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A/S „SAF Tehnika”

Consolidated annual report and separate annual report for the year ended 30 June 2022

(Translation from Latvian)

A/S „SAF TEHNIKA”
CONSOLIDATED ANNUAL REPORT AND SEPARATE ANNUAL REPORT
FOR THE YEAR ENDED 30 JUNE 2022

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Management Report

Business activity

SAF Tehnika JSC and its subsidiaries (hereinafter referred to as the Group) design, manufacture, and distribute digital microwave transmission equipment. The Group's activities can be divided into three categories:

- Digital microwave radio equipment for voice and data transmission;
- Microwave spectrum analyzers and signal generators;
- Wireless sensor network solutions for environmental monitoring (IoT – Internet of Things segments)

The Group's accumulated experience and knowledge has allowed to develop a range of innovative products, including launching and developing a series of the world's smallest microwave spectrum analyzers Spectrum Compact, as well as creating the Aranet brand of wireless sensor network solutions.

The Group offers comprehensive and cost-effective solutions in both public and private sectors.

In the financial year (FY) 2021/2022, the Group's net turnover amounted to EUR 33.97 million, which is EUR 8.95 million or 36% more than in the previous financial year 2020/2021. The net turnover of the Parent company in FY 2021/2022 was EUR 29.14 million, which is EUR 8.15 million or 39% more than in the previous FY 2020/2021.

The turnover of the American region, which accounts for sales in both North, South and Central Americas, represented 55% of the Group's annual turnover and amounted to EUR 18.66 million, which is by 12% more than last year. The US subsidiary company SAF North America LLC provides marketing and sales of the Group's products in the USA and Canada, as well as product warehousing and logistics services. Sales in the European and CIS region exceeded the level of the previous year by EUR 4.9 million. Several successful projects have also been implemented in the AMEA (Asia, Middle East, Africa) region in the face of fierce competition in the market for wireless data transmission equipment.

During the reporting year, the Group kept developing new products, while continuing to work on modifications to existing products and innovative ideas. The product life cycle for microwave wireless data transmission equipment in the industry lasts for about 5 years, when obsolete products are replaced by newer generation devices. Transition between technologies is a gradual process and will happen over several years.

The Group also offers services related to its products and continues to develop specific customer-requested functionality for SAF Tehnika JSC products.

The market remains in demand for radio systems that provide enhanced data rates and which can be developed or updated to increase data transmission capacity. Consequently, the Group continues to explore the market and problematic issues, and is working on identifying customer needs to be able to offer the necessary product modifications and create prototypes for next generation technologies. At the same time, the Group develops solutions for the IoT segment in order to ensure stable diversification of SAF Tehnika product offering.

The Group's sales revenue in countries outside Latvia accounted for 98.59% (98.36% for the Parent company, respectively) of the total turnover and amounted to EUR 33.49 million (EUR 28.66 million for the Parent company). In the reporting year, the Group sold its products in 81 countries around the world.

In the CFIP product series, *Phoenix* and *Integra* products were in the greatest demand in the reporting year. There is an increasing demand for Aranet and Spectrum Compact series products. Sales of the Aranet4 indoor air quality sensor from the Aranet product line continue to grow, while demand exceeds previous forecasts.

In the face of a global pandemic, the Group followed epidemiological rules in the home country, ensuring compliance with the relevant norms. The Group's offices and the manufacturing facility operated in the usual / rearranged mode, paying special attention to ventilation and air quality, the company manufactured and shipped its products worldwide.

The Group's activities were affected by the worldwide shortage of various electronic components. Due to the war in Ukraine, supply chains are still in trouble – alternative transportation routes increase delivery times and costs. As in times of global pandemic, the company regularly reviews procurement volumes and deadlines, and continues to accumulate inventory in order to be able to fulfil most of the orders within normal lead times. This applies to all SAF product families – microwave links, Spectrum Compact and Aranet.

The Group's cash balance at the end of the year was EUR 2.78 million (EUR 1.16 million for the Parent company, respectively), which is EUR 4.91 million (EUR 5.34 million for the Parent company) less than at the end of the previous reporting year. In the reporting year, the Group paid dividends in the amount of EUR 1.99 million. The decrease in cash is also explained by the need to keep larger inventory balances, as explained above.

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Management Report (continued)

During the reporting year, the Group invested EUR 1.68 million in the acquisition of IT infrastructure, production and research equipment, software and licenses, product certification, as well as in the renovation of premises.

The Group completed the financial year 2021/2022 with a profit of EUR 6.09 million (the Parent company with EUR 5.75 million, respectively). The result of the Group's activities for the previous financial year was a profit of EUR 3.88 million (EUR 3.18 million for the Parent company, respectively). The overall increase in turnover ensured successful performance.

Research and development

A success factor and a prerequisite for the Group's long-term existence is its ability to ensure continuous product development. During the reporting year, the development and improvement of the microwave wireless data transmission product line continued. Solutions were found to improve functionality and quality indicators, and to reduce production costs. The Group continued to design and develop the Aranet functionality within the IoT environmental monitoring solution, as well as kept working on the development of the Aranet Cloud service. Aranet is an industrial-grade wireless environmental monitoring solution that allows taking measurements of various environmental parameters over a wide area, including monitoring of temperature, humidity, and CO₂. Spectrum Compact metering products are regularly supplemented with new functionalities and accessories. There are developments both for the release of new products, and for the improvement and refinement of existing ones. Technologically, SAF Tehnika products are interconnected. The development and existence of such products expands the range of Group's business offerings. During the reporting period, the Group's product development projects received co-financing in the amount of EUR 177 thousand from the Latvian electrical and optical equipment industry competence centre "LEO Pētījumu centrs" SIA.

Future prospects

SAF Tehnika JSC has an extensive experience and long-standing expertise in the development and production of microwave transmission equipment. The Company is able to supply excellent, high-quality products to the general market, as well as to successfully develop niche solutions. The Group's task is to further develop the next generation of data transmission equipment, continue to produce high-quality products for the microwave data communication market, looking for innovative ideas for microwave data transmission applications. It is planned to continue to offer not only standardized solutions, but also product modifications to meet specific customer needs. The goal is to stabilize the level of turnover, which provides a positive net result in the long term.

The Group will continue its established market strategy, focusing on strategic market niches for both products and regions.

Since the outbreak of hostilities in Ukraine by Russia, the overall uncertainty of the business environment has increased. Although its direct impact on the Group's operations is relatively limited, the Group carefully assesses possible cost growth forecasts and potential risks. We believe that changes in the microwave radio market are not expected in the near term. However, in the longer term, there may be certain customer segments that could reconsider the investment volumes in network construction. The Group regularly works with all clients to identify their needs in a timely manner and minimize potential impacts.

The Group looks positively at projections for future operational periods, however, remains cautious, and the Board of the Parent company refrains from making any statements about future sales and financial results.

Subsequent events

During the period between the last day of the reporting year and the date on which these financial statements are signed, there have been no events that would significantly affect the financial situation of the Group and/or the Parent company as of June 30, 2022, and/or financial results and cash flows for the relevant reporting year.

Board's proposal for distribution of profit

The Board of the Parent company proposes to pay dividends of EUR 2 million.

The Corporate Governance Report for 2021/2022 is also being submitted to Nasdaq Riga AS together with these separate and consolidated Financial Statements for 2021/2022 by SAF Tehnika A/S.

On behalf of the Board,
/digitally signed/

Normunds Bergs
Chairman of the Board

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STATEMENT OF THE BOARD’S RESPONSIBILITY

The Board of SAF Tehnika A/S is responsible for preparing separate and consolidated annual reports of SAF Tehnika A/S.

The separate and consolidated annual reports set out on pages 6 to 38 and are prepared in accordance with the source documents and present fairly the financial position of SAF Tehnika A/S (Parent company) and SAF Tehnika A/S and its subsidiaries (the Group) as at 30 June 2022 and their results of financial performance and cash flows for the year ended on 30 June 2022.

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 SAF Tehnika A/S 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 legal acts of the countries where Group companies and the Parent company operate.

On behalf of the Board,

/digitally signed/

Normunds Bergs
Chairman of the Board

A/S „SAF TEHNIKA”
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Statement of financial position

	Note	Group As at 30 June		Parent company As at 30 June	
		2022 EUR	2021 EUR	2022 EUR	2021 EUR
ASSETS					
Long-term investments					
Property, plant and equipment	5	2 006 940	691 542	1 976 692	683 486
Intangible assets	5	411 679	316 640	411 678	316 584
Right-to-use assets	5	2 371 668	1 316 804	2 229 318	1 147 143
Investments in subsidiaries	6	-	-	32 893	32 893
Investments in other companies	6	7 146	7 146	7 146	7 146
Total long-term investments		4 797 433	2 332 132	4 657 727	2 187 252
Current assets					
Inventories	7	16 334 594	8 556 289	16 054 124	8 275 929
Trade receivables	8	2 742 892	1 658 109	688 667	807 604
Due from related parties	8, 24	-	-	264 976	-
Other debtors	9	633 527	400 622	606 142	396 008
Corporate income tax		192 552	-	-	-
Deferred expenses		151 785	131 111	118 278	92 845
Cash and cash equivalents	10	2 781 167	7 689 748	1 162 474	6 498 004
Deferred expenses		22 836 517	18 435 879	18 894 661	16 070 390
Cash and cash equivalents		27 633 950	20 768 011	23 552 388	18 257 642
Total current assets					
Total assets					
EQUITY AND LIABILITIES	11	4 158 252	4 158 252	4 158 252	4 158 252
EQUITY					
Other reserves		8 530	8 530	8 530	8 530
Foreign currency translation reserve		145 805	10 324	-	-
Retained earnings		10 233 237	6 133 278	9 207 677	5 443 459
Total shareholders' equity		17 397 550	13 162 110	16 226 185	12 461 967
LIABILITIES					
Long-term liabilities					
Lease liabilities	13	2 013 978	1 004 539	1 918 656	876 985
Contract liabilities	14	638 925	451 354	20 410	19 105
Total long-term liabilities		2 652 903	1 455 893	1 939 066	896 090
Current liabilities					
Trade and other payables	12	1 926 064	904 040	1 721 196	786 104
Contract liabilities	14	2 028 976	1 773 892	925 447	1 270 646
Corporate income tax		-	245 786	-	-
Other liabilities	12	3 237 550	2 910 889	2 320 202	1 891 459
Due to related parties	24	-	-	81 149	681 220
Lease liabilities	13	390 907	315 401	339 143	270 156
Total current liabilities		7 583 497	6 150 008	5 387 137	4 899 585
Total liabilities		10 236 400	7 605 901	7 326 203	5 795 675
Total equity and liabilities		27 633 950	20 768 011	23 552 388	18 257 642

The accompanying notes on pages 10 to 38 form an integral part of these financial statements.

On behalf of the Board,

/digitally signed/
Normunds Bergs
Chairman of the Board

/digitally signed/
Dace Langada
Chief accountant

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Statement of profit or loss and other comprehensive income

	Note	Group For the year ended 30 June		Parent company For the year ended 30 June	
		2022 EUR	2021 EUR	2022 EUR	2021 EUR
Revenue from contracts with customers	15	33 968 171	25 021 663	29 135 280	20 983 223
Cost of goods sold	16	<u>(19 565 848)</u>	<u>(14 471 445)</u>	<u>(18 576 123)</u>	<u>(14 273 468)</u>
Gross profit		14 402 323	10 550 218	10 559 157	6 709 755
Sales and marketing expenses	17	(6 473 416)	(5 366 604)	(3 390 224)	(2 590 670)
Administrative expenses	18	<u>(2 215 927)</u>	<u>(1 620 844)</u>	<u>(1 876 917)</u>	<u>(1 541 906)</u>
Profit from operating activities		5 712 980	3 562 770	5 292 016	2 577 179
Other income	19	390 565	728 416	385 865	728 341
Financial income	20	214 134	554	170 363	-
Financial expenses	21	<u>(49 374)</u>	<u>(128 319)</u>	<u>(44 908)</u>	<u>(128 873)</u>
Profit before tax		6 268 305	4 163 421	5 803 336	3 176 647
Corporate income tax		<u>(178 325)</u>	<u>(287 245)</u>	<u>(49 097)</u>	-
Profit of the reporting year		6 089 980	3 876 176	5 754 239	3 176 647
Other comprehensive income					
Other comprehensive income that will be reclassified subsequently to profit or loss:					
Foreign operations - currency translation differences		135 481	1 621	-	-
Total comprehensive income		6 225 461	3 877 797	5 754 239	3 176 647
Basic and diluted profit per share (EUR per share):	22	2.050	1.305	1.937	1.070

The accompanying notes on pages 10 to 38 form an integral part of these financial statements.

