JOINT STOCK COMPANY

HANSAMATRIX

UNIFIED REGISTRATION NUMBER 40003454390

CONSOLIDATED AND PARENT COMPANY'S ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2019

Prepared in accordance with
International Financial Reporting Standards
as adopted by the European Union
together with independent auditors' report

Riga, 2020

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General information

Name of the Parent Company	HansaMatrix
Legal status of the Parent Company	Joint stock company
Unified registration number, place and date of registration	40003454390 Riga, 30 July 1999
Registration with the Commercial Register	Riga, 27 December 2002
Registered office	Akmeņu iela 72, Ogre, Latvia, LV-5001
Shareholders (over 5%) as at 31 December 2019 (end of the day)	SIA MACRO RĪGA (34.03%) ZGI-4 AIF KS (15.06%) Swedbank AS clients account (14.17%) Limited partnership BaltCap Latvia Venture Capital FundA (9.95 %) Limited partnership FlyCap Investment Fund I AIF (9.61%) IPAS CBL Asset Management (6.56%) Funds managed by Swedbank Ieguldījumu Pārvaldes Sabiedrība AS (5.10%)
Subsidiaries	SIA HansaMatrix Ventspils (100%) SIA HansaMatrix Innovation (100%) SIA HansaMatrix Pārogre (100%) SIA Zinātnes Parks (74.76%)
Auditors Auditors	SIA Ernst & Young Baltic Muitas iela 1A, Riga Latvia, LV-1010 License No 17 Diāna Krišjāne Latvian Certified Auditor Certificate No 124
Financial year	1 January – 31 December 2019

Management Board

The Management Board of AS HansaMatrix (hereinafter – the Parent Company) is a collegial executive body entrusted with the management of the Parent Company's business. Its members are elected by the Supervisory Board, which also elects one member of the Management Board to act as Chairman of the Management Board. In accordance with the Articles of Association of the Parent Company, members of the Management Board are elected for an indefinite period.

In accordance with the Articles of Association of the Parent Company, the Chairman of the Management Board has a right to represent the Parent Company as sole representative when entering into relationships with third parties. Alternatively, the Parent Company can be represented by two members of the Management Board acting jointly.

At the reporting date, the Management Board of the Parent Company was composed of two members - the Chairman of the Board and one Board Member.

Ilmārs Osmanis
Ilmārs Osmanis is the Chairman of the Management Board.
Appointment date: 30 December 2015.

Positions held in other companies:
- HansaMatrix Pārogre, SIA – Chairman of the Board
- HansaMatrix Ventspils, SIA – Board Member
- HansaMatrix Innovation, SIA – Chairman of the Board
- Zinātnes parks, SIA – Chairman of the Board
- Macro Rīga, SIA – Board Member
- Lightspace Technologies, SIA – Chairman of the Board
- LEO Pētījumu centrs, SIA – Council Member
- LEITC, SIA – Council Member
- Latvian Electrical Engineering and Electronics Industry Association – Board Member
- Eurolcds, SIA – Board Member

Shares owned:
- Directly: 0
- Indirectly (through SIA, Macro Rīga): 622 503 shares

Participation in other companies:
- SIA Macro Rīga (100%)
- Lightspace Technologies, SIA (12.77%)

Ilmārs Osmanis has full higher education in electrical engineering; later he was enrolled on the Executive MBA program which was not completed due to strong involvement in business projects. His entrepreneurial experience includes successful development of SIA MACRO RĪGA, an electronic components distribution business in the Baltic countries, a business that was subsequently successfully sold. During the last 15 years Ilmārs Osmanis was CEO of the Parent Company that has evolved into one of state-of- the art high tech manufacturing groups in the Nordic and Baltic countries with 240 employees in its 3 manufacturing plants. In 2014 Ilmārs Osmanis conducted a management buy-out, and in 2016 was successful in raising capital and getting the Parent Company listed on the Main List of the Nasdaq Baltic stock exchange.

Māris Macijevskis
Māris Macijevskis is a member of the Management Board and CFO of the Parent Company.
Appointment date: 16 February 2018

Positions held in other companies:
- IQ Capital SIA – Board Member
- Latvian Squash Federation – Chairman of the Board
- FTG, SIA – Board Member

Shares owned: 300 (as at April 17, 2020)
Share options owned: 1100 (as at April 17, 2020)

Participation in other companies:
- IQ Capital SIA (100%)
- FTG, SIA (33.33%)

Māris Macijevskis holds a Bachelor of Science degree in Economics and Business Administration from Stockholm School of Economics in Riga, a Master of Science degree in International Economics from the University of Latvia and is a Chartered Financial Analyst (CFA) charter holder. His previous experience includes the position of Head of Corporate Client Service Department at Citadele banka AS. Māris Macijevskis has been with the Parent Company since 2017.

Changes in the Management Board of the Parent Company:
On December 04, 2019 Mr. Aldis Cimoška resigned as HansaMatrix Management Board Member.
On 29 October 2019, the HansaMatrix extraordinary shareholders' meeting decided to approve the amendments to the Articles of Association whereby the Management Board will consist of 5 (five) Board Members – Chairperson of the Board and four Board Members. Additional Board Members have not been appointed yet.
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Supervisory Board

The Supervisory Board of the Parent Company is a collegial body exercising supervision over key activities of the Parent Company and, where appropriate, decision making by the Management Board. As of the date of this statement, the Supervisory Board of the Parent Company consists of 5 members, selected by the General Meeting of Shareholders for the maximum term of office of 5 years. The members of the Supervisory Board shall elect from amongst themselves the Chairman of the Supervisory Board and one Deputy Chairman of the Supervisory Board.

As of the date of this statement, the Parent Company's Supervisory Board is composed of the following members:
Chairman of the Supervisory Board, Deputy Chairman of the Supervisory Board and three Members of the Supervisory Board.

Andris Bērziņš

Andris Bērziņš is the Chairman of the Supervisory Board of the Parent Company.
Appointment date: 29 October 2019
Term of office: 28 October 2024
Positions held in other companies:

- RIGA EVANGELICAL PARISH – Chairman of the Board
- TechHub Riga, foundation – Board Member
- KBZ, SIA – Chairman of the Board
- TechChill, foundation – Board Member
- Sonarworks, SIA – Council Member
- Nordigen Solutions, SIA – Board Member

Shares owned: 0
Andris Bērziņš is an independent member of the Supervisory Board.

