
| Corporate income tax for the reporting year | 258 751 | 67 280 | 221 906 | 56 732 |
| | **307 146** | **69 777** | **270 301** | **59 229** |

Corporate income tax differs from the theoretically calculated tax amount that would arise applying the Parent company`s and Subsidiary's statutory rates to the Group's and Parent company's profit before taxation:

| | Group | | Parent company | |
|---|---|---|---|---|
| | 01.07.2016-30.06.2017 EUR | 01.07.2015-30.06.2016 EUR | 01.07.2016-30.06.2017 EUR | 01.07.2015-30.06.2016 EUR |
| **Profit before taxes** | **2 054 212** | **995 044** | **1 945 018** | **948 202** |
| Tax rate | 15%-39% | 15%-39% | 15% | 15% |
| Tax calculated theoretically | 319 358 | 149 257 | 291 753 | 142 230 |
| Effect of foreign tax rates | 6 735 | 3 521 | - | - |
| Effect of non-deductible expenses | 28 228 | 12 576 | 25 723 | 12 576 |
| Effect of changes in unrecognized temporary differences | - | (38) | - | (38) |
| Effect of tax reliefs | (47 175) | (95 539) | (47 175) | (95 539) |
| **Corporate income tax** | **307 146** | **69 777** | **270 301** | **59 229** |

The State Revenue Service may inspect the Group's and Parent company's books and records for the last 3 years and impose additional tax charges with interest and penalties. The Group's and Parent company's management is not aware of any circumstances, which may give rise to a potential material liability in this respect. The State Revenue Service had not performed complex tax review at the financial position date.

**Notes to the financial statements** (continued)

### 25. Taxes and compulsory state social security contributions

| **Group** | **VAT** | **Social contributions** | **Personal income tax** | **Corporate income tax** | **Business risk duty** | **CIT for services provided by non- residents** | **Total** |
|---|---|---|---|---|---|---|---|
| | **EUR** | **EUR** | **EUR** | **EUR** | **EUR** | **EUR** | **EUR** |
| **30.06.2016.** | | | | | | | |
| **Liabilities** | **-** | **83 297** | **45 269** | **1 538** | **63** | **-** | **130 167** |
| **(Overpaid)** | **(16 542)** | **-** | **-** | **(114 511)** | **-** | **(118)** | **(131 171)** |
| In the reporting period: | | | | | | | |
| Calculated | (335 409) | 1 187 287 | 715 753 | 257 119 | 778 | 552 | 1 826 080 |
| Transferred | - | (114 628) | - | 114 628 | - | - | - |
| SRS repayment | 302 185 | - | - | - | - | - | 302 185 |
| Paid | - | (1 061 991) | (761 022) | (94 876) | (778) | (552) | (1 919 219) |
| Foreign currency difference | - | - | - | (42) | - | - | (42) |
| **30.06.2017.** | | | | | | | |
| **Liabilities** | **-** | **93 965** | **-** | **163 856** | **63** | **-** | **257 884** |
| **(Overpaid)** | **(49 766)** | **-** | **-** | **-** | **-** | **(118)** | **(49 884)** |

| **Parent company** | **VAT** | **Social contributions** | **Personal income tax** | **Corporate income tax** | **Business risk duty** | **CIT for services provided by non- residents** | **Total** |
|---|---|---|---|---|---|---|---|
| | **EUR** | **EUR** | **EUR** | **EUR** | **EUR** | **EUR** | **EUR** |
| **30.06.2016.** | | | | | | | |
| **Liabilities** | **-** | **83 297** | **45 269** | **-** | **63** | **-** | **128 629** |
| **(Overpaid)** | **(16 542)** | **-** | **-** | **(114 511)** | **-** | **(118)** | **(131 171)** |
| In the reporting period: | | | | | | | |
| Calculated | (335 409) | 1 187 287 | 715 753 | 221 906 | 778 | 552 | 1 790 867 |
| Transferred | - | (114 628) | - | 114 628 | - | - | - |
| SRS repayment | 302 185 | - | - | - | - | - | 302 185 |
| Paid | | (1 061 991) | (761 022) | (85 680) | (778) | (552) | (1 910 023) |
| **30.06.2017.** | | | | | | | |
| **Liabilities** | **-** | **93 965** | **-** | **136 343** | **63** | **-** | **230 371** |
| **(Overpaid)** | **(49 766)** | **-** | **-** | **-** | **-** | **(118)** | **(49 884)** |

### 26. Earnings per share

Earnings per share are calculated by dividing profit by the weighted average number of shares during the year.

| | **Group** | | **Parent company** | |
|---|---|---|---|---|
| | **01.07.2016-30.06.2017 EUR** | **01.07.2015-30.06.2016 EUR** | **01.07.2016-30.06.2017 EUR** | **01.07.2015-30.06.2016 EUR** |
| Profit of the reporting year (a) | 1 747 066 | 925 267 | 1 674 717 | 888 973 |
| Ordinary shares as at 1 July (b) | 2 970 180 | 2 970 180 | 2 970 180 | 2 970 180 |
| **Basic and diluted earnings per share for the reporting year (a/b)** | **0.588** | **0.312** | **0.564** | **0.299** |