On behalf of the Board,

/digitally signed/

Normunds Bergs
Chairman of the Board

/digitally signed/

Dace Langada
Chief accountant

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Statement of changes in the shareholders' equity - the Group

	Share capital	Share premium	Other reserves	Foreign currency translation reserve	Retained earnings	Total
	EUR	EUR	EUR	EUR	EUR	EUR
Balance as at 30 June 2020	4 158 252	2 851 726	8 530	8 703	2 880 840	9 908 051
Transactions with shareholders recognized in the equity						
Dividends	-	-	-	-	(623 738)	(623 738)
Total comprehensive income	-	-	-	1 621	3 876 176	3 877 797
Profit for the reporting year	-	-	-	-	3 876 176	3 876 176
Other comprehensive income	-	-	-	1 621	-	1 621
Balance as at 30 June 2021	4 158 252	2 851 726	8 530	10 324	6 133 278	13 162 110
Transactions with shareholders recognized in the equity						
Dividends	-	-	-	-	(1 990 021)	(1 990 021)
Total comprehensive income	-	-	-	135 481	6 089 980	6 225 461
Profit for the reporting year	-	-	-	-	6 089 980	6 089 980
Other comprehensive income	-	-	-	135 481	-	135 481
Balance as at 30 June 2022	4 158 252	2 851 726	8 530	145 805	10 233 237	17 397 550

Statement of changes in the shareholders' equity - the Parent company

	Share capital EUR	Share premium EUR	Other reserves EUR	Retained earnings EUR	Total EUR
Balance as at 30 June 2020	4 158 252	2 851 726	8 530	2 890 550	9 909 058
Transactions with shareholders recognized in the equity					
Dividends	-	-	-	(623 738)	(623 738)
Total comprehensive income	-	-	-	3 176 647	3 176 647
Profit for the reporting year	-	-	-	3 176 647	3 176 647
Balance as at 30 June 2021	4 158 252	2 851 726	8 530	5 443 459	12 461 967
Transactions with shareholders recognized in the equity					
Dividends	-	-	-	(1 990 021)	(1 990 021)
Total comprehensive income	-	-	-	5 754 239	5 754 239
Profit for the reporting year	-	-	-	5 754 239	5 754 239
Balance as at 30 June 2022	4 158 252	2 851 726	8 530	9 207 677	16 226 185

The accompanying notes on pages 10 to 38 form an integral part of these financial statements.

On behalf of the Board,

/digitally signed/

Normunds Bergs
Chairman of the Board

/digitally signed/

Dace Langada
Chief accountant

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Statement of cash flows

	Note	Group For the year ended 30 June		Parent company For the year ended 30 June	
		2022 EUR	2021 EUR	2022 EUR	2021 EUR
Cash flows from operating activities					
Profit before taxes		6 268 305	4 163 421	5 803 336	3 176 647
Adjustments for:					
- depreciation	5	377 001	361 956	365 827	348 830
- amortization	5	121 093	101 184	121 028	100 567
- amortization of right-to-use assets	5	366 311	299 413	314 547	253 058
- change in valuation allowance for inventories	7	(31 420)	(407 295)	(31 420)	(407 295)
- change in provisions for guarantees	12	-	28 213	-	28 213
- change in provisions for unused vacations	12	119 218	194 166	119 217	194 166
- change in provision for expected credit losses	8	(202 592)	(359 388)	(191 733)	(371 896)
- interest income	20	(432)	(378)	-	-
- interest expenses on lease liabilities	21	49 355	27 708	44 889	23 184
- cash exchange rate fluctuations		(378 867)	51 751	(207 110)	95 017
- government grants	19	(321 444)	(683 476)	(321 444)	(683 476)
- gain on disposal of fixed assets		(50 720)	(32 334)	(50 720)	(32 334)
Operating profit before changes in working capital		6 315 808	3 744 941	5 966 417	2 724 681
Increase in inventories		(7 746 490)	(1 302 201)	(7 746 380)	(1 304 695)
Increase in receivables		(744 599)	(294 144)	(97 746)	(90 809)
Increase in payables		1 341 906	1 378 142	276 347	1 743 943
Cash generated by/(used in) operating activities		(833 375)	3 526 738	(1 601 362)	3 073 120
Government grants	19	276 195	751 107	276 195	751 107
Corporate income tax paid		(747 698)	(75 042)	(71 669)	(100)
Net cash from operating activities		(1 304 878)	4 202 803	(1 396 836)	3 824 127
Cash flows from investing activities					
Acquisition of property, plant and equipment	5	(1 692 699)	(382 257)	(1 660 358)	(378 030)
Proceeds from sale of property, plant and equipment		51 788	39 374	51 649	39 374
Acquisition of intangible assets	5	(216 122)	(233 324)	(216 122)	(233 324)
Loans repaid		-	63 886	-	3 300
Sale of investment in other company	6	-	960	-	960
Interest received		432	378	-	-
Net cash used in investing activities		(1 856 601)	(510 983)	(1 824 831)	(567 720)
Cash flows from financing activities					
Proceeds from borrowings		-	(8 940)	-	(8 940)
Payment of lease liabilities		(311 775)	(299 413)	(286 063)	(253 058)
Interest paid on lease liabilities		(49 355)	(27 708)	(44 889)	(23 184)
Dividends		(1 990 021)	(623 738)	(1 990 021)	(623 738)
Net cash used in financing activities		(2 351 151)	(959 799)	(2 320 973)	(908 920)
Effect of movements in exchange rates on cash held		604 049	(37 335)	207 110	(95 017)
Net change in cash and cash equivalents		(4 908 581)	2 694 686	(5 335 530)	2 252 470
Cash and cash equivalents at the beginning of the year		7 689 748	4 995 062	6 498 004	4 245 534
Cash and cash equivalents at the end of the year	10	2 781 167	7 689 748	1 162 474	6 498 004

The accompanying notes on pages 10 to 38 form an integral part of these financial statements.

On behalf of the Board,

/digitally signed/
Normunds Bergs
Chairman of the Board

/digitally signed/
Dace Langada
Chief accountant

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Notes to the financial statements

1. General information

A/S „SAF Tehnika” (hereinafter referred to as the Parent Company) was registered in Riga, Latvia, on 27 December 1999 with the registration number 40003474109. Registration in the Commercial Register was performed on 10 March 2004. The legal address is Ganību dambis 24a, Riga, Latvia. The Parent company is a public joint stock company, the shares of the Parent company are listed on the main list of A/S “Nasdaq Riga” Stock Exchange, Latvia.

The core business activity of 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. The objective of establishing “SAF Services” LLC was to provide local clients with services related to the creation, long-term maintenance and management of data transmission networks. Currently, the development of this business direction is suspended.

These separate financial statements of A/S “SAF Tehnika” and consolidated financial statements of A/S “SAF Tehnika” and its subsidiaries (together – the Group) (hereinafter – financial statements) were approved by the Parent company’s Board on 28 October 2022. 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. Dace Langada, the Chief Accountant of A/S “SAF Tehnika”, is in charge of the bookkeeping.

The auditor of the Group is SIA “Potapoviča un Andersone”, License No. 99 and the responsible certified auditor is Lolita Čapkeviča, Certificate No. 120.

2. Summary of applied key accounting principles

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.

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.

The financial statements are presented in euros (EUR). The financial statements cover the period from 1 July 2021 to 30 June 2022.

Implementation of new international financial reporting standards (IFRS), amendments and interpretations

The Group (the Parent company) has applied the following new and amended standards and interpretations effective for annual periods beginning on or after January 1, 2021.

Amendments for Interest Rate Benchmark Reform (phase 2)

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2 were issued in August 2020 and are applicable from 1 January 2021, with early application permitted. The amendments address the accounting issues that arise when financial instruments that reference an IBOR interest rate transition to an alternative benchmark rate. The amendments include a practical expedient for modifications required by the Interest Rate Benchmark Reform (the Reform), to be treated as changes to a floating interest rate. They also permit changes required by the Reform to be implemented in hedge designations and hedge documentation without the hedging relationship being discontinued. Adoption of the amendments does not have significant impact on the Company’s financial position, results, cash flows or disclosures.

Adopted new or revised standards and interpretations that have been introduced during the reporting year have not had or have had an insignificant impact on the Group’s (the Parent company’s) financial position, results, cash flows or disclosures.

New accounting pronouncements entering into force on or after 1 January 2022

Several new or revised standards and interpretations have been issued that are mandatory for annual periods beginning on or after 1 January 2022 and which have not been early adopted by the Group (the Parent company):

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Notes to the financial statements (continued)

A Accounting principles (continued)

2. Summary of accounting principles used (continued)

Amendments to IFRS 4 – deferral of IFRS 9 (effective for annual periods beginning on or after 1 January 2023).

Classification of liabilities as current or non-current – Amendments to IAS 1 (effective for annual periods beginning on or after 1 January 2023, not yet adopted by the EU). These narrow scope amendments clarify that liabilities are classified as either current or noncurrent, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer requires such a right to be unconditional. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. The right to defer only exists if the entity complies with any relevant conditions as of the end of the reporting period. A liability is classified as current if a condition is breached at or before the reporting date even if a waiver of that condition is obtained from the lender after the end of the reporting period. Conversely, a loan is classified as non-current if a loan covenant is breached only after the reporting date. In addition, the amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. 'Settlement' is defined as the extinguishment of a liability with cash, other resources embodying economic benefits or an entity's own equity instruments. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument.

Proceeds before intended use, Onerous contracts – cost of fulfilling a contract, Reference to the Conceptual Framework – narrow scope amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020 – amendments to IFRS 1, IFRS9, IFRS16 and IAS 41 (effective for annual periods beginning on or after 1 January 2022). The amendment to IFRS 9 addresses which fees should be included in the 10% test for derecognition of financial liabilities. Costs or fees could be paid to either third parties or the lender. Under the amendment, costs or fees paid to third parties will not be included in the 10% test.

Classification of liabilities as current or non-current, deferral of effective date – Amendments to IAS 1 (issued on 15 July 2020 and effective for annual periods beginning on or after 1 January 2023). The amendment to IAS 1 on classification of liabilities as current or non-current was issued in January 2020 with an original effective date 1 January 2022. However, in response to the Covid-19 pandemic, the effective date was deferred by one year to provide companies with more time to implement classification changes resulting from the amended guidance.

Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting policies (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023). IAS 1 was amended to require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendment provided the definition of material accounting policy information. The amendment also clarified that accounting policy information is expected to be material if, without it, the users of the financial statements would be unable to understand other material information in the financial statements. The amendment provided illustrative examples of accounting policy information that is likely to be considered material to the entity's financial statements. Further, the amendment to IAS 1 clarified that immaterial accounting policy information need not be disclosed. However, if it is disclosed, it should not obscure material accounting policy information. To support this amendment, IFRS Practice Statement 2, 'Making Materiality Judgements' was also amended to provide guidance on how to apply the concept of materiality to accounting policy disclosures.

Amendments to IAS 8: Definition of Accounting Estimates (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023). The amendment to IAS 8 clarified how companies should distinguish changes in accounting policies from changes in accounting estimates.

The Group (Parent company) is currently assessing the impact of the amendments listed above on its financial statements.

Other changes in IFRS

Other new or amended IFRSs or interpretations issued and not yet adopted are not expected to have a significant impact on the Group's (the Parent company's) financial position, results, cash flows or disclosures.

At the time of signing this report there are no new or revised standards or interpretations that are not yet effective that are expected to have a material impact on the Parent company or the 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. Subsidiaries of the Group were established by the parent company, therefore business combinations and resulting acquisition accounting does not apply to the Group.

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Notes to the financial statements (continued)

B Consolidation (continued)

2. Summary of accounting principles used (continued)

Subsidiaries controlled by the Parent company:

Name	Country of residence	Share-holding	Equity of subsidiaries		Profit/ (loss) of subsidiaries	
			30.06.2022 EUR	30.06.2021 EUR	2021/2022 EUR	2020/2021 EUR
„SAF North America” LLC	United States of America	100%	1 204 258	733 903	364 584	703 001
„SAF Services” LLC	United States of America	100%	-	(5 182)	-	(855)

The address of both subsidiaries is 3250 Quentin Street, Unit 128, Aurora, Colorado 80011, USA. At the end of the reporting year the operations of “SAF Services” LLC are dormant and it accounts for insignificant part of the Group. As at June 2022 this subsidiary is liquidated.