Participation in other companies:

- KBZ, SIA (100%)

Andris Bērziņš is an entrepreneur and executive with extensive experience in C-level roles at high-growth, global venture-backed start-ups. He holds a Stanford MBA with broad experience in investing, strategy, business development, sales, marketing and product management across Europe and the USA. He has a proven track record of having led global technology start-ups from pre-seed stage to rapid growth.

Ivars Ķirsons

Ivars Ķirsons is the Deputy Chairman of the Supervisory Board of the Parent Company.
Appointment date: 29 October 2019
Term of office: 28 October 2024

Shares owned: 0
Represents 275 562 shares owned by ZGI-4, venture growth capital fund managed by ZGI Capital-4.
Positions held in other companies:

- Baltic Dairy Board, SIA– Chairman of the Council
- Mobilly, SIA – Council Member
- ZGI Capital, SIA – Board Member

Participation in other companies:

- ZGI Real Estate, SIA (19.50%)
- ZGI Capital, SIA (25.00 %)
- ZGI REAL ESTATE T15, limited partnership (contribution of EUR 44 565.79)
- KALTIŅI, householder association (6.25%)

Since 2006, Ivars Ķirsons has been a founder and a partner of ZGI Capital, one of the most experienced managers of venture capital funds in the Baltic countries. At present, he is also a Council Member of Mobilly, a ZGI-3 fund's portfolio company. Ivars Ķirsons has been the First Deputy Chairman of the Board and CFO of the Board of Latvijas Unibanka (now SEB banka); Chairman of the Council of Riga Stock Exchange; and a Council Member of the Latvian Chamber of Commerce and Industry. He has also held a number of other financial sector-related positions.

Dagnis Dreimanis

Dagnis Dreimanis is a member of the Supervisory Board of the Parent Company.
Appointment date: 29 October 2019
Term of office: 28 October 2024
Positions held in other companies:

- DD Ventures SIA, Board Member
- Baltic Coffee Holding SIA, Council Member
- EVO grupa SIA, Chairman of the Council
- Vika Wood, SIA, Council Member
- BaltCap AIFP SIA, Chairman of the Board
- SOLVINA SIA, Board Member
- Latvian Capital Ventures SIA, Board Member

Shares owned: 0
Dagnis Dreimanis represents the interests of minority institutional shareholders and the interests of BaltCap investment fund in SIA Lightspace Technologies.

Participation in other companies:

- DD Ventures SIA (100%)
- Latvian Capital Ventures SIA (57.5%)

Dagnis Dreimanis is an investment professional with 18 years of experience and currently serves as a partner in BaltCap, the leading Baltic venture capital investor. He has managed investments in more than 20 companies in a broad range of industries. Dagnis Dreimanis holds a BSBA degree in Finance and Economics from Slippery Rock University of Pennsylvania and is a CFA charter holder. He holds a dual EMBA degree from the University of California Los Angeles / National University of Singapore (2016) and has completed the Professional Board Member Education program at the Baltic Institute of Corporate Governance.

Ingrīda Blūma

Ingrīda Blūma is a member of the Supervisory Board of the Parent Company.
Appointment date: 29 October 2019
Term of office: 28 October 2024
Positions held in other companies:

- RĪGAS PIENA KOMBINĀTS, AS – Council Member
- i-bloom, SIA – Board Member
- PN Project, AS – Council Member

Shares owned: 0
Ingrīda Blūma is an independent member of the Supervisory Board.

Participation in other companies:

- i-bloom, SIA (100%)

Ingrīda Blūma holds a MSc. degree from Stockholm University. Her additional training includes INSEAD Advanced Management Program and Strategic Management and Leadership Training course at the EBRD.
Ingrīda Blūma's work experience is mainly related to the banking sector, where she has worked for almost 20 years. Her work as CEO of AS Swedbank (former AS Hansabanka) has equipped her with a unique blend of business experience in the banking industry and corporate business environment. Under her leadership AS Hansabanka grew to become the largest bank of Latvia. Ingrīda Blūma has also served in the capacity of a member of the Supervisory Board of SIA Primekss, SIA Pure Food and JSCA URSA Bank.
Currently, Ingrīda Blūma serves as a member of the Supervisory Board of AS Expobank and AS Rīgas Piena Kombināts. In addition, she chairs the Management Board of the foundation Iespējamā Misija (in English "Mission Possible") forming part of Teach for All global network.

Changes in the Supervisory Board of the Parent Company: on 29 October 2019, the HansaMatrix extraordinary shareholders' meeting decided on changes in the Supervisory Board of the Parent Company. In addition to the existing Council Members Andris Bērziņš, Ingrīda Blūma, Dagnis Dreimanis and Gundars Strautmanis, a new Council Member Ivars Ķirsons was appointed and the existing Council Member Krišs Osmanis was dismissed. The decision came into effect at the date of adoption. On October 29, 2019 HansaMatrix Supervisory Council meeting, Andris Berzins was approved as the Chairman of HansaMatrix Supervisory Council and Ivars Kirsons as the Deputy Chairman of the Supervisory Council.

After the reporting period on March 09, 2020 Mr. Gundars Strautmanis resigned as HansaMatrix Supervisory Board Member. Andris Bērziņš, Chairman of the Supervisory Board, Ivars Ķirsons, Deputy Chairman of the Supervisory Board, Ingrīda Blūma and Dagnis Dreimanis, members of the Supervisory Board, continue to serve on the Board of HansaMatrix.

Information on shares and dividends

Information on the shares of the Parent Company:

ISIN code	LV0000101590
Listed	Nasdaq Riga Baltic Main List
Exchange code	HMX1R
Type of shares	100% ordinary shares
Rights attached to the shares	Right to receive dividends and liquidation quotas and right to vote at the shareholders' meeting
Rights resulting from one share	One share has 1 vote.
Par value of a share	EUR 1
Total number of shares	1 829 381
Number of shareholders	167 (as at 31 December 2019)
Dividends per share	EUR 0.04 EUR for year 2018, paid out on May 31, 2019
Dividends/ Normalized earnings	9.37% (year ended 31 December 2018)
P/E ratio	54.99 (as at 31 December 2019)

Ratios are explained in the Note "Definitions of alternative performance measures" under the section "Other notes to the financial statements".