### 27. Remuneration to management

| | **Group** | | **Parent company** | |
|---|---|---|---|---|
| | **01.07.2016-30.06.2017 EUR** | **01.07.2015-30.06.2016 EUR** | **01.07.2016-30.06.2017 EUR** | **01.07.2015-30.06.2016 EUR** |
| Remuneration of the Board members: | | | | |
| · salary | 448 529 | 298 083 | 213 651 | 196 843 |
| · social contributions | 60 667 | 45 317 | 50 400 | 37 572 |
| Remuneration of the Council members: | | | | |
| · salary | 162 170 | 151 987 | 162 170 | 151 987 |
| · social contributions | 38 256 | 29 571 | 38 256 | 29 571 |
| **Total** | **709 622** | **524 958** | **464 477** | **415 973** |

**Notes to the financial statements** (continued)

## 28. Related party transactions

Related parties represent both legal entities and private individuals related to the Group and Parent company in accordance with the following rules.

a) A person or a close member of that person's family is related to a reporting group entity if that person:

i. has control or joint control over the reporting group entity;
ii. has a significant influence over the reporting group entity; or
iii. is a member of the key management personnel of the reporting group entity or of a parent of the reporting entity;

b) An entity is related to a reporting group entity if any of the following conditions applies:

i. the entity and the reporting group entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member):
iii. Both entities are joint ventures of the same third party:
iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity;
v. the entity is a post-employment benefit plan for the benefit of employees of either the reporting group entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
vi. The entity is controlled, or jointly controlled by a person identified in (a).
vii. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Related party transaction - a transfer of resources, services or obligations between a reporting group entity and a related party, regardless of whether a price is charged.

| **Parent company** | **Transactions for the year ended 30 June** | | **Balance as at 30 June** | |
|---|---|---|---|---|
| | **2017 EUR** | **2016 EUR** | **2017 EUR** | **2016 EUR** |
| **Sale of goods and services** | | | | |
| Subsidiaries | 5 424 555 | 2 914 450 | 1 226 485 | 833 658 |
| **Purchase of goods and services** | | | | |
| Subsidiaries | 74 883 | 128 667 | 62 130 | 62 821 |
| Other subsidiaries receivables | - | - | 1 825 | 920 |

In the Group report the intercompany transactions and balances between Parent company and subsidiaries have been eliminated.

## 29. Personnel costs

| | **Group** | | **Parent company** | |
|---|---|---|---|---|
| | **01.07.2016-30.06.2017 EUR** | **01.07.2015-30.06.2016 EUR** | **01.07.2016-30.06.2017 EUR** | **01.07.2015-30.06.2016 EUR** |
| Remuneration to staff | 4 922 154 | 3 804 951 | 3 631 023 | 3 085 724 |
| Social contributions | 933 705 | 750 571 | 851 710 | 695 099 |
| **Total** | **5 855 859** | **4 555 522** | **4 482 733** | **3 780 823** |

## 30. Average number of employees

| | **Group** | | **Parent company** | |
|---|---|---|---|---|
| | **01.07.2016-30.06.2017** | **01.07.2015-30.06.2016** | **01.07.2016-30.06.2017** | **01.07.2015-30.06.2016** |
| The average number of staff in the reporting year: | **190** | **179** | **180** | **172** |

**Notes to the financial statements** (continued)

### 31. Operating lease

On 10 December 2002 A/S “SAF Tehnika” signed the rent agreement No. S-116/02 with A/S “Dambis” on the rent of premises with the total area of 5,851 m2 until 16 September 2009. Starting 17 September 2009 the total leased area reduced to 5,672 m2. Starting from 1 September 2017 additional premises of 173 m2 are leased and the total area of the premises is 5 845 m2. The premises are located at 24a Ganību dambis. In the beginning of 2014 agreement amendments were concluded on the extension of the agreement term till 1 March 2020.

On 24 June 2013 rent agreement No. SAFNA-2013-003 with “THE REALTY ASSOCIATES FUND VIII, L., L.” was signed regarding lease of premises by “SAF North America” LLC with total area 3,286 sq. feet. The premises are located at 10500 E.54th Avenue, Unite D, Denver, USA. The agreement matured on 31 August 2016. The contract was not extended for future periods. As of January 2015 the premises are leased to subtenant “Metro Copier Services”, Inc. On 9 January 2015 a new rent agreement No. SAFNA-2015-001 with “FIRST INDUSTRIAL”, L.P. was signed regarding lease of premises by “SAF North America” LLC with total area 7,800 sq. feet. The premises are located at 3250 Quentin Street, Unite 128, Aurora, Colorado 80011, USA. The agreement matures on 31 March 2020.

According to the signed agreements, the Group and Parent company has the following lease payment commitments at the end of the reporting period:

| | Group | | Parent company | |
|---|---|---|---|---|
| | **30.06.2017** | **30.06.2016** | **30.06.2017** | **30.06.2016** |
| | **EUR** | **EUR** | **EUR** | **EUR** |
| 1 year | 316 429 | 309 623 | 272 894 | 266 130 |
| 2 – 5 years | 536 193 | 835 895 | 456 829 | 709 438 |
| | **852 622** | **1 145 518** | **729 723** | **975 568** |

### 32. Contingent liabilities

As part of its primary activities, the Group (Parent company) has not issued performance guarantees to third parties in amount (30.06.2016.: EUR 449).

### 33. Subsequent events

No significant subsequent events have occurred in the period from the year-end to the date of these consolidated financial statements that would have a material impact on the Group’s and/or Parent company`s financial position as at 30 June 2017 or its performance and cash flows for the year then ended.

On behalf of the Board:

Normunds Bergs
Chairman of the Board

Dace Langada
Chief accountant

Riga, 23 October 2017