The financial statements of the Group's subsidiaries have been prepared for the same reporting period as the parent company's financial statements, applying the same accounting policies. The accounting policies of subsidiaries are adjusted when necessary in order to ensure consistency with those of the Group.

(b) 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.

C Parent company's investment in subsidiaries

In the separate financial statements of the Parent company investments in subsidiaries are accounted for using the cost method under IAS 27 “Separate Financial Statements”. Subsequent to initial recognition, investments in subsidiaries are carried at cost less any accumulated impairment losses. At the end of each reporting year it is assessed whether there are indication that the investment may be impaired. If any such indication exists, the impairment test is performed. The parent calculates the impairment as the difference between the recoverable amount of the subsidiary and the carrying amount of the investment, recognising the loss in the statement of comprehensive income.

Dividends received from subsidiaries are recognised in the statement of comprehensive income in the period in which the right to receive the dividends arises.

D Foreign currency revaluation

(a) Functional and reporting currency

The functional currency of the Group and the Parent company and the reporting currency is the official currency of the Republic of Latvia - euro (EUR).

(b) Transactions and balances in foreign currencies

Transactions in foreign currencies are translated into functional currency (EUR) of the Group (Parent company) at the reference exchange rate set by the European Central Bank as at the transaction date. Foreign monetary asset and liability items are revalued to functional currency of the Group (Parent company) according to closing rate published on the official website of the European Central Bank on the reporting date. The effects of changes in foreign exchange rates are recognized in the statement of profit or loss

	30.06.2022	30.06.2021
1 USD	1.03870	1.18840
1 GBP	0.85820	0.85805

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Notes to the financial statements (continued)

2. Summary of accounting principles used (continued)

D Foreign currency revaluation (continued)

(c) Financial statements of foreign entities

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 resulting exchange differences are initially recognized in other comprehensive income and subsequently reclassified from equity to profit or loss when the Group disposes of the respective foreign operation.

E Property, plant and equipment

Property, plant and equipment (PPE) are carried at cost less accumulated depreciation and impairment losses. Cost includes expenses directly related to acquisition of PPE. Such cost includes the cost of replacing part of such PPE item if the asset recognition criteria are met.

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

PPE consisting of significant items with different useful lives are treated as different items of PPE for which depreciation is calculated separately.

The cost of replacing part of an item of PPE 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 PPE is recognised in the profit or loss as incurred.

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

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

	% per year
Technological equipment	25
Vehicles	20
Other equipment and machinery	20 – 50

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 H).

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

Effective January 1, 2019, the Group (the Parent company) has applied IFRS 16, Leases, which has resulted in the recognition of a right-of-use assets as a non-current assets. The accounting policy for leases is set out in section R of the accounting policies.

F 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, usually of 4 years.

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Notes to the financial statements (continued)

2. Summary of accounting principles used (continued)

G Research and development costs

Research costs are recognized in statement of profit or loss 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. An assessment is made at each reporting date to determine whether there is any indication that such an asset may be impaired.

H Impairment of long-term non-financial assets

All non-financial assets of the Group and the Parent Company have a definite useful life. The Group (Parent Company) assesses at each reporting date whether there is any indication that an item of property, plant and equipment, intangible assets, right-to-use assets and other non-current assets may be impaired. If any such indication exists, the asset's recoverable amount is estimated. Intangible assets that are not put into operation are not amortized and are reviewed annually.

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 15). No impairment indicators have been noted.

In respect of non-current assets (excluding goodwill), 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.

I Segments

Segments reportable in financial statements are business segments or aggregations of business segments that meet certain criteria and for which separate financial information is available that is regularly evaluated by the chief operating decision maker in making decisions about the allocation of resources and performance evaluation. 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. Information on the Group's (Parent company's) operating segments is disclosed in Note 15.

J Government grants

Government and international organisations 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 non-current asset, the fair value is initially credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset. Grants that are not intended to provide an incentive to incur specific expenses are recognized as income when the Group (Parent Company) becomes eligible for the grant.

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2. Summary of accounting principles used (continued)

J Government grants (continued)

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

Since April 2019, the cooperation project “Competence Center of Latvian Electrical and Optical Equipment Industry” is being implemented within the framework of an agreement signed between A/S “SAF Tehnika” and “LEO Pētījumu centrs” SIA., regarding which SIA “LEO Pētījumu centrs” had signed a contract with “Centrālo finanšu un līgumu aģentūra”, 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.

K Inventories

Inventories are 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, labour 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 whose movement in 12, 9 or 6-month period respectively has been less than 30% comparing with the amount at the beginning of period. Provisions for slow-moving inventory are made according to the following rates:

The time interval where there has not been movement	Provision rate %
6 to 8 months	20
9 to 11 months	50
12 months and more	100

L Financial Instruments

Classification

The Group (the Parent company) classifies its financial assets in the following measurement categories:

- those subsequently measured at fair value (with revaluation in either profit or loss or other comprehensive income), and
- those to be measured at amortized cost. The classification and subsequent measurement depend on the Group`s (Parent company`s) business model for managing the related assets portfolio and the cash flow characteristics of the asset.

Recognition and derecognition

“Regular way” acquisitions and sales of financial assets are recorded at trade date, which is the date when the Group (the Parent company) commits to acquire or deliver a financial asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group (the Parent company) has transferred substantially all the risks and rewards of ownership.

Measurement

At initial recognition, the Group (the Parent company) measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

Debt instruments

Subsequent measurement of debt instruments depends on the entity`s business model for managing the asset and the cash flow characteristics of the asset. All debt instruments of the Group (the Parent company) are classified in an amortised cost valuation category.

Amortized cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included financial income based on effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in other gains/ (losses) together with impairment losses and foreign exchange gains and losses. On 1 July 2021 and 30 June 2022, the Group`s (the Parent company`s) financial assets measured at amortized cost comprise: trade receivables and cash and cash equivalents.

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Notes to the financial statements (continued)

2. Summary of accounting principles used (continued)

L Financial Instruments (continued)

Equity instruments

The Groups (the Parent company's) investments in equity instruments are insignificant.

Derivative financial instruments

Derivative financial instruments are accounted for at fair values. All financial instruments are recognised as assets when fair value is positive and as liabilities when fair value is negative. Changes in values of derivative financial instruments are included in profit or loss statement. The Group (the Parent company) does not apply hedge accounting.

Impairment

The Group (the Parent company) determines expected credit loss from its debt instruments accounted at amortised cost. Methods used for assessment of impairment depend on whether credit risk has increased significantly.

Expected credit loss is assessed based on:

- objective and potential amount that is assessed through analysis or a range of potential outcomes;
- time value of money;
- all the reasonable and supportable information about past events, current conditions and future forecasts available at the end of each reporting period without undue cost or efforts.

The Group (the Parent company) applies simplified approach to trade receivables and accrued income without significant financing component as allowed by IFRS 9, which requires accrual of lifetime expected credit losses for all trade receivables grouped on the basis of common credit characteristics and overdue payments. The rates of expected credit loss are based on the dynamics of payments (for sales) during the last 3 years, as well as historical credit losses in the respective historic period. The amount of historical loss is adjusted to reflect current and future information.

M 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.

N 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.

O Corporate income tax

Corporate income tax for the reporting period is included in the financial statements based on the management's calculations prepared in accordance with requirements of tax legislation of each company of the Group.

With respect to the Group's parent company in Latvia, corporate income tax is calculated on distributed profit (20/80 of the net amount payable to shareholders) as well as on conditionally distributed profit (20/80 of the calculated taxable base). Corporate tax on distributed profit is recognized when the Company's shareholders approve the distribution of profit.

The Company also calculates and pays corporate income tax on conditionally distributed profit, including statutory taxable items, such as non-operating expenses, amounts of other transactions if they meet the criteria set out in the Corporate Income Tax Law, as well as other expenses in excess of statutory deduction thresholds. Such tax is not an income tax in the context of IAS 12 because it is calculated on a gross rather than a net basis and is therefore recognized in the statement of profit or loss as other operating expense.

P Employee benefits and vacation reserve

Salary liabilities, including non-monetary benefits, bonus plans, annual leave, are recognized for employee services until the end of the reporting period and measured at the amounts expected to be paid to settle the liability. 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.

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Notes to the financial statements (continued)

2. Summary of accounting principles used (continued)

P Employee benefits and vacation reserve (continued)

Provisions for unused annual leaves are estimated by multiplying the average daily earnings of employees for the last six months of the reporting year by the number of unused vacation days accrued at the end of the reporting year. These liabilities are shown as short-term accrued liabilities.

Q Revenue recognition

The Group is a designer, manufacturer and distributor of digital microwave transmission equipment. The Group provides end-to-end and cost-effective wireless backhaul solutions for digital voice and data transmission to mobile and fixed network operators and data service providers both in the public and private sectors as an alternative to cable networks. The Group operates in two separate segments: (1) operations with products developed by the Group and (2) operations with products acquired from other producers, including, sales of antennae, cables, rebranded (OEM-ed) and other side products.

Revenue is income generated on the course of the Group's (the Parent company's) ordinary operations. Revenue is recognised at transaction price. Transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties. The Group (the Parent company) recognises revenue at the moment of transfer of control over the goods or services to the client.

Sale of finished goods, including spare parts and accessories

Revenue is recognised at the moment of delivery of goods to the wholesaler (buyer) together with full freedom of choice in respect of further sale and prices of those goods and a wholesaler (buyer) does not have any claims regarding fulfilment of contract liability that could affect acceptance of goods by the wholesaler (buyer).

Delivery takes place when products are delivered to a specified location, risks of expiry and loss transferred to the wholesaler (buyer) and the Group (the Parent company) has acquired objective proof that criteria for acceptance/transfer have been fulfilled. It is considered that no financing component is present when sales are performed with 30-45-day settlement period what corresponds to usual market practice. Trade receivable is recognised when goods are delivered, since at this point consideration becomes unconditional and the settlement depends only on time. If consideration depends on performance of additional obligations, a contract asset is recognised. If the Group (the Parent company) receives an advance payment, it recognises contract liability.

Delivery of services

The Group (the Parent company) provides to customers early product replacement guarantees, as well as warranties, specific product development and configuration services, calibration of equipment and training services. Revenues from services are recognised over the time of delivery of the service.

Extended warranties

Sales transaction can comprise certain future services, for instance, extended warranties. In this case transaction price of the goods and services granted is allocated on a stand-alone selling price basis of such components. In order to determine stand-alone selling prices observable prices are used, but when such are not available, "cost plus" method is applied. Extended warranties are initially recognised as contract liabilities in the balance sheet and are transferred to statement of profit or loss on a linear basis over the period of extended warranty. (See Note 14.)

R Lease

At inception of a contract, the Group (the Parent company) assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Group (the Parent company) has elected to apply the practical expedient to account for each lease component and any non-lease components as a single lease component.

The Group (the Parent company) recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The assets are depreciated to the earlier of the end of the useful life of the right-of-use asset or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option. Lease terms mostly range from 2 to 7 years for offices and warehouse but there may also be lease agreements concluded for a shorter term, for example 1 year.

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Notes to the financial statements (continued)

2. Summary of accounting principles used (continued)

R Lease (continued)

In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's (the Parent company's) incremental borrowing rate. Generally, the Group (the Parent company) uses its incremental borrowing rate as the discount rate.

The lease liability is measured at amortized cost using the effective interest method.

The Group (the Parent Company) reassess the lease liabilities (and adjusts the related right-of-use asset accordingly) whenever:

- the lease term has changed or a significant event or change in circumstances has occurred, resulting in a change in the measurement of the call option, in which case the lease liabilities are remeasured by discounting the revised lease payments using the revised discount rate;
- the lease payments change due to a change in an index or rate, or expected payments change due to a guaranteed residual value; in such cases, the lease liability is remeasured by discounting the revised lease payments at a initial discount rate (unless the lease payments change due to a change in a variable interest rate, in which case a revised discount rate is used) the lease contract is changed and the change is not accounted for as a separate lease, in which case the lease liability is remeasured based on the term of the modified lease, discounting the revised lease payments by using the revised discount rate at the effective date of the modification.