As at 31 December 2019 (end of the day), the following were the major shareholders of the Parent Company:

Major shareholders (above 5%) Shareholder	**Number of shares and votes**	**Equity interest**
SIA Macro Rīga	622 503	34.03%
ZGI-4 AIF KS	275 562	15.06%
Swedbank AS clients account	259 142	14.17%
KS BaltCap Latvia Venture Capital Fund	182 000	9.95%
KS FlyCap Investment Fund I AIF	175 738	9.61%
Funds managed by IPAS CBL Asset Management	120 000	6.56%
Funds managed by Swedbank Ieguldījumu Pārvaldes Sabiedrība AS	93 369	5.10%
Other (below 5%)	101 067	5.52%
TOTAL:	**1 829 381**	**100.00%**

Management report

Introduction

The joint stock company HansaMatrix (hereinafter – HansaMatrix or the Parent Company) is a leading Baltic electronic system product developer and manufacturer, listed on the Nasdaq Baltic Main List. The Parent Company actively operates in industrial systems, data network infrastructure, the Internet of Things, medical and several other B2B (business-to-business) market sectors. HansaMatrix is actively growing its knowledge business, product development engineering teams and building knowledge platform for future innovation and business development. HansaMatrix has 19-years of experience and its business mission is to develop global technology products and to assist its customers be competitive on global markets.

Performance of the Group

The HansaMatrix Group closed the year 2019 with a revenue from contracts with customers (hereinafter – revenue, sales or turnover) of EUR 24.61 million, which by 14.00% exceeded the EUR 21.59 million turnover reported in 2018.

In the reporting period, the Group reported EBITDA of EUR 3.719 million, showing a 14.12% increase in comparison with EUR 3.259 million EBITDA in 2018; the net profit was EUR 0.208 million, showing a 73.38% decrease in comparison with the normalized earnings of EUR 0.781 million in 2018.

In 2019, the R&D turnover reached EUR 2.278 million which exceeded the turnover of 2018 by EUR 0.732 million or by 47%. In 2019, the R&D turnover represented 9.3% of the total consolidated sales. The considerable growth in the R&D sales in 2019 resulted from the increase in the R&D services provided in optics and photonics and from the increase in manufacturing volume of high-tech optics and photonics products and represent strategic development of business model in direction of knowledge intensive manufacturing.

Comparably high level of 12 month of 2019 EBITDA margin to large extent can be explained by the increased market demand for higher margin products that have been manufactured and sold during 2019 12 month as well as increasing utilization of recently invested new production capacities in production fulfilment.

In 2019 net profit margin exhibited decreasing trend, explained by the increased depreciation of property plant and equipment, interest expense, where interest payment provisions for European Investment Bank financing is included. Additionaly decrease is and explained by the increased share of losses included in the consolidated financial statements from the associate company due to increased ownership. Both EBITDA and net profit margins in 2019 were also influenced by significant direct manufacturing labor wage increases.

Ratios are explained in the Note "Definitions of alternative performance measures" under the section "Other notes to the financial statements".

Performance of the Parent Company

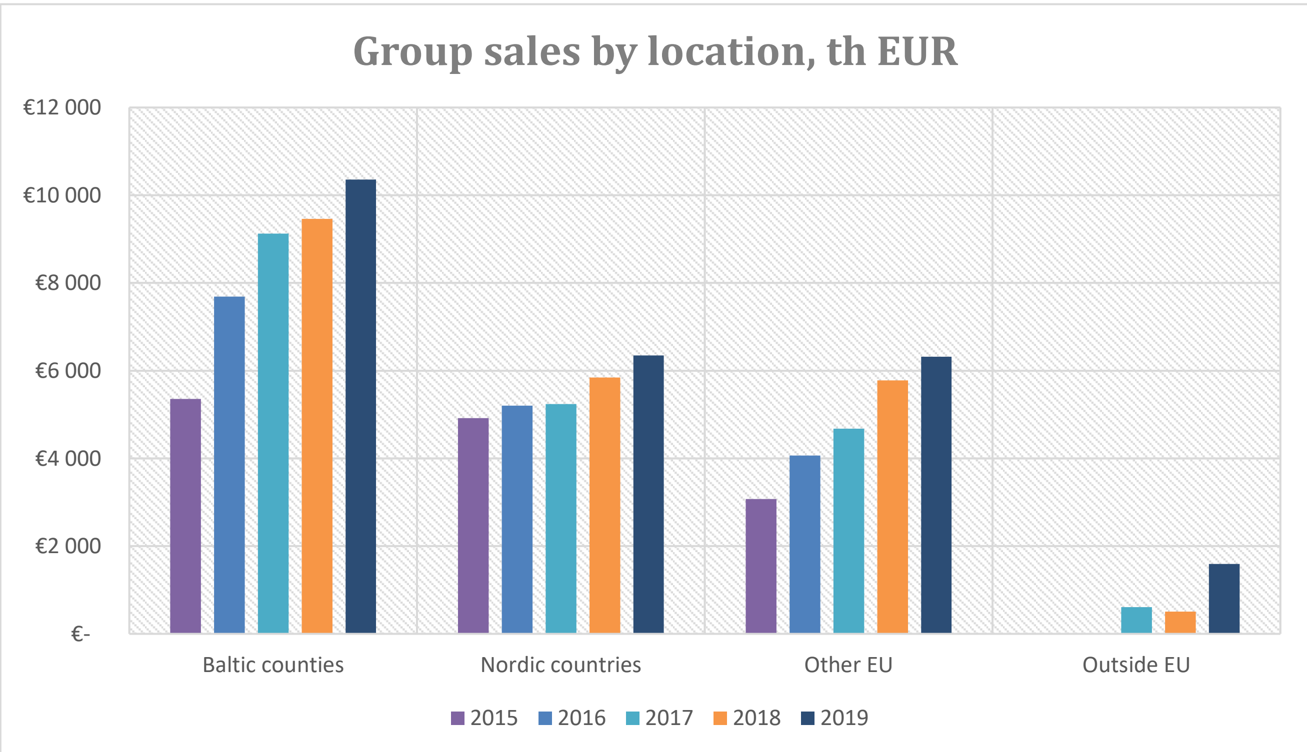
The Parent Company closed the year 2019 with a net turnover of EUR 23.06 million, which by 8.79% exceeded the EUR 21.20 million reported in the previous period. During the reporting period, the Parent Company reported EBITDA of EUR 1.560 million, compared to EUR 1.645 million in 2018; the net profit was EUR 0.324 million, compared to EUR 0.660 million in 2018.

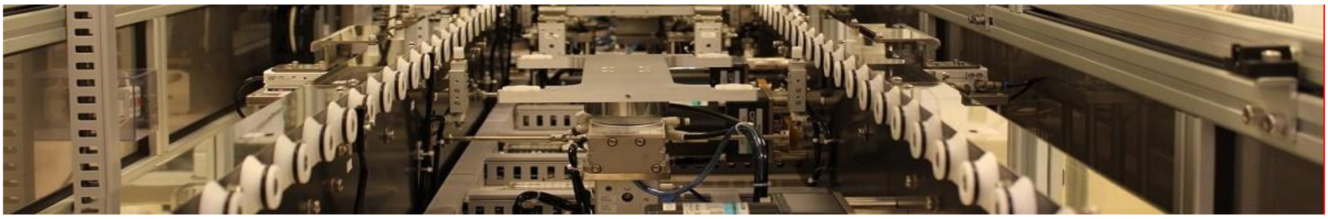
Analysis of the Group revenue from contracts with customers for the Reporting Period

The majority of HansaMatrix business clients are in the Baltic with 42%, Nordic with 26% and other EU countries also with 26% of the total revenue from contracts with customers (hereinafter – revenue, sales or turnover). The highest increase of revenue was outside EU countries, followed by other EU countries and the Baltic countries.

In 2019, the revenue in outside EU countries grew by 213% in comparison to 2018, explained by growth in business with new clients, mostly in the developed countries outside EU. In 2019 compared to 2018 the achieved revenue growth in the other EU, the Baltic and in the Nordic countries amounted respectively to 8%, 6% and 2%.

Revenue of the Group, EUR'000	2015	2016	2017	2018	2019
Baltic region	5 359	7 689	9 125	9 462	10 355
Nordic countries	4 920	5 206	5 238	5 841	6 348
Other EU countries	3 074	4 066	4 679	5 777	6 315
Outside EU			608	508	1 593



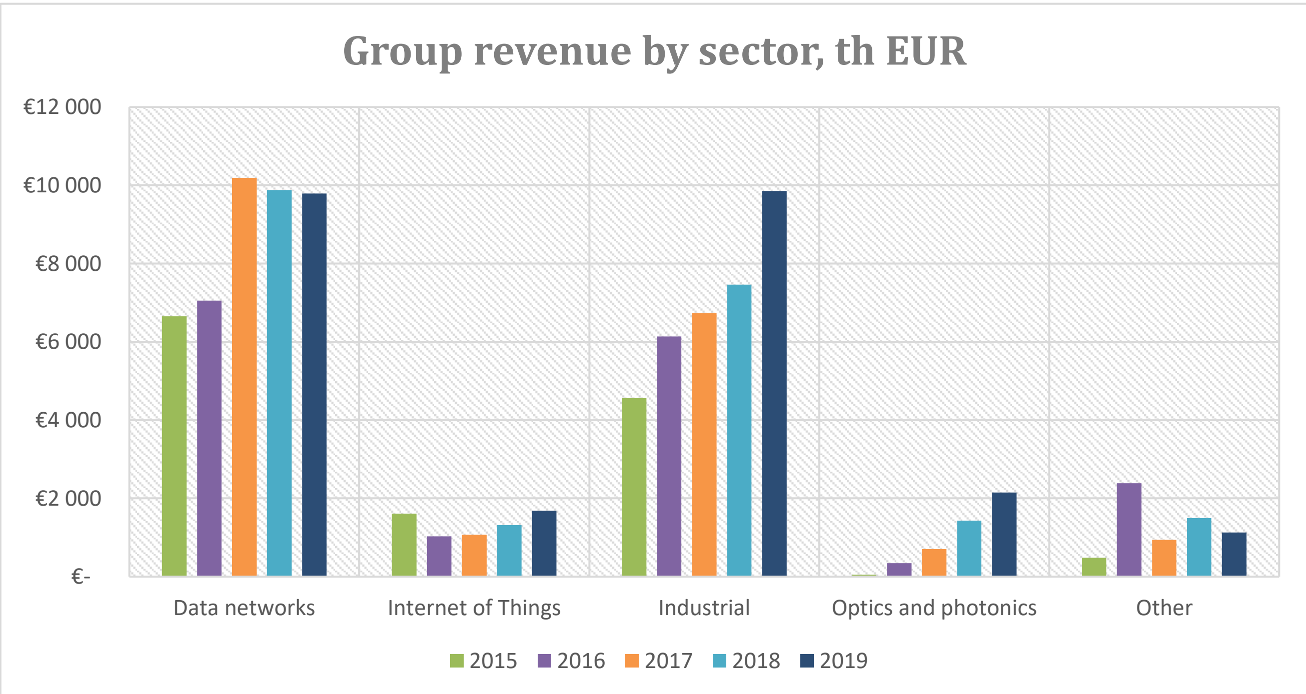


HansaMatrix revenue is focused in five major market sectors: data network infrastructure products, the Internet of Things, industrial products, optics and photonics products and other. In 2019 Q1 the Company started to report revenue to a new market sector, optics and photonics products, by separating it from the other products market sector revenue. Sales results by market sector in previous years have been restated by separating Optics and photonics sector from other products revenue.

The two largest market sectors in 2019 were data network infrastructure clients and industrial clients both accounting for 40% of revenue. Data networks sector revenue exhibited a slight 2% decrease, while industrial sector sales increased by 25% compared to the previous year. Optics and photonics, internet of things and other product sectors respectively constituted 9%, 7% and 5% of the total sales, with optics and photonics segment growing by 39%, internet of things growing by 27% and other product segment contracting by 34% compared to 2018.

The growth in industrial segment is explained by acquiring of new clients, including the supply of high complexity electronic assemblies over period of years 2019-2020 in amount of 3 million USD to industrial segment corporate customer with location outside EU. Optics and photonics segment growth is driven by the sales to the associated company SIA Lightspace technologies

Revenue of the Group, EUR'000	2015	2016	2017	2018	2019
Data network infrastructure	6 651	7 055	10 191	9 884	9 788
Internet of Things	1 608	1 031	1 075	1 314	1 686
Industrial products	4 562	6 141	6 737	7 462	9 856
Optics and photonics	49	347	707	1 429	2 153
Other products	482	2 388	940	1 498	1 128



Investments

During 2019 HansaMatrix made EUR 3.3 million investments in production capacity increase, research instruments, test systems and development of new products.

In the reporting period HansaMatrix continued to carry out investments in the technological equipment and continued the realization of European Regional Development Fund (ERDF) funding project "Development of experimental production of 3D volumetric imaging equipment and its components" under ERDF "Operational Program "Growth and Jobs" 1.2.1 Specific Support Objective "Increase Private Investment in R&D" measure 1.2.1.4. "Support for Introduction of New Products in Production". Total and ERDF funding eligible costs of the aforementioned project amount to EUR 2.9 million, with the planned ERDF funding EUR 1 million, or 35% of the eligible project costs.