The Group (the Parent company) has elected to apply the practical expedient not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases is recognized as an expense on a straight-line basis over the lease term.

S 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.

T Financial income and expenses

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

U Related parties

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

- 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;
- 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.

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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;
- (e) geopolitical 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 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. As at 30 June 2022 and 30 June 2021 the Group (including Parent company) had no open forward exchange contracts.

The following schedule summarises net open positions for currencies expressed in EUR as at 30 June 2022:

Group	EUR	USD	Other currencies	Total
Financial assets				
Trade receivables, gross	604 663	2 159 217	463	2 764 343
Cash and cash equivalents	807 173	1 962 921	11 073	2 781 167
Total	1 411 836	4 122 138	11 536	5 545 510
Financial liabilities				
Liabilities	(1 246 751)	(677 341)	(1 972)	(1 926 064)
Total	(1 246 751)	(677 341)	(1 972)	(1 926 064)
Net open positions	165 085	3 444 797	9 564	3 619 446
Parent company				
Financial assets				
Trade receivables, gross	604 663	349 567	463	954 693
Cash and cash equivalents	807 173	344 228	11 073	1 162 474
Total	1 411 836	693 795	11 536	2 117 167
Financial liabilities				
Liabilities	(1 246 751)	(472 473)	(1 972)	(1 721 196)
Total	(1 246 751)	(472 473)	(1 972)	(1 721 196)
Net open positions	165 085	221 322	9 564	395 971

The following schedule summarises net open positions for currencies expressed in EUR as at 30 June 2021:

Group	EUR	USD	Other currencies	Total
Financial assets				
Trade receivables, gross	462 744	1 413 283	6 125	1 882 152
Cash and cash equivalents	942 057	6 746 716	975	7 689 748
Total	1 404 801	8 159 999	7 100	9 571 900
Financial liabilities				
Liabilities	(500 128)	(396 146)	(7 766)	(904 040)
Total	(500 128)	(396 146)	(7 766)	(904 040)
Net open positions	904 673	7 763 853	(666)	8 667 860

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Notes to the financial statements (continued)

3. Financial risk management (continued)

(1) Financial risk factors (continued)

(a) Foreign currency risk (continued)

Parent company	EUR	USD	Other currencies	Total
Financial assets				
Trade receivables, gross				
Loans	462 744	531 518	6 125	1 000 387
Cash and cash equivalents	942 057	5 554 972	975	6 498 004
Total	1 404 801	6 086 490	7 100	7 498 391
Financial liabilities				
Liabilities	(500 128)	(278 210)	(7 766)	(786 104)
Total	(500 128)	(278 210)	(7 766)	(786 104)
Net open positions	904 673	5 808 280	(666)	6 712 287

Sensitivity analysis

The Group and the Parent company have assessed the impact on profit before tax of reasonably possible changes in the exchange rate of the US dollar against the euro, assuming that other variables, mainly interest rates, remain unchanged.

Change in the USD exchange rate

	Group		Parent company	
	Effect as at 30 June		Effect as at 30 June	
	2021/2022	2020/2021	2021/2022	2020/2021
	EUR	EUR	EUR	EUR
-10%	344 480	776 385	22 132	580 828
- 5%	172 240	388 193	11 066	290 414
+5%	(172 240)	(388 193)	(11 066)	(290 414)
+10%	(344 480)	(776 385)	(22 132)	(580 828)

(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 customer's credit history and customer's paying behaviour.

As at 30 June 2022, the Group's largest customer's receivable balance accounted for approximately 41% of the total carrying amount of trade receivables, and the sales revenue from this largest customer (located in the United States) accounted for approximately 4% of the Group's revenues (at 30 June 2021: 24% and for 2020/2021 – 12%, respectively), as well as another receivable balance accounted for 13% of total trade receivables. In 2021/2022 income from the above-mentioned largest clients in the US 100% applies to CFIP, Integra, Spectrum Compact, Aranet segment (2020/2021 - 100% applies to CFIP, Integra, Spectrum Compact, Aranet segment). Trade receivable balances of the Group's other customers did not reach at least 10% of the total receivables. The Parent company's balance sheet as at 30 June 2021 included two trade receivables with the balance above 10% of the total of trade receivables, including receivables from related companies (30.06.2021: two debts). In the reporting year, the Parent company generated approximately 40% of the revenues from sales to subsidiary in the United States (2020/2021 - 44%). In 2021/2022 income from sales to the US subsidiary relate to the CFIP, Integra, Spectrum Compact, Aranet segment in the amount of 95% and the other segment 5% (in 2020/2021 to the CFIP, Integra, Spectrum Compact, Aranet segment - 94% and the other segment - 6%).

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 as at 30.06.2022 amounts to EUR 6 739 718 or 24.39% of total assets (30.06.2021.: EUR 9 886 736 or 47.61% of total assets), and Parent company's maximum credit risk exposure as at 30.06.2022 amounts to – EUR 3 071 183 or 13.04% of total assets (30.06.2021: EUR 7 789 255 or 42.66% of total assets. For more information on the Group's and Parent company's exposure to credit risk please also refer to Note 8.

(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 (ratio between the current assets and total liabilities) is 2.23 (30.06.2021: 2.42), quick liquidity ratio (ratio between the current assets less inventory and total liabilities) is: 0.64 (30.06.2021: 1.30), and Parent company's current liquidity ratio is 2.58 (30.06.2021: 2.77), quick liquidity ratio is: 0.39 (30.06.2021: 1.34).

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Notes to the financial statements (continued)

3. Financial risk management (continued)

(1) Financial risk factors (continued)

(c) Liquidity risk (continued)

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, refer to Note 12 and Note 14.

The maturity structure of financial liabilities based on contractual undiscounted payments is as follows:

Group	Up to 3	3 to 12	2-5 years	Total	Balance
30/06/2022	months	months			sheet value
	EUR	EUR	EUR	EUR	EUR
Lease liabilities	100 971	302 913	2 282 512	2 686 396	2 404 885
Trade payables, other liabilities, accruals	4 557 509	606 104	-	5 163 613	5 163 613
Total	4 658 480	909 017	2 282 512	7 850 009	7 568 498
30/06/2021					
Lease liabilities	87 582	262 903	1 401 310	1 751 795	1 319 940
Trade payables, other liabilities, accruals	3 268 887	546 042	-	3 814 929	3 814 929
Total	3 356 469	808 945	1 401 310	5 134 869	5 134 869
Parent company	Up to 3	3 to 12	2-5 years	Total	Balance
30/06/2022	months	months			sheet value
	EUR	EUR	EUR	EUR	EUR
Lease liabilities	88 030	264 089	2 140 162	2 492 281	2 257 799
Trade payables, other liabilities, accruals	3 435 294	606 104	-	4 041 398	4 041 398
Total	3 523 324	870 193	2 140 162	6 533 679	6 299 197
30/06/2021					
Lease liabilities	74 325	222 975	1 189 201	1 486 501	1 147 141
Trade payables, other liabilities, accruals	2 131 521	546 042	-	2 677 563	2 677 563
Total	2 205 846	769 017	1 189 201	4 164 064	3 824 704

(d) Interest rate risk

As the Group does not have significant interest-generating assets or 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 liabilities 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.

(e) Geopolitical risk

Part of the Group's and the Parent company's revenue is derived from the sale of products outside the European Union, which creates exposure to geopolitical risk. The global electronics services market is primarily affected by the US-China "trade war", but it does not currently pose a threat to the Group's sales. Import duties on microwave equipment imported from the European Union remain unchanged. It is more likely that, in the event of sanctions being imposed on Chinese competitors, additional sales opportunities may appear on the US market. Since the start of military actions by Russia in Ukraine, the overall uncertainty of the business environment has increased. Although the direct impact on the Group's operations is relatively limited, the Group carefully evaluates potential cost increase forecasts and potential risks.

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Notes to the financial statements (continued)

3. Financial risk management (continued)

(2) 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).

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.

The Group and the Parent Company have no significant assets as at 30 June 2022 and 30 June 2021 that are to be measured at fair value.

The Group's and Parent company's financial assets and liabilities (trade receivables, other receivables, other financial assets, trade and other payables, lease liabilities and other financial liabilities) correspond to Level 3, except for cash and cash equivalents, which correspond to Level 2. These Group's financial assets and liabilities, except lease liabilities, generally have a maturity of up to six months, therefore the Group believes that the fair value of these financial assets and liabilities corresponds to their initial nominal value and carrying amount at any subsequent date. The majority of the lease liability were calculated at amortized cost during the reporting year as a result of lease modifications using a revised discount rate equal to the market interest rate for similar borrowings. Therefore the Group believes that the accounting value of lease liabilities is also approximately similar to their fair value on 30 June 2022.

(3) Management of the capital structure

The Group and the Parent company manages its capital to ensure that the Group and the Parent company 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 Group and the Parent company control the capital using the gearing ratio. This ratio is calculated by applying the total amount of liabilities less cash and cash equivalents to total equity.

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

	Group		Parent company	
	30/06/2022	30/06/2021	30/06/2022	30/06/2021
	EUR	EUR	EUR	EUR
Liabilities	10 236 400	7 605 901	7 326 203	5 795 675
Cash and cash equivalents	<u>(2 781 167)</u>	<u>(7 689 748)</u>	<u>(1 162 474)</u>	<u>(6 498 004)</u>
Net debt/(assets)	7 455 233	(83 847)	6 163 729	(702 329)
Shareholders' equity	17 397 550	13 162 110	16 226 185	12 461 967
Debt to equity ratio	59%	58%	45%	47%
Net debt/(net asset) to equity ratio	<u>43%</u>	<u>(1)%</u>	<u>38%</u>	<u>(6)%</u>

The change in the mentioned ratios can be explained by the increase in trade payables and a decrease in cash, which correlates with a significant increase in inventory balances, both in the case of the Parent company and the Group.

4. 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. Management has assessed the situation at the end of the reporting period and after the end of the reporting year and has determined that the spread of COVID-19 and resulting restrictions as well as military actions in Ukraine did not have a material adverse effect on the Group's and Parent company's operations and financial results, given the specifics of the products produced by the Group. The Group's operations were not significantly disrupted and management does not anticipate any significant disruptions in the future.

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4. Key estimates and assumptions (continued)

Recoverable amount and impairment of PPE, intangible assets and right-to-use assets

When the events and circumstances indicate a potential impairment, the Group performs impairment tests for items of PPE, intangible assets and right-to-use assets. Based on 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. In view of the above considerations about impact of COVID-19 as well as hostilities in Ukraine, management has not identified any circumstances that could indicate that the Group's and the Parent company's long-term non-financial assets could be impaired. See also Note 2H.

The Group and the Parent company have closed the reporting year with a profit and a negative cash flow from operating activities mainly due to the necessity to maintain significantly larger inventory balances to ensure production continuity and order fulfilment. 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 PPE and intangible assets

Management estimates the useful lives of individual PPE items in proportion to the expected duration of use of the asset based on historical experience with similar fixed assets and future plans. See also Note 2E and Note 2F.

Expected credit losses on loans and receivables

The Group recognizes allowances for expected credit losses from loans and receivables. In order to determine the unrecoverable amount of receivables, management applies estimates as explained in Note 2L.

Net realisable value of the inventory

The Group (Parent company) makes provisions in for slow-moving inventories. Inventories at net realizable value are reported by reducing the cost of inventories by the amount of the established provisions in accordance with the principles described in the Note 2 K.

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 asset 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.

Due to the specifics of the operations, provisions for potential warranty expenses are recognized based on the management's assessment of the risk of expected warranty repairs relating to the concluded contracts. The standard warranty period is one to five years depending on product.

Accrued liabilities for unused vacations are calculated in accordance with the number of vacation days unused as at the end of reporting year and the average remuneration during the last six months of the reporting year. These liabilities are shown as short-term accrued liabilities.

Leases

The application of IFRS 16 Leases requires significant management assumptions regarding the identification of the lease, the determination of the lease term and the discount rate applied in calculations. The estimation of the right-to-use asset and respective lease liability value in respect of production, sale and administration premises is based on the assumption that the lease of premises will be used for the next 7 years at a fixed monthly rental rate; discount rate of 2,54% (30.06.2021: 2,99%) was applied based on available data from the Bureau of Statistics for similar loans.