On 17 March 2019, the Parent Company signed a EUR 2 million loan agreement with AS SEB banka to obtain a partial funding for the implementation of the aforementioned project.

On February 1, 2019 SIA HansaMatrix Parogre signed leasing agreement in amount of 140 thousand EUR with SIA SEB lizings to purchase technological equipment. On February 1, 2019 SIA HansaMatrix Ventspils signed leasing agreement in amount of 35 thousand EUR with SIA SEB lizings to purchase technological equipment. On October 22, 2019 SIA HansaMatrix Ventspils signed leasing agreement in amount of 225 thousand EUR with SIA SEB lizings to purchase technological equipment.

Investments in Associates

SIA Lightspace Technologies is 3D photonics and optical solutions company, the global technological leader in multi focal AR VR near eye displays and future glasses free3D image display technologies with main uses in medicine, defense, scientific visualization, entertainment, media and gaming.

Several key enabling technologies including liquid crystal materials that creates switching diffuser photonics devices invented by the company. SIA Lightspace Technologies holds 3 global patents and has during last 24 months submitted 15 new patent applications (3 at this moment has been confirmed).

SIA Lightspace Technologies fully (100%) owns Lightspace Technologies Inc., Delaware (USA) company and controlling majority of EUROLCDS, SIA shares (83.81%).

In order to strengthen the paid-up capital of SIA Lightspace Technologies, on September 30, 2019 HansaMatrix has increased its capital participation in the SIA Lightspace Technologies to 49.86% by paying up (carrying out the convertible loan conversion) according to September 30, 2019 decision of SIA Lightspace Technologies shareholders newly issued 2730 (two thousand seven hundred thirty) capital shares of SIA Lightspace Technologies in amount of 1.5 million EUR or 550 EUR per 1 share.

Following the transaction, SIA Lightspace Technologies shareholder structure is the following: HansaMatrix 49.86%, BaltCap Latvia Venture Capital Fund 27.07%, Ilmārs Osmanis 12.77%, Imprimatur Capital Technology Venture Fund 7.8%, Imprimatur Capital Seed Fund 2.5%.

In 2019 the aggregate HansaMatrix investments into SIA Lightspace Technologies amounted to the aggregate of EUR 3.5 million, out of which EUR 2 million in a form of convertible loan and EUR 1.5 million in a form of equity investment (carrying out the convertible loan conversion as of September 30, 2019).

At the end of the reporting period, the total HansaMatrix investment in SIA Lightspace Technologies amounted to EUR 8.1 million (EUR 4.7 million as of the end of 2018), consisting of convertible loan in amount of EUR 4.5 million (EUR 2.5 million as of the end of 2018) and paid up capital in amount of EUR 3.7 million (EUR 2.2 million as of the end of 2018).

Investments in Subsidiaries

SIA Zinātnes parks develops industrial real estate project, located at Riga airport area.

In order to strengthen the paid-up capital of SIA Zinātnes parks, on April 29, 2019 HansaMatrix has increased its capital participation in the SIA Zinātnes parks from 24% to 74.67% by paying up according to decision of SIA

Zinātnes parks shareholders newly issued 200 (two hundred) capital shares of the Company in amount of 800 thousand EUR, including 8 thousand EUR value of share capital and 792 thousand EUR share premium. As a result the control over SIA Zinātnes parks was obtained.

Following the transaction, SIA Zinātnes parks shareholder structure is the following: 74.67% HansaMatrix, 9.33% Latvijas Elektrotehnikas un elektronikas rūpniecības asociācija, 8% SAF Tehnika and 8% LEO Pētījumu centrs.

Starting with April 30, 2019 SIA Zinatnes parks is consolidated with AS HansaMatrix group.

In 2019 the aggregate HansaMatrix investments into SIA Zinātnes parks amounted to EUR 0.4 million in a form of convertible loan and paid up capital. At the end of the reporting period, the total HansaMatrix investment amounted to EUR 1.6 million, consisting of convertible loan in amount of EUR 0.8 million and paid up capital EUR 0.8 million.

Investments were used for land plot rental payments to VAS Starptautiskā lidosta Rīga, construction technical project development for industrial premises at Riga airport area and for loan repayments to AS SEB banka.

Research and Development

HansaMatrix Group has concentrated all new product and technology development activities and assets in its 100% subsidiary HansaMatrix Innovation SIA.

Over the past few years, the engineer and research teams of SIA HansaMatrix Innovation R&D have developed a world class competence in several fields of electro-optics areas, such as AR/VR (augmented and virtual reality) hardware; heads up display optical systems, fast structured light projection systems or 3D robotic vision systems. Development of medical devices complies with the requirements of ISO 13485 Quality Management System and EN60601-1 safety standard. Experience has been gained in several new technical areas including high-precision current monitoring as well as in plastic-molding technology. The R&D team currently consists of 40 engineers and researchers; seven of them hold a Dr. Sci. Eng. degree either in optics or physics or electronics.

In 2019 HansaMatrix Innovation has started realization of Ministry of Education and Science applied research project: Project 1.1.1.1/18/A/179 "Development of a compact, high-brightness laser image projection system for application in volumetric 3D displays". The project shall be carried out in cooperation with a partner Lightspace Technologies SIA and University of Latvia. The duration of the project is 24 months, starting on April 1st, 2019. The total planned cost of the project is 830 thousand EUR, consisting of 553 thousand EUR public ERDF funding. In 2019 HansaMatrix Innovation received ERDF financing in amount of 68 thousand.

In 2019, the R&D turnover reached EUR 2.278 million which exceeded the turnover of 2018 by EUR 0.732 million or by 47%. In 2019, the R&D turnover represented 9.3% of the total consolidated sales. The considerable growth in the R&D sales in 2019 resulted from the increase in the R&D services provided in optics and photonics and from the increase in manufacturing volume of high-tech optics and photonics products and represent strategic development of business model in direction of knowledge intensive manufacturing.

The largest share of SIA HansaMatrix Innovation R&D turnover is related to the sales to associated company SIA Lightspace technologies.

Business development overview of associated company - Lightspace Technologies

HansaMatrix associated company SIA Lightspace Technologies cross functional team recently has accomplished AR headset project IG1000. First time to public it was shown at SPIE AR MR VR 2020 conference in San Francisco, February 3-4. In one hall with Microsoft Hololens 2, Magic Leap ML1 and several other leaders it demonstrated superior image quality.

What's different - IG1000 is first multi focal image headset been built with matched accommodation. So, use of it does not create eye strain, brain stress and other symptoms associated with vergence accommodation conflict. Also, it appears that quality of 3D visual objects seen by eyes are perfect to the smallest detail.

During and after show IG1000 was demonstrated to top experts from Amazon, Apple, Lenovo, Microsoft Hololense team, Volkswagen, Philips Healthcare, Carl Zeiss. Team were continuously hearing feedback and benchmarking from all of these top experts that our product provides the best image that they have so far seen in AR. Generally, Lightspace team appears to be ahead in understanding how to build best near eye displays in comparison to many other AR display and headset teams.

New multifocal near eye display technology has been supplied and testing started by Tier1 head mount AR VR display companies such as Microsoft, Intel, Facebook, Adobe, HTC, Amazon and others. One of Tier1 global display manufacturers has chosen Lightspace technology to develop its new media 3D image displays.

Lightspace has set IG1000 on the commercialization path and planning to complete product design and industrialization by end of 2020 and start manufacturing at the beginning of 2021.

Multifocal image AR VR headsets has been considered as enabling requirement for near range 3D visualization in high performance 3D graphics, Digital and Smart manufacturing, Digital and Image guided medicine, training and simulations in realistic 3D environments.

Key Growth and Financial Ratios

As at 31 December 2019, the Group's compound annual growth rate (CAGR) for the last five years was 13%, while EBITDA over the same period has demonstrated the compound annual growth of 11%.

Ratio, EUR'000	**2015**	**2016**	**2017**	**2018**	**2019**	***CAGR***
Revenue	13 466	16 961	19 649	21 587	24 611	13%
EBIT (operating profit)	1 471	783	1 877	1 395	1 316	*-2%*
EBIT (operating profit) margin	10.92%	4.62%	9.55%	6.46%	5.35%	
EBITDA	2 232	2 215	3 660	3 259	3 719	*11%*
EBITDA margin	16.58%	13.06%	18.63%	15.10%	15.11%	
Normalized earnings	1 054	551	1 228	781	208	*-28%*
Net profit margin	7.83%	3.25%	6.25%	3.62%	0.84%	
ROA	7.80%	3.49%	6.58%	3.08%	0.70%	
ROE	32.08%	10.06%	15.09%	8.91%	2.30%	

Liquidity ratio	1.41	0.91	0.69	1.02	0.85
Return on Capital Employed (ROCE)	11,40%	5,16%	10,20%	4,3%	0,98%

Ratios are explained in the Note "Definitions of alternative performance measures" under the section "Other notes to the financial statements".

Stock and Securities Market

On February 1, 2019 Nasdaq CSD SE recorded 205298 AS HansaMatrix warrants, owned by European Investment bank (EIB), issued according to EUR 10 million financing agreement, signed by EIB and AS HansaMatrix.

On March 06, 2019 funds "Swedbank pensiju ieguldījumu plāns "Dinamika"", "Swedbank ieguldījumu plāns 1990+", „Swedbank pensiju plāns Stabilitāte+25", „Swedbank pensiju plāns Dinamika+60" and „Swedbank pensiju plāns Dinamika+100", managed by Swedbank Ieguldījumu Pārvaldes Sabiedrība acquired major holding in HansaMatrix (HMX1R), reaching 91600 shares or 5.01%.

On August 08, 2019 the shareholding of Macro Riga in HansaMatrix has decreased by 275562 shares or 15.06% to 34.03% in a transaction where Macro Riga repaid shareholder loan to HansaMatrix with HansaMatrix shares owned by Macro Riga.The applied value of one share in the transaction amounted to 7.2579 EUR per share.

On August 12, 2019 ZGI Capital managed fund ZGI-4 has become a 15.06% shareholder of HansaMatrix by purchasing 275562 HansaMatrix shares from HansaMatrix at price 7.2579 EUR per one share.

In 2019, the HansaMatrix share price exhibited slight decrease of 3.85% and on December 31, 2019 one HansaMatrix share price was 6.25 EUR. The highest share price observed during the year was 6.65 EUR, the lowest 5.93 EUR. See the trading chart of HansaMatrix stock for the year 2019:

The securities trading history is summarized in the following table:

Price	2016	2017	2018	2019
First	6.950	7.950	8.14	6.5
Max	8.150	8.830	8.5	6.65
Min	6.950	6.900	6.05	5.93
Most recent transaction	7.950	8.140	6.5	6.25
Number	19 574	72 941	137 505	32 591
Turnover (millions)	EUR 0.15	0.51 EUR	EUR 0.94	EUR 0.20
Capitalization (millions)	EUR 14.54	EUR 14.89	EUR 11.89	EUR 11.43

Exposure to Risks

The Group and Parent Company's activities expose them to a variety of risks: market risk, credit risk, liquidity risk and cash flow risk, geopolitical risk, foreign currency risk as well as interest rate risk.

The Group and the Parent Company, operating in a highly competitive international market, are subject to ***market risk***. The Parent Company manages risk according to its business development strategy, which foresees the development of a highly automated and technologically developed manufacturing process, operating in diversified market sectors with a growth tendency. Continued efforts are made for attracting new clients. As at 31 December 2019, the Parent Company had 35 regular clients, of which 5 account for at least 5% of the total turnover, and many have been working with AS HansaMatrix as their manufacturer for at least over 10 years.

The Group and the Parent Company are exposed to ***credit risk*** through its trade receivables. The Parent Company has introduced various procedures to mitigate the risk of unrecoverable debts. Most trade credits are insured using non-recourse factoring. In accordance with Note 40 to the financial statements, as at 31 December 2019, 64% of all trade receivables were insured. Clients, whose trade credits for any reason are not or cannot be insured, are subject to shortened payment schedules, advance payments, credit limits and other risk hedging conditions. The credit history of customers is also assessed on an ongoing basis and credit limits and terms are changed on an individual basis as applicable.

The Group and the Parent Company are subject to ***liquidity and cash flow risks***. Liquidity is affected by inventories and the volume of work in progress, the amount of trade credits granted to clients, amount of prepayments received, suppliers' terms of payment and the working capital available to the Group and the Parent Company. Liquidity strains can also influence the ability to carry out loan and lease payments. To mitigate liquidity risk, the Parent Company employs financial and operational management procedures. The amount of inventories is monitored on a regular basis, orders and deliveries from suppliers are rescheduled, as are the sequence and volume of planned manufacturing in order to speed up the inventory turnover. Working capital is also monitored regularly which leads to planning of the availability of credit resources and financing instruments and the amount and repayment schedules thereof.