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5. Property, plant and equipment, intangible assets and right-to-use assets

Group	Software and licenses	Leasehold Improvements	Technological equipment and devices	Other PPE	Under construction	Right-to- use assets (premises)	Total
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Reporting year ended 30 June 2021							
Opening balance	184 540	10 512	512 585	156 774	-	1 322 235	2 186 646
Acquisitions at cost	233 324	10 048	328 474	43 735	-	300 284	915 865
Disposals at net book value	-	-	(1 172)	(6 421)	-	-	(7 593)
Result of fluctuations in the foreign exchange rates	(43)	-	(703)	(384)	-	(6 476)	(7 606)
Depreciation and amortisation charge for the period	<u>(101 181)</u>	<u>(3 530)</u>	<u>(259 252)</u>	<u>(99 124)</u>	<u>-</u>	<u>(299 239)</u>	<u>(762 326)</u>
Closing balance	<u>316 640</u>	<u>17 030</u>	<u>579 932</u>	<u>94 580</u>	<u>-</u>	<u>1 316 804</u>	<u>2 324 986</u>
Reporting year ended 30 June 2022							
Opening balance	316 640	17 030	579 932	94 580	-	1 316 804	2 324 986
Acquisitions at cost	216 122	254 716	936 330	271 006	230 647	1 396 722	3 305 543
Disposals at net book value	-	-	(1 352)	(99)	-	-	(1 451)
Result of fluctuations in the foreign exchange rates	4	-	257	12	-	20 358	20 631
Depreciation and amortisation charge for the period	<u>(121 087)</u>	<u>(18 414)</u>	<u>(295 554)</u>	<u>(62 151)</u>	<u>-</u>	<u>(362 216)</u>	<u>(859 422)</u>
Closing balance	<u>411 679</u>	<u>253 332</u>	<u>1 219 613</u>	<u>303 348</u>	<u>230 647</u>	<u>2 371 668</u>	<u>4 790 287</u>
As at 30 June 2021:							
Historical cost	1 172 385	1 115 952	4 547 818	873 689	-	2 059 422	9 769 266
Accumulated depreciation and amortisation	<u>(855 745)</u>	<u>(1 098 922)</u>	<u>(3 967 886)</u>	<u>(779 109)</u>	<u>-</u>	<u>(742 618)</u>	<u>(7 444 280)</u>
Carrying amount	<u>316 640</u>	<u>17 030</u>	<u>579 932</u>	<u>94 580</u>	<u>-</u>	<u>1 316 804</u>	<u>2 324 986</u>
As at 30 June 2022:							
Historical cost	1 303 549	1 370 668	4 946 475	984 822	230 647	3 444 375	12 280 536
Accumulated depreciation and amortisation	<u>(891 870)</u>	<u>(1 117 336)</u>	<u>(3 726 862)</u>	<u>(681 474)</u>	<u>-</u>	<u>(1 072 707)</u>	<u>(7 490 249)</u>
Carrying amount	<u>411 679</u>	<u>253 332</u>	<u>1 219 613</u>	<u>303 348</u>	<u>230 647</u>	<u>2 371 668</u>	<u>4 790 287</u>

Historical cost of disposals for the reporting year ended 30 June 2022 is EUR 798 400 and disposed accumulated depreciation is EUR 796 949 (2020/2021: EUR 245 865 and EUR 238 272, respectively).

Depreciation of EUR 505 558 is included in the statement of profit or loss within *Cost of sales* (2020/2021: EUR 413 401); depreciation of EUR 220 094 is included within *Sales and marketing costs* (2020/2021: EUR 239 360); depreciation of EUR 133 770 is included within *Administrative expenses* (2020/2021: EUR 109 567), including depreciation of EUR 6 145 under *Other administrative expenses* (2020/2021: EUR 5 403).

Cost of short term lease in the amount of EUR 23 011 is included in the statement of profit or loss within *Cost of goods sold* 2020/2021: EUR 0).

The acquisition costs of fully depreciated fixed assets that are still in use at the reporting date amounted to EUR 5 405 516 (30.06.2021.: EUR 5 842 746).

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5. Property, plant and equipment, intangible assets and right-to-use assets (continued)

Parent company	Software and licenses	Leasehold improvements	Technolo- gical equipment and devices	Other fixed assets	Under construc- tion	Right-to- use assets (premises)	Total
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Reporting year ended 30 June 2021							
Opening balance	183 827	10 512	500 979	150 386	-	1 172 240	2 017 944
Acquisitions at cost	233 324	10 048	324 248	43 735	-	227 961	839 316
Disposals at net book value	-	-	(1 172)	(6 421)	-	-	(7 593)
Depreciation and amortisation charge for the period	(100 567)	(3 530)	(250 438)	(94 861)	-	(253 058)	(702 454)
Closing balance	316 584	17 030	573 617	92 839	-	1 147 143	2 147 213
Reporting year ended 30 June 2022							
Opening balance	316 584	17 030	573 617	92 839	-	1 147 143	2 147 213
Acquisitions at cost	216 122	254 716	917 457	257 539	230 647	1 396 722	3 273 203
Disposals at net book value	-	-	(1 225)	(99)	-	-	(1 324)
Depreciation and amortisation charge for the period	(121 028)	(18 414)	(288 047)	(59 368)	-	(314 547)	(801 404)
Closing balance	411 678	253 332	1 201 802	290 911	230 647	2 229 318	4 617 688
As at 30 June 2021:							
Historical cost	1 169 917	1 115 952	4 490 066	819 488	-	1 781 909	9 377 332
Accumulated depreciation and amortisation	(853 333)	(1 098 922)	(3 916 449)	(726 649)	-	(634 766)	(7 230 119)
Carrying amount	316 584	17 030	573 617	92 839	-	1 147 143	2 147 213
As at 30 June 2022:							
Historical cost	1 300 726	1 370 668	4 863 123	915 237	230 647	3 178 630	11 859 031
Accumulated depreciation and amortisation	(889 048)	(1 117 336)	(3 661 321)	(624 326)	-	(949 312)	(7 241 343)
Carrying amount	411 678	253 332	1 201 802	290 911	230 647	2 229 318	4 617 688

Historical cost of disposals for the reporting year ended 30 June 2022 is EUR 791 502 and disposed accumulated depreciation is EUR 790 178 (2020/2021: EUR 243 854 and EUR 236 262, accordingly).

Depreciation of EUR 505 558 is included in the statement of profit or loss within *Cost of sales* (2020/2021: EUR 413 401); depreciation of EUR 162 076 is included within *Sales and marketing costs* (2020/2021: EUR 179 486); depreciation of EUR 133 770 is included within *Administrative expenses* (2020/2021: EUR 109 567), including depreciation of EUR 6 145 under *Other administrative expenses* (2020/2021: EUR 5 403).

Cost of short term lease in the amount of EUR 23 011 is included in the statement of profit or loss within *Cost of goods sold* 2020/2021: EUR 0).

The acquisition costs of fully depreciated fixed assets that are still in use at the reporting date amounted to EUR 5 286 725 (30.06.2021.: EUR 5 752 973).

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6. Parent company's investments in subsidiaries and other companies

Name	Investment in equity %		Carrying value of the investment	
	30/06/2022	30/06/2021	30/06/2022	30/06/2021
Parent company:	%	%	EUR	EUR
„SAF North America” LLC	100	100	32 893	32 893
„SAF Services” LLC	-	100	-	65 552
Impairment			-	(65 552)
Investments in subsidiaries			32 893	32 893
Other investments:				
„LEITC” SIA	17.98	17.98	6 435	6 435
„LEO Pētījumu centrs” SIA	10	10	711	711
Investments in other companies			7 146	7 146
Total investments in subsidiaries and other companies			40 039	40 039

„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 2022 the equity of the subsidiary amounted to EUR 1 204 258 (30.06.2021.: EUR 733 903). 100% participation ensures absolute control of the subsidiary's assets and liabilities. In April 2015 the Parent company became the sole owner of “SAF Services” LLC. As at 30 June 2021 “SAF Services” LLC equity is negative, therefore the Parent company has made 100% provision for residual value impairment. In June 2022 the company was liquidated.

In August 2012, a joint of the Parent company, “SAF Services” LLC began operations in North America. 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. In April 2015 the Parent company became the sole owner of “SAF Services” LLC. As at 30 June 2021 “SAF Services” LLC equity was negative, therefore the Parent company made 100% provision for recoverable amount impairment. In June 2022, the company was liquidated.

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. At the end of 2017, another 1.23% of the shares were acquired becoming the owner of 17.98% with an investment of EUR 6 435. 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.

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7. Inventories

	Group		Parent company	
	30/06/2022	30/06/2021	30/06/2022	30/06/2021
	EUR	EUR	EUR	EUR
Raw materials	6 921 845	3 437 033	6 921 845	3 437 033
Work in progress	3 253 116	2 390 548	3 253 116	2 390 548
Finished goods	6 159 633	2 728 708	5 879 163	2 448 348
	16 334 594	8 556 289	16 054 124	8 275 929

In order to value inventories at the lower of cost and net realizable value, the Group makes provisions for impairment of inventories. As at 30 June 2022 total amount of respective provisions (the Group and the Parent company) amounted to EUR 1 060 515 (30.06.2021: EUR 1 017 180). During the reporting year provision was increased by EUR 43 335 (2020/2021: increase by EUR 433 991) and respective change was included in *Cost of sales*.

Finished goods include equipment 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 2022 the value of equipment sent due to the above reasons amounted to EUR 341 217 (30.06.2021.: EUR 293 350) for Group and EUR 101 392 (30.06.2021.: EUR 131 168) for Parent company.

Work in Progress and *Finished goods* include production overhead costs (salary expenses and social insurance of production units' employees, depreciation and amortization, amortization of right-to-use assets, expenses of equipment, lease, service and other costs of production process) in amount of EUR 645 646 (30.06.2021.: EUR 406 453). The Group maintains a certain level of raw materials and consumables, in order to be able to supply all the products currently included in the product portfolio of the Group within a competitive deadline. The market continues to display a tendency of increasing material production and delivery times and to continue to provide competitive and adequate production times the inventories raw materials are purchased with a reserve,

8. Trade receivables

	Group		Parent company	
	30/06/2022	30/06/2021	30/06/2022	30/06/2021
	EUR	EUR	EUR	EUR
Receivables from related companies	-	-	264 976	-
Trade receivables	2 764 343	1 882 152	689 717	1 000 387
Allowances for expected credit losses from trade receivables	(21 451)	(224 043)	(1 050)	(192 783)
Total trade receivables	2 742 892	1 658 109	953 643	807 604

Trade receivables are not secured with collateral.

Ageing analysis of trade receivables

Group	30/06/2022	30/06/2022	30/06/2021	30/06/2021
	Gross	Allowance	Gross	Allowance
	EUR	EUR	EUR	EUR
Not overdue	2 420 831	-	1 348 418	-
Overdue by 1 – 90 days	322 061	-	309 691	-
Overdue by 90 and more days	21 451	(21 451)	224 043	(224 043)
Total trade receivables	2 764 343	(21 451)	1 882 152	(224 043)

Parent company	30/06/2022	30/06/2022	30/06/2021	30/06/2021
	Gross	Allowance	Gross	Allowance
	EUR	EUR	EUR	EUR
Not overdue	770 166	-	686 991	-
Overdue by 1 – 90 days	183 477	-	120 613	-
Overdue by 90 and more days	1 050	(1 050)	192 783	(192 783)
Total trade receivables	954 693	(1 050)	1 000 387	(192 783)

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8. Trade receivables (continued)

Movement in allowance for expected credit losses from trade receivables:

	Group EUR	Parent company EUR
As at 30 June 2020	583 431	564 678
Written-off	12 507	-
Debts recovered	(371 895)	(371 895)
As at 30 June 2021	224 043	192 783
Written-off	(4 213)	-
Additional allowances	183	-
Debts recovered	(198 562)	(191 733)
As at 30 June 2022	21 451	1 050

Changes in allowances for expected credit losses are recognized in Statement of profit or loss within administration costs.

Breakdown of gross trade receivables by currency, expressed in EUR

Group	30/06/2022 EUR	30/06/2022 %	30/06/2021 EUR	30/06/2021 %
USD	2 159 216	78.11	1 413 283	75.09
EUR	604 663	21.87	462 744	24.58
GBP	464	0.02	6 125	0.33
Total trade receivables, gross	2 764 343	100%	1 882 152	100%

Parent company	30/06/2022 EUR	30/06/2022 %	30/06/2021 EUR	30/06/2021 %
USD	349 566	36.61	531 518	53.13
EUR	604 663	63.33	462 744	46.26
GBP	464	0.06	6 125	0.61
Total trade receivables, gross	954 693	100%	1 000 387	100%

9. Other receivables

	Group		Parent company	
	30/06/2022 EUR	30/06/2021 EUR	30/06/2022 EUR	30/06/2021 EUR
Government grants*	112 443	84 814	112 443	84 814
Overpaid value added tax	104 278	30 476	104 278	30 476
Advance payments to suppliers	127 196	210 682	109 751	210 682
Other receivables	289 610	74 650	279 670	64 829
Other receivables of subsidiaries (see Note 24)	-	-	-	5 207
	633 527	400 622	606 142	396 008

* The government grants related to the employee training project, exhibition project and the development project, which are implemented with the “LEO Pētījumu centrs” SIA. Government grants in the amount of EUR 70 799 were received after the end of the financial year.

10. Cash and cash equivalents

	Group		Parent company	
	30/06/2022 EUR	30/06/2021 EUR	30/06/2022 EUR	30/06/2021 EUR
Cash in banks	2 781 167	7 689 748	1 162 474	6 498 004
	2 781 167	7 689 748	1 162 474	6 498 004

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10. Cash and cash equivalents (continued)

Breakdown of cash and cash equivalents by currency, expressed in EUR

Group	30/06/2022	30/06/2022	30/06/2021	30/06/2021
	EUR	%	EUR	%
USD	1 962 922	70.58	6 746 716	87.74
EUR	807 173	29.02	942 057	12.25
GBP	11 072	0.40	975	0.01
Cash and cash equivalents	2 781 167	100%	7 689 748	100%

Parent company	30/06/2022	30/06/2022	30/06/2021	30/06/2021
	EUR	%	EUR	%
USD	344 228	29.61	5 554 972	85.49
EUR	807 174	69.44	942 057	14.50
GBP	11 072	0.95	975	0.01
Cash and cash equivalents	1 162 474	100%	6 498 004	100%

Breakdown of cash and cash equivalents by bank

	Moody's credit rating (short-term/long-term)	Group		Parent company	
		30/06/2022	30/06/2021	30/06/2022	30/06/2021
		EUR	EUR	EUR	EUR
Swedbank AS	P-1 / Aa3	124 165	723 081	124 165	723 081
LUMINOR Bank AS	P-1 / Baa3	887 841	5 706 637	887 841	5 706 637
SEB Banka AS	P-1 / Aa2	31 757	20 971	31 757	20 971
US Bank	P-1 / A1	1 618 693	1 166 969	-	-
Other banks	n/a	118 711	72 090	118 711	47 315
		2 781 167	7 689 748	1 162 474	6 498 004

The Group's and the Parent company's estimated credit losses on cash held with banks are immaterial and have not been recognized based on Moody's rating information that was publicly available in 2022 and up to the date of these financial statements.

11. Share capital and shareholders

As at 30 June 2022, the registered and paid-up share capital of the Parent company is EUR 4 158 252 (30.06.2021.: EUR 4 158 252) and consists of 2 970 180 ordinary bearer shares (30.06.2020.: 2 970 180 shares) with unlimited voting rights. Nominal value per share is EUR 1,4.

The structure of the Company's shareholders is as follows (incl. shareholders holding more than 5% of the voting shares):

Shareholder	Shares owned, %	
	30/06/2022	30/06/2021
Didzis Liepkalns	17.05%	17.05%
Koka Zirgs SIA	11.59%	12.06%
Andrejs Grišāns	10.03%	10.03%
Normunds Bergs	9.74%	9.74%
Juris Zieme	8.71%	8.71%
Other shareholders	42.88%	42.41%

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12. Payables, provisions and other liabilities

	Group		Parent company	
	30/06/2022 EUR	30/06/2021 EUR	30/06/2022 EUR	30/06/2021 EUR
Trade accounts payable	1 831 605	874 276	1 626 738	756 339
Other accounts payable	94 459	29 764	94 458	29 765
Trade and other payables	1 926 064	904 040	1 721 196	786 104
Provisions for guarantees	45 636	45 636	45 636	45 636
Provisions	45 636	45 636	45 636	45 636
Accrued liabilities for unused vacations	694 605	575 387	694 605	575 388
Other taxes	515 218	231 338	478 439	231 340
Other liabilities	1 982 091	2 058 528	1 101 522	1 039 095
Other liabilities	3 191 914	2 865 253	2 274 566	1 845 823
Total	5 163 613	3 814 929	4 041 398	2 677 563

During the reporting period the increase in accrued liabilities for unused vacation pay included in the statement of profit or loss amounted to EUR 119 217 (2020/2021: increase of EUR 194 166).

Movement in provisions:

	Group		Parent company	
	Warranties EUR	Total EUR	Warranties EUR	Total EUR
Balance at 30.06.2020	17 423	17 423	17 423	17 423
Provisions made	28 213	28 213	28 213	28 213
Balance at 30.06.2021	45 636	45 636	45 636	45 636
Provisions made	-	-	-	-
Balance at 30.06.2022	45 636	45 636	45 636	45 636

During the reporting year no change has been made to the provisions for guarantees based on the estimate, according to which no increase in the volume of warranty repairs is expected.

Breakdown of trade payables and other payables by currency, expressed in EUR:

Group	30/06/2022 EUR	30/06/2022 %	30/06/2021 EUR	30/06/2021 %
	USD	677 340	35.17	396 147
EUR	1 246 752	64.73	500 128	55.32
GBP	1 972	0.10	7 765	0.86
Trade and other payables	1 926 064	100%	904 040	100%

Parent company	30/06/2022 EUR	30/06/2022 %	30/06/2021 EUR	30/06/2021 %
	USD	472 473	27.45	278 211
EUR	1 246 751	72.44	500 128	63.62
GBP	1 972	0.11	7 765	0.99
Trade and other payables	1 721 196	100%	786 104	100%

13. Lease liabilities and borrowings

	Group		Parent company	
	30/06/2022 EUR	30/06/2021 EUR	30/06/2022 EUR	30/06/2021 EUR
Lease liabilities	2 013 978	1 004 539	1 918 656	876 985
Long term liabilities	2 013 978	1 004 539	1 918 656	876 985
Lease liabilities	390 907	315 401	339 143	270 156
Short term liabilities	390 907	315 401	339 143	270 156
Total	2 404 885	1 319 940	2 257 799	1 147 141

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14. Contract liabilities

The production of the Group's products is material-intensive, for the purchase of which customers often make prepayments. Advances paid by customers are settled when the products are sold, and this usually takes place within 1 year. There are also customers who, together with the goods, also purchase extended warranties, which are recognized in revenue over the warranty period (up to 5 years).

	Group		Parent company	
	30/06/2022	30/06/2021	30/06/2022	30/06/2021
	EUR	EUR	EUR	EUR
Advances from customers	1 677 390	1 535 832	888 574	1 254 331
Extended warranties	990 511	689 414	57 283	35 420
Total	2 667 901	2 225 246	945 857	1 289 751
incl. long term liabilities	638 925	451 354	20 410	19 105
short term liabilities	2 028 976	1 773 892	925 447	1 270 646

Movement of contract liabilities:

	Group		Parent company	
	01.07.2021- 30.06.2022	01.07.2020- 30.06.2021	01.07.2021- 30.06.2022	01.07.2020- 30.06.2021
	EUR	EUR	EUR	EUR
At the beginning of the year	2 225 246	1 799 049	1 289 751	497 583
Received during the year	17 537 868	17 496 228	12 075 117	10 207 311
Recognised in revenue	(17 539 244)	(16 994 905)	(12 419 011)	(9 415 143)
Foreign exchange differences	444 032	(75 126)	-	-
At the end of the year	2 667 901	2 225 246	945 857	1 289 751

15. Segment information and revenue

- 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, Integra (Integrated carrier-grade Ethernet microwave radio), Spectrum Compact (measurement tools for radio engineers) and Aranet (environmental monitoring solutions).
- CFIP** product line is represented by::
- Phoenix, a split mount (IDU+ODU) Phoenix hybrid radio system with Gigabit Ethernet and E1 or ASI interfaces;
 - Lumina, Full Outdoor all-in-one radio with Gigabit Ethernet traffic interface;
 - 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.
- Integra** – is a next generation radio system employing latest modem technology on the market as well as radio technology with a frequency from 6GHz to 86 GHz. Some integras models provide a data transmission speed of up to 10 Gbs.
- Spectrum Compact** – 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.
- Aranet** - the latest SAF product line for environmental monitoring, consisting of various wireless sensors, base stations and Aranet cloud solution for data collection, aggregation and analysis.
- operations related to sales of products purchased from other suppliers, like antennas, cables, SAF renamed (OEMed) products and different accessories - as the second unit.

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Notes to the financial statements (continued)

15. Segment information and revenue (continued)

Group	CFIP, Integra, Spectrum Compact, Aranet		Other		Total	
	2021/2022	2020/2021	2021/2022	2020/2021	2021/2022	2020/2021
	EUR	EUR	EUR	EUR	EUR	EUR
Segment assets	20 118 730	10 662 999	1 154 249	1 361 272	21 272 979	12 024 271
Unallocated assets					6 360 971	8 743 740
Total assets					27 633 950	20 768 011
Segment liabilities	4 384 691	2 835 946	69 754	278 436	4 454 445	3 114 382
Unallocated liabilities					5 781 955	4 491 519
Total liabilities					10 236 400	7 605 901
Revenue	31 963 722	24 214 355	2 004 449	807 308	33 968 171	25 021 663
Segment result	13 535 408	10 503 858	866 916	1 027 765	14 402 324	11 531 623
Unallocated expenses					(8 689 344)	(7 968 853)
Profit from operating activities					5 712 980	3 562 770
Other income					390 565	728 416
Financial income					214 134	554
Financial expenses					(49 374)	(128 319)
Profit before taxes					6 268 305	4 163 421
Corporate income tax					(178 325)	(287 245)
Profit after tax					6 089 980	3 876 176
Foreign currency fluctuations					135 481	1 621
Profit of the reporting year					6 225 461	3 877 797

Other information of segment:

Group	CFIP, Integra, Spectrum Compact, Aranet		Other		Total	
	2021/2022	2020/2021	2021/2022	2020/2021	2021/2022	2020/2021
	EUR	EUR	EUR	EUR	EUR	EUR
Additions of fixed and intangible assets	577 423	241 440	-	-	577 423	241 440
Unallocated additions of fixed and intangible assets incl. initial recognition of leasehold rights					2 728 120	674 425
Total additions of fixed and intangible assets and leasehold rights recognized					3 305 543	915 865
Depreciation and amortization	625 945	413 401	-	-	625 945	403 978
Unallocated depreciation and amortization					233 477	336 162
Total depreciation and amortisation					859 422	740 140

Parent company	CFIP, Integra, Spectrum Compact, Aranet		Other		Total	
	2021/2022	2020/2021	2021/2022	2020/2021	2021/2022	2020/2021
	EUR	EUR	EUR	EUR	EUR	EUR
Segment assets	18 289 884	9 755 717	879 867	1 081 670	19 169 751	10 837 387
Unallocated assets					4 382 637	7 420 255
Total assets					23 552 388	18 257 642
Segment liabilities	3 470 291	2 976 767	71 618	315 239	3 541 909	3 292 006
Unallocated liabilities					3 784 294	2 503 669
Total liabilities					7 326 203	5 795 675
Revenue	27 778 345	19 385 679	1 356 935	1 597 544	29 135 280	20 983 223
Segment result	9 700 271	6 014 758	858 887	1 037 362	10 559 158	7 052 120
Unallocated expenses					(5 267 142)	(4 474 941)
Profit from operating activities					5 292 016	2 577 179
Other income					385 865	728 341
Financial income					170 363	-
Financial expenses					(44 908)	(128 873)
Profit before taxes					5 803 336	3 176 647
Corporate income tax					(49 097)	-
Profit of the reporting year					5 754 239	3 176 647

This is translation of the Company's separate financial statements and Group's consolidated financial statements in pdf-format without European Single Electronic Format (ESEF) markups, from the digitally signed original, which was prepared in Latvian and submitted in machine-readable .xhtml format to the Nasdaq Riga Stock Exchange (link: <https://nasdaqbaltic.com/>).