Income from sales outside the European Union represents a small part of the Group's turnover (approximately 5% of the revenue), which gives rise to ***geopolitical risk***. The global market of electronic manufacturing services is mainly affected by the US-China "trade war". The manufacturers of electronic systems in Eastern Europe benefit from higher US import tariffs on Chinese electronics products on the US market. On the other hand, the "trade war" has a dampening effect on the economy and reduces investment in infrastructure. The situation is not stable and may change at any time. The suspended raising of import duties has calmed down the market which has become more stable.

The Group and the Parent Company are subject to ***foreign currency risk***. The financial assets and liabilities, which are exposed to foreign currency risk, comprise cash and cash equivalents, trade receivables and trade payables. The Group and the Parent Company are mainly exposed to foreign currency risk of the USD and EUR. To mitigate foreign currency risk, the Parent Company effectively employs foreign exchange hedging procedures, for example, by using pricing policy, regularly adjusting sales prices to reflect the changes in the prices of raw materials caused by currency rate fluctuations, or planning supplies and sales in the main currencies used – EUR and USD.

The Group and the Parent Company are also subject to ***interest rate risks*** arising from the fluctuations of the interbank money market rate for the euro (EURIBOR), mostly relating to the possible increase in the ECB base rate and resulting in EURIBOR rate increase for long-term floating rate loans. The sensitivity of the pre-tax profit of the Group and the Parent Company to possible changes in the EURIBOR rates is comparably insignificant; for example, a 1% increase in the EURIBOR rate leads to a decrease in the net profit by less than 8%.

Subsequent events

The current developments regarding COVID-19 globally and in the Baltic states and the declaration of emergency situation introduced by March 12, 2020 Cabinet of Ministers of Latvian Republic Order No.103 On the Declaration of Emergency Situation (Latvian Republic Official Journal "Latvijas Vēstnesis", 2020, No. 51A, 52A, 52B, 54A) and by amendments thereof are influencing HansaMatrix business operations.

HansaMatrix top priority is safety and security of its employees and continuation of the operations during COVID-19 emergency situation period. As per report preparation date among the Group employees there are no infection cases. All business units operate at the available capacity.

HansaMatrix has a diversified supplier base. The Company has been in contact and discussed the developing COVID-19 situation with the key suppliers and logistics partners, all of which, located in the affected countries, are continuing the operations and are taking the virus spread and contraction precautionary measures. The electronic component supply chain disruptions due to coronavirus are expected to impact HansaMatrix manufacturing order execution, potentially shifting fulfillment times, and could increase component sourcing costs.

HansaMatrix continues to work closely with customers to better identify and understand the potential impact the COVID-19 situation may have on the manufacturing order book. Customers, located in the affected countries, are continuing the operations and are taking the virus spread and contraction precautionary measures. The manufacturing order volume can be influenced by potential decisions by businesses to postpone investments and by consumers to decrease expenditures and also by international travel restrictions preventing customers from promptly accepting the executed orders, which potentially can be mitigated by online solutions.

In response to the emergency situation HansaMatrix has introduced internal code of emergency aimed to ensure safeguarding and maintaining good health of the employees in the Group. New internal regulations and business practices have been introduced.

HansaMatrix plans to evaluate the necessity and suitability to utilize the available Latvian Republic government support mechanisms and programs for enterprises to minimize and overcome COVID-19 negative business impact.

As a result of management effort all business units of the Group, including Pārogre and Ventspils manufacturing plants, metal parts and optics product unit in Mārupe and head office in Mārupe are fully operational. HansaMatrix ensures safe working condition to workers present at all plants and offices of the Company and ensures remote work from home for employees where it is possible, effective and necessary. All requirements of self-isolation and quarantine stipulated by law are supported and enforced when necessary.

HansaMatrix remains confident in the Group long-term prospects and growth strategy. However current international travel restrictions, large-scale quarantines and social-distancing measures, implemented by many countries in Europe and worldwide could drive fall in business and consumer spending until the end of 2020 Q2, potentially impacting business volumes in 2020 Q3 as well.

As a result of the impact of COVID-19, HansaMatrix does not expect to meet the previously announced 2020 revenue guidance. Q1 2020 sales results are estimated to exhibit around 15% year on year decrease, compared to Q1 2019. Due to dynamic changes in the COVID-19 situation it is too early to provide the estimations of the potential impact on HansaMatrix sales in Q2 and Q3 of 2020.

HansaMatrix considers the COVID-19 impact to be short-term in nature, especially taking into account China experience with containing the virus, where indicators of people and goods movement, have significantly improved in only six weeks after the initial outbreak. (source: Harvard Business review online article "How Chinese Companies Have Responded to Coronavirus", available: http://bit.ly/38VMPaV).

In January 2020, HansaMatrix has signed agreements with SEB banka and SEB lizings to extend the maturity of factoring, overdraft, guarantee and factoring for the next annual period of one year for a total amount of EUR 4.56 million for working capital financing that also include export financing transactions.

Further Development

In 2020, the Group and the Parent Company continue implementing their strategic development goals by raising the share of knowledge intensive product development and manufacturing.

Ilmārs Osmanis
Chairman of the Board
April 22, 2020

Statement of Management's Responsibility

The Management Board of AS HansaMatrix prepares separate and consolidated financial statements for each financial year which give a true and fair view of the AS HansaMatrix (hereinafter – the Parent Company) and the AS HansaMatrix group's (hereinafter - the Group) financial position at the end of the respective period, and the financial results and cash flows of the Parent Company and the Group for that respective period. The financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

In preparing those financial statements, the management selects suitable accounting policies and then apply them consistently; makes judgments and estimates that are reasonable and prudent; prepares the financial statements on the going concern basis unless it is inappropriate to presume that the going concern principle may be applied.

The Management Board of AS HansaMatrix is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position, financial performance and cash flows of the Parent Company and the Group and enable them to ensure that financial statements drawn up from them comply with International Financial Reporting Standards as adopted by the European Union.