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15. Segment information and revenue (continued)

Other information of segment:

Parent company	CFIP, Integra, Spectrum Compact, Aranet		Other		Total	
	2021/2022	2020/2021	2021/2022	2020/2021	2021/2022	2020/2021
	EUR	EUR	EUR	EUR	EUR	EUR
Additions of fixed and intangible assets	577 423	241 440	-	-	577 423	241 440
Unallocated additions of fixed and intangible assets incl. initial recognition of leasehold rights					<u>2 695 780</u>	<u>597 876</u>
Total additions of fixed and intangible assets and leasehold rights recognized					3 273 203	839 316
Depreciation and amortization	625 945	413 401	-	-	625 945	413 401
Unallocated depreciation and amortization					<u>175 459</u>	<u>289 053</u>
Total depreciation and amortisation					801 404	702 454

As at 30.06.2022. PPE, intangible assets and right of use assets located in Latvia with the total balance sheet value in the amount of EUR 4 617 688 (30.06.2021. – EUR 2 147 213) make up 96% (30.06.2021. – 92%) of the Group's total assets. The rest of these assets are located in the United States.

b) This note provides information on division of the Group's and Parent company's revenue 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). All revenue is derived from the contracts with customers.

Group	Revenue		Assets	
	2021/ 2022	2020/ 2021	2021/ 2022	2020/ 2021
	EUR	EUR	EUR	EUR
Latvia	478 477	491 677	20 052	51 278
Other regions:				
North and South America	18 659 097	16 687 843	2 138 822	1 194 712
Europe (excluding Latvia), CIS	11 224 121	6 290 608	379 006	371 686
Asia, Africa, Middle East	3 606 476	1 551 535	205 012	40 433
	33 968 171	25 021 663	2 742 892	1 658 109
Unallocated assets	-	-	24 891 058	19 109 902
	33 968 171	25 021 663	27 633 950	20 768 011

Parent company	Revenue		Assets	
	2021/ 2022	2020/ 2021	2021/ 2022	2020/ 2021
	EUR	EUR	EUR	EUR
Latvia	478 477	491 677	20 052	51 278
Other regions:				
North and South America	13 826 206	12 649 403	349 572	344 207
Europe (excluding Latvia), CIS	11 224 121	6 290 608	379 006	371 686
Asia, Africa, Middle East	3 606 476	1 551 535	205 012	40 433
	29 135 280	20 983 223	953 642	807 604
Unallocated assets	-	-	22 598 746	17 450 038
	29 135 280	20 983 223	23 552 388	18 257 642

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Notes to the financial statements (continued)

15. Segment information and revenue (continued)

Income of the Group and Parent company by main geographical markets and segments:

Group:

Region	CFIP, Integra, Spectrum Compact, Aranet		Other		Total	
	2021/2022	2020/ 2021	2021/2022	2020/ 2021	2021/2022	2020/2021
	EUR	EUR	EUR	EUR	EUR	EUR
North and South America	17 271 309	16 586 917	1 387 788	100 926	18 659 097	16 687 843
Europe (including Latvia), CIS	11 241 805	6 412 678	460 793	369 607	11 702 598	6 782 285
Asia, Africa, Middle East	3 450 608	1 214 760	155 868	336 775	3 606 476	1 551 535
	31 963 722	24 214 355	2 004 449	807 308	33 968 171	25 021 663

Parent company:

Region	CFIP, Integra, Spectrum Compact, Aranet		Other		Total	
	2021/2022	2020/ 2021	2021/2022	2020/ 2021	2021/2022	2020/2021
	EUR	EUR	EUR	EUR	EUR	EUR
North and South America	13 085 932	11 758 241	740 274	891 162	13 826 206	12 649 403
Europe (including Latvia), CIS	11 241 805	6 412 678	460 793	369 607	11 702 598	6 782 285
Asia, Africa, Middle East	3 450 608	1 214 760	155 868	336 775	3 606 476	1 551 535
	27 778 345	19 385 679	1 356 935	1 597 544	29 135 280	20 983 223

16. Cost of goods sold

	Group		Parent company	
	01.07.2021- 30.06.2022 EUR	01.07.2020- 30.06.2021 EUR	01.07.2021- 30.06.2022 EUR	01.07.2020- 30.06.2021 EUR
Purchases of components and subcontractors' services	13 132 365	10 036 996	12 142 640	9 839 020
Salary expenses*	4 425 268	2 999 119	4 425 268	2 999 119
Social insurance expenses*	1 031 890	705 521	1 031 890	705 521
Depreciation and amortization (See Note 5)	505 558	413 401	505 558	413 401
Public utilities	187 927	121 910	187 927	121 910
Transportation	37 030	34 415	37 030	34 415
Business trip expenses	4 291	-	4 291	-
Communication expenses	7 333	10 028	7 333	10 028
Low value articles	6 977	5 651	6 977	5 651
Other production costs	227 209	144 404	227 209	144 403
	19 565 848	14 471 445	18 576 123	14 273 468

* Including accrued liabilities for unused vacations.

Research and development related expenses of EUR 3 428 971 (2020/ 2021: EUR 2 065 019) are included in the statement of profit or loss within Purchases of components and subcontractors' services.

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17. Sales and marketing expenses

	Group		Parent company	
	01.07.2021- 30.06.2022	01.07.2020- 30.06.2021	01.07.2021- 30.06.2022	01.07.2020- 30.06.2021
	EUR	EUR	EUR	EUR
Salary expenses *	4 140 046	3 730 479	1 856 996	1 524 330
Delivery costs	662 918	456 112	482 907	357 332
Social insurance expenses *	573 395	483 788	435 184	362 170
Advertisement and marketing expenses	414 360	152 282	295 619	105 205
Depreciation and amortization(See Note 5)	220 094	239 360	162 076	179 486
Business trip expenses	191 089	10 188	79 881	109
Other selling and distribution costs	271 514	294 395	77 561	62 038
	6 473 416	5 366 604	3 390 224	2 590 670

* Including accrued liabilities for unused vacations.

18. Administrative expenses

	Group		Parent company	
	01.07.2021- 30.06.2022	01.07.2020- 30.06.2021	01.07.2021- 30.06.2022	01.07.2020- 30.06.2021
	EUR	EUR	EUR	EUR
Salary expenses*	862 201	1 091 135	862 201	1 091 135
Allowances for doubtful trade receivables	(201 670)	(358 337)	(187 520)	(371 876)
Social insurance expenses*	203 231	255 507	203 231	255 507
Depreciation and amortization (See Note 5)	127 625	104 164	127 625	104 164
Training	171 540	37 301	86 459	29 769
Public utilities	109 092	57 427	109 092	57 427
IT services	71 803	49 792	71 803	49 792
Insurance	216 276	39 123	38 625	32 750
Bank fees	51 877	32 322	26 902	20 667
Representation expenses	16 267	6 837	5 379	6 124
Business trip expenses	17 566	41	17 566	41
Office maintenance	13 891	10 136	13 891	10 136
Sponsorship	117 164	(838)	111 500	-
Communication expenses	9 254	4 672	9 254	4 672
Other administrative expenses**	429 810	291 562	380 909	251 598
	2 215 927	1 620 844	1 876 917	1 541 906

* Including accrued liabilities for unused vacations.

** Other administration costs include remuneration to the certified auditor company for the audit of the annual report in the amount of EUR 10 835 (2020/2021 - EUR 10 835). The certified audit company has not provided other services to the Group and the Parent Company.

19. Other income

	Group		Parent company	
	01.07.2021- 30.06.2022	01.07.2020- 30.06.2021	01.07.2021- 30.06.2022	01.07.2020- 30.06.2021
	EUR	EUR	EUR	EUR
Government grants*	321 444	683 476	321 444	683 476
Other income	69 121	44 940	64 421	44 865
	390 565	728 416	385 865	728 341

* 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 grant of EUR 276 195 (2020/ 2021: EUR 751 107). Government grants that are approved by the end of the reporting year, but not yet received, are included in Other receivables (see Note 9).

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20. Financial income

	Group		Parent company	
	01.07.2021- 30.06.2022 EUR	01.07.2020- 30.06.2021 EUR	01.07.2021- 30.06.2022 EUR	01.07.2020- 30.06.2021 EUR
Interest income, calculated using the effective interest method	763	554	-	-
Net foreign exchange gain	213 371	-	170 363	-
	214 134	554	170 363	-

21. Financial expenses

	Group		Parent company	
	01.07.2021- 30.06.2022 EUR	01.07.2020- 30.06.2021 EUR	01.07.2021- 30.06.2022 EUR	01.07.2020- 30.06.2021 EUR
Interest expenses on lease liabilities, calculated using the effective interest method	49 374	27 708	44 908	23 184
Net foreign exchange loss	-	100 611	-	105 689
	49 374	128 319	44 908	128 873

22. Earnings per share

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

	Group		Parent company	
	01.07.2021- 30.06.2022 EUR	01.07.2020- 30.06.2021 EUR	01.07.2021- 30.06.2022 EUR	01.07.2020- 30.06.2021 EUR
Profit of the reporting year (a)	6 089 980	3 876 176	5 754 239	3 176 647
Weighted average number of shares outstanding during the year (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)	2.050	1.305	1.937	1.070

23. The management and management remuneration

Council of the Parent company

The Council of the Parent company consisting of 5 members is elected in a shareholders meeting for a term of 3 years. The Council is a supervisory body of the Group, which represents shareholder interests in meetings and supervises the Board in accordance with statutes of the Group. Decisions of the Council are made by a simple majority of members present. Only a meeting of shareholders has the right to make decisions on statute amendments of the Group, issue and conversion of securities, remuneration to the members of the Council. During the reporting year and the previous reporting year, the composition of neither the Board nor the Council members has changed.

Council members of the Parent company during the reporting year were:

- Juris Ziema – Chairman of the Council (own 8.71% or 258 762 shares)
- Andrejs Grišāns – Deputy chairman of the Council (own 10.03% or 297 888 shares)
- Ivars Šenbergs – Member of the Council (own 0.00% or 2 shares)
- Aira Loite – Member of the Council (own 0.27% or 8 000 shares)
- Sanda Šalma – Member of the Board (owns no shares)

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FOR THE YEAR ENDED 30 JUNE 2022

Notes to the financial statements (continued)

23. Remuneration to management (continued)

Board of the Parent company

The Council appoints the Board consisting of 4 members for a term of 3 years. All members of the Board have the right of representation. The members of the Board represent the Company separately. Decisions of the Board are made by a simple majority of members present.

Board members of the Parent company during the reporting year were:

Normunds Bergs – Chairman of the Board (owns 9.74% or 289 377 shares)

Didzis Liepkalns – Member of the Board (owns 17.05% or 506 460 shares)

Zane Jozepa – Member of the Board (owns no shares)

Jānis Bergs – Member of the Board (owns no shares)

Management remuneration

	Group		Parent company	
	01.07.2021- 30.06.2022 EUR	01.07.2020- 30.06.2021 EUR	01.07.2021- 30.06.2022 EUR	01.07.2020- 30.06.2021 EUR
Remuneration of the Board members:				
· salary	892 789	490 407	246 911	234 635
· social insurance contributions	77 337	67 698	58 247	55 833
Remuneration of the Council members:				
· salary	192 758	109 888	192 758	109 888
· social insurance contributions	43 570	26 119	43 570	26 119
Total	1 206 544	694 112	541 486	426 475

24. Related party transactions

Parent company	Transactions for the year ended 30 June		Balance as at 30 June	
	2022 EUR	2021 EUR	2022 EUR	2021 EUR
Sale of goods and services				
Subsidiaries	11 610 150	9 156 349	264 976	-
Purchase of goods and services				
Subsidiaries	270 768	326 174	81 149	681 220
Other receivables from subsidiaries	-	-	-	5 207

In the consolidated financial statements of the Group the intercompany transactions and balances between Parent company and subsidiaries have been eliminated.

25. Personnel costs

	Group		Parent company	
	01.07.2021- 30.06.2022 EUR	01.07.2020- 30.06.2021 EUR	01.07.2021- 30.06.2022 EUR	01.07.2020- 30.06.2021 EUR
Remuneration to staff	9 427 515	7 820 733	7 144 465	5 614 584
Social insurance contributions	1 808 516	1 444 816	1 670 305	1 323 198
Total	11 236 031	9 265 549	8 814 770	6 937 782

A/S „SAF TEHNIKA”
CONSOLIDATED ANNUAL REPORT AND SEPARATE ANNUAL REPORT
FOR THE YEAR ENDED 30 JUNE 2022

Notes to the financial statements (continued)

26. Average number of employees

	Group		Parent company	
	01.07.2021- 30.06.2022	01.07.2020- 30.06.2021	01.07.2021- 30.06.2022	01.07.2020- 30.06.2021
The average number of employees in the reporting year:	241	221	226	207

27. Contingent liabilities

As a result of regular operational activity the Group (Parent company) has issued performance guarantees to third parties in the amount of EUR 1 669 (30.06.2021: not issued).

Contingent liabilities related to corporate income tax on distributable non-taxed profits of the Parent Company

The net profit of the Parent company, which arose after 31 December 2017, is EUR 9 207 677. The potential corporate income tax liability that will arise if the entire amount of the above profit is distributed as dividends is EUR 2 301 919 (20/80 of the net amount distributed to shareholders).

28. Subsequent events

No significant subsequent events have occurred in the period from the year-end to the date of these financial statements that would have a material impact on the Group's and/or Parent company's financial position as at 30 June 2022 or their performance and cash flows for the year then ended.

On 10 August 2022 the Company signed a credit line agreement with Luminor Bank AS to ensure liquidity for the total amount of EUR 4 950 000. According with the agreement a commercial pledge was registered on the property of the Parent Company in its totality at the time of pledging as well as for its subsequent components with a maximum claim amount of EUR 6 435 000. At the time of signing the report the mentioned credit line has not yet been used.

On behalf of the Board,

/digitally signed/

Normunds Bergs
Chairman of the Board

/digitally signed/

Dace Langada
Chief accountant

The Annual Report is approved in the Board meeting on 28 October 2022 and the Board has authorised the Chairman of the Board to sign it on behalf of the Board.

Electronic signature of the Chairman of the Board relates to the Management Report on pages 3 to 4, Statement of the Board's Responsibility on page 5 and financial statements on pages 10 to 38. Electronic signature of the chief accountant Dace Langada relates to the financial statements on pages 10 to 38.

Independent Auditor's Report

To the shareholders of AS "SAF Tehnika"

Report on the audit of the separate and consolidated financial statements

Our Opinion

We have audited accompanying separate financial statements of AS "SAF Tehnika" ("the Company") and consolidated financial statements of AS "SAF Tehnika" and its subsidiaries (together - "the Group") contained in the digital file 48510000F6NVA4T63P67-2022-06-30-lv.zip (SHA-256-checksum: B920045E3BD6B6AFC125EF0687F32EA714BCDAA6CBCD266A0E3041B73396839E).

Accompanying separate financial statements and consolidated financial statements (together – "Financial statements") comprise:

- the separate and consolidated statement of financial position as at 30 June 2022,
- 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 financial position of the Company and consolidated financial position of the Group as at 30 June 2022, 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).

Our opinion is consistent with our additional report to the Council (body equivalent to the Audit Committee) dated 28 October 2022.

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 Financial Statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Company and the Group in accordance with the International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) and independence requirements included in the Law on Audit Services of the Republic of Latvia that are relevant to our audit of the financial statements in the Republic of Latvia. We have also fulfilled our other professional ethics responsibilities and objectivity requirements in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) and Law on Audit Services of the Republic of Latvia.

To the best of our knowledge and belief, we declare that we have not provided to the Company or its subsidiaries any non-audit services prohibited in accordance with Article 37.⁶ of the Law on Audit Services of the Republic of Latvia.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Key audit matter

Valuation of inventory

Refer to Note 2 “Summary of accounting principles used” section K “Inventories” and Note 7 “Inventories” to the financial statements

We focused on this area because inventories represent a significant part of the Company's and Group's assets. The volume of inventories compared to the end of the previous reporting period has doubled, as the Company and the Group are creating reserves of raw materials and finished products in order to be able to successfully fulfill the orders received from customers and ensure the continuity of production. Given these factors as well as the rapid development of the technology industry, the valuation of inventories is of significant importance, including the determination of the obsolescence and net realizable value of inventories, which includes subjective estimates and may have a material effect on the Company's and the Group's financial performance.

In accordance with our professional judgment, based on our understanding and accumulated audit experience about the Company's and the Group's inventory valuation processes and internal control procedures, we did not identify inventory valuation as area of a significant risk in our audit. However, the audit of inventory area requires a significant amount of time and resources from the auditors, given its importance and magnitude. Thus, this area is considered a key audit matter.

As disclosed in Note 7 to the Financial statements, balance sheet value of inventories as at 30 June 2022 amount to EUR 16 054 124 (the Company) and EUR 16 334 594 (the Group). As at 30 June 2022 the estimated inventory impairment allowance constituted EUR 1 060 515 with regard to both the Company and the Group.

The process of determining the cost of inventories involves the use of certain management estimates for the allocation of overheads.

For each age category of inventories, a provision is made in accordance with the Group's provisioning policy for slow-moving inventories, by grouping the inventories according to the period during which they have not moved, and applying a percentage set by the management to determine the impairment allowance.

Reporting on Other Information

Management is responsible for the other information. The other information comprises:

- the Management report, as set out on pages 3 to 4 of the accompanying annual report,
- the Statement of Board's Responsibility, as set out on page 5 of the accompanying annual report,
- the Statement of Corporate Governance, set out in separate document prepared by the Group's management and available on the Company's website <http://www.saftehnika.com/>;
- the Remuneration Report, set out in separate document prepared by the Group's management and available on the Company's website <http://www.saftehnika.com/>.

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How our audit addressed the key audit matter

Our audit procedures, amidst others, included the following:

- we inquired the management of the Company and the Group, including the employees in charge of the purchase of materials, in order to gain an understanding of the policy applied by the Company and the Group for the purchasing of materials, taking into account the significant challenges existing in the global markets of raw materials needed for the production process;
- we assessed whether the accounting policies in relation to valuation of inventories comply with IFRS.
- we evaluated the results of operations of the internal control structures in inventory-count performance and other control procedures performed;
- we participated in the year end stock counts, observing the stock-count procedures and performance and reviewing the results of the inventory-counts;
- we tested, on a random selection basis, the adequacy of costing of inventory items;
- we performed detailed analytical procedures by reconciling the profit ratios on the sale of goods to the sales policies as developed by the management;
- we reviewed the inventory turnover ratios and checked the ageing analysis of inventory and evaluated the adequacy of provisions made against the provisioning policies developed by the management;
- we selected, on a random basis, finished goods items and compared their carrying amount with the selling price after the end of the reporting year to determine whether there have been instances where the selling price has been lower than the carrying amount of inventories.
- we tested the disclosures in the financial statements in respect of inventory valuation.

Our opinion on the financial statements does not cover the other information included in the Annual Report as described above, 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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 entity 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.

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

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

In preparing the financial statements, management is responsible for assessing the Company's and 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 Company or 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 and Group's financial reporting process.

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 financial statements.

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

- Identify and assess the risks of material misstatement of the 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 Company's and 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 Company's and 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 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 Company or Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a fair presentation;
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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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.

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

In addition, 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 financial statements are prepared is consistent with the 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 referred to in Article 56.¹, section 1, clauses 3, 4, 6, 8 and 9, as well as Article 56.², section 2, clause 5 of the Financial Instruments Market Law and whether it includes the information stipulated in Article 56.², section 2, clauses 1, 2, 3, 4, 7 and 8 of the Financial Instruments Market Law.

In our opinion, the Statement of Corporate Governance includes, in all material aspects, the information required in accordance with Article 56.¹, section 1, clauses 3, 4, 6, 8 and 9, as well as Article 56.², section 2, clause 5 of the Financial Instruments Market Law and includes the information stipulated in Article 56.², section 2, clauses 1, 2, 3, 4, 7 and 8 of the Financial Instruments Market Law.

In accordance with the Law on Audit Services of the Republic of Latvia, our responsibility is to consider whether the Remuneration Report includes the information referred to in Article 59.⁴ of the Financial Instruments Market Law.

In our opinion, the Remuneration Report includes, in all material aspects, the information referred to in Article 59.⁴ of the Financial Instruments Market Law.

Report on Other Legal and Regulatory Requirements

Report on the Auditors Examination of the European Single Electronic Format (ESEF) Report

Based on our agreement we have been engaged by the management of the Group's parent company to conduct a reasonable assurance engagement for the verification of compliance of the Consolidated financial statements for the year ended 30 June 2022 contained in the digital file 4851000F6NVA4T63P67-2022-06-30-lv.zip (SHA-256 checksum: B920045E3BD6B6AFC125EF0687F32EA714BCDAA6CBCD266A0E3041B73396839E) with the applicable requirements of the European Single Electronic Reporting format (thereafter – ESEF).

Description of a subject and applicable criteria

The Single Electronic Reporting Format of the Consolidated financial statements has been applied by the management to comply with the requirements of art. 3 and 4 of the Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a Single Electronic Reporting Format (thereafter - the ESEF Regulation). The applicable requirements regarding the Single Electronic Reporting Format of the Consolidated financial statements are contained in the ESEF Regulation.

The requirements described in the preceding paragraph determine the basis for application of the Single Electronic Reporting Format of the Consolidated financial statements and, in our view, these requirements constitute appropriate criteria to form a reasonable assurance conclusion.

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Responsibilities of management and those charged with governance

Management is responsible for the application of the Single Electronic Reporting Format of the Consolidated financial statements that complies with the requirements of the ESEF Regulation. This responsibility includes the selection and application of appropriate markups in iXBRL using ESEF taxonomy and designing, implementing and maintaining internal controls relevant for the preparation of the Single Electronic Reporting Format of the Consolidated financial statements which is free from material non-compliance with the requirements of the ESEF Regulation.

Those charged with governance are responsible for overseeing the financial reporting process, which should also be understood as the preparation of Consolidated financial statements in accordance with the format resulting from the ESEF Regulation.

Auditor's responsibility

Our objective is to obtain reasonable assurance in order to express a conclusion on whether the Consolidated financial statements prepared in the Single Electronic Reporting Format comply with the ESEF regulation.

We conducted our engagement in accordance with International Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements other than Audits and Reviews of Historical Financial Information" (hereafter - the ISAE 3000 (R)). This standard requires that we comply with ethical requirements, plan and perform procedures to obtain reasonable assurance whether the Single Electronic Reporting Format of the Consolidated financial statements is prepared, in all material aspects, in accordance with the applicable requirements.

Reasonable assurance is a high level of assurance, but it does not guarantee that the service performed in accordance ISAE 3000 (R) will always detect the existing material misstatement (significant noncompliance with the requirements).

Quality control requirements

We apply the provisions of the International Standard on Quality Control 1 (IAASB) and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We comply with the independence and other ethical requirements of the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Summary of the work performed

Our planned and performed procedures were aimed at obtaining reasonable assurance that the Single Electronic Reporting Format of the Consolidated financial statements was applied, in all material aspects, in accordance with the applicable requirements and such application is free from material errors or omissions.

Our procedures include in particular:

- obtaining an understanding of the internal control system and processes relevant to the application of the Single Electronic Reporting Format of the Consolidated financial statements, including the preparation of the XHTML format and marking up the Consolidated financial statements;
- verification whether the XHTML format was applied properly;
- evaluating the completeness of marking up the Consolidated financial statements using the iXBRL markup language according to the requirements of the implementation of Single Electronic Reporting Format as described in the ESEF Regulation;
- evaluating the appropriateness of the Group's use of iXBRL markups selected from the ESEF taxonomy and the creation of extension markups where no suitable element in the ESEF taxonomy has been identified; and
- evaluating the appropriateness of anchoring of the extension elements to the ESEF taxonomy.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Conclusion

In our opinion, the Single Electronic Reporting Format of the Consolidated financial statements for the year ended 30 June 2022 complies, in all material respects, with the ESEF Regulation.

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Appointment

We were first appointed as auditors for the Company's and Group's financial statements for the year ended 30 June 2016. This is the seventh consecutive year of our appointment as auditors. Our appointment for the year ended 30 June 2022 was by resolution of general meeting of shareholders dated 8 December 2021.

The certified auditor-in-charge of the audit resulting in this independent auditor's report is Lolita Čapkeviča.

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

/digitally signed/

Lolita Čapkeviča
Certified Auditor-in-charge
Certificate No. 120
Member of the Board

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