For the Management Board of AS HansaMatrix:

Ilmārs Osmanis
Chairman of the Board
April 22, 2020

Financial statements

Statement of comprehensive income

	Notes	Group		Parent Company	
		2019	2018 restated (Note 3.1.)	2019	2018 restated (Note 3.1.)
		EUR	EUR	EUR	EUR
Revenue from contracts with customers	4	24 610 615	21 587 393	23 064 083	20 615 793
Cost of sales	5	(20 972 071)	(17 986 142)	(21 776 711)	(19 074 539)
Gross profit		**3 638 544**	**3 601 251**	**1 287 372**	**1 541 254**
Distribution costs	6	(824 722)	(918 396)	(91 675)	(226 395)
Administrative expense	7	(1 805 635)	(1 734 790)	(788 883)	(736 569)
Other operating income	8	420 346	565 246	380 625	261 773
Other operating expense	9	(112 816)	(118 673)	(57 822)	(61 754)
Operating profit		**1 315 717**	**1 394 638**	**729 617**	**778 309**
Loss from investments in associates	16	(623 202)	(483 143)	-	-
Finance income	36	32 585	46 783	32 585	46 783
Finance costs	10	(498 918)	(177 260)	(419 623)	(165 591)
Profit before tax		**226 182**	**781 018**	**342 579**	**659 501**
Corporate income tax	11	(18 294)	-	(18 294)	-
Net profit for the reporting period		**207 888**	**781 018**	**324 285**	**659 501**
Other comprehensive income:		-	-	-	-
Total comprehensive income for the year, net of tax		**207 888**	**781 018**	**324 285**	**659 501**
Profit attributable to:					
Equity holders of the Parent Company		214 490	781 018	324 285	659 501
Non-controlling interests		(6 602)	-	-	-
		207 888	**781 018**	**324 285**	**659 501**
Comprehensive income attributable to:					
Equity holders of the Parent Company		214 490	781 018	324 285	659 501
Non-controlling interests		(6 602)	-	-	-
		207 888	**781 018**	**324 285**	**659 501**
Basic and diluted earnings per share, EUR	13	0.12	0.43		

The accompanying notes form an integral part of these financial statements.

Ilmārs Osmanis
Chairman of the Management Board
April 22, 2020

Vineta Grecka
Chief Accountant
April 22, 2020

Statement of financial position

ASSETS

	Notes	Group		Parent Company	
		31.12.2019	**31.12.2018 restated (Note 3.1.)**	**31.12.2019**	**31.12.2018 restated (Note 3.1.)**
NON-CURRENT ASSETS		**EUR**	**EUR**	**EUR**	**EUR**
Intangible assets					
ODM assets		309 998	16 113	-	-
Other intangible assets		489 647	179 814	449 751	100 144
Goodwill		360 653	-	-	-
Total intangible assets	14	**1 160 298**	**195 927**	**449 751**	**100 144**
Property, plant and equipment					
Land and buildins		3 595 233	3 560 905	3 595 233	3 560 905
Equipment and machinery		4 826 532	5 310 730	3 231 361	2 552 305
Other fixtures and fittings, tools and equipment		702 687	649 194	72 743	68 356
Right of use asset		2 656 938	-	243 873	-
Leasehold improvements		65 660	44 539	149	448
Construction in progress		2 295 463	284 160	397 055	279 160
Total property, plant and equipment	15	**14 142 513**	**9 849 528**	**7 540 414**	**6 461 174**
Non-current financial assets					
Investments in subsidiaries	16	-	-	1 727 822	729 662
Investments in associates	16	2 554 998	1 675 977	3 709 889	2 209 349
Investments in other companies	17	37 754	20 333	37 469	20 048
Other investment loans	18	4 461 446	3 588 703	4 461 446	3 662 823
Loan to shareholder	36	-	2 502 240	-	2 502 240
Other financial assets	18	84 078	123 987	84 078	123 987
Other non-current receivables		63 709	52 566	18 544	16 042
Total non-current financial assets		**7 201 985**	**7 963 806**	**10 039 248**	**9 264 151**
TOTAL NON-CURRENT ASSETS		**22 504 796**	**18 009 261**	**18 029 413**	**15 825 469**
CURRENT ASSETS					
Inventories					
Raw materials and consumables		3 051 606	2 496 197	2 455 500	2 182 388
Receivables, contract assets and prepayments					
Trade receivables from contracts with customers	20	957 492	857 198	388 353	346 161
Receivables from related companies from contracts with customers	21	-	-	247 685	33 380
Prepayments for goods	22	50 117	33 676	39 175	10 223
Prepayments to related companies	22	-	-	1 005 248	835 248
Loan to shareholder	37	-	-	823 700	-
Loan to shareholder	36	540 133	-	540 133	-
Prepaid expense		50 736	50 848	12 353	14 119
Corporate income tax	33	685	1347	219	-
Contract assets	3.1	2 022 550	1 269 012	1 589 358	666 419
Other receivables	23	379 047	255 661	247 987	220 713
Total receivables, contract assets and prepayments		**4 000 760**	**2 467 742**	**4 894 211**	**2 126 263**
Cash and cash equivalents	24	**254 480**	**2 376 781**	**245 926**	**2 369 105**
TOTAL CURRENT ASSETS		**7 306 846**	**7 340 720**	**7 595 637**	**6 677 756**
TOTAL ASSETS		**29 811 642**	**25 349 981**	**25 625 050**	**22 503 225**

The accompanying notes form an integral part of these financial statements.

Ilmārs Osmanis
Chairman of the Management Board
22 April 2020

Vineta Grecka
Chief Accountant
22 April 2020

Statement of financial position

EQUITY AND LIABILITIES

	Notes	Group 31.12.2019 EUR	Group 31.12.2018 EUR	Parent Company 31.12.2019 EUR	Parent Company 31.12.2018 EUR
EQUITY					
Share capital	25	1 829 381	1 829 381	1 829 381	1 829 381
Share premium	25	2 435 579	2 435 579	2 435 579	2 435 579
Reserves	25	688	1 324	688	1 324
Non-current asset revaluation reserve	26	2 038 647	2 162 339	2 038 647	2 162 339
Retained earnings/ (accumulated loss):					
a) brought forward		2 392 385	1 560 850	1 758 713	1 048 695
b) for the period		214 490	781 018	324 285	659 501
Minority share		117 047	-	-	-
TOTAL EQUITY		**9 028 217**	**8 770 491**	**8 387 293**	**8 136 819**
LIABILITIES					
Non-current liabilities					
Loans from credit institutions	27	7 930 600	6 503 051	7 531 956	6 503 051
Lease liabilities	28	1 729 235	662 796	117 038	133 871
Other financial liabilities	18	1 345 930	1 345 930	1 345 930	1 345 930
Prepayments received from customers (Contract liabilities)	30	149 845	463 638	149 845	463 638
Deferred income	29	1 022 466	403 130	864 861	226 067
Total non-current liabilities		**12 178 076**	**9 378 545**	**10 009 630**	**8 672 557**
Current liabilities					
Loans from credit institutions	27	1 874 479	2 037 520	1 675 157	2 037 520
Lease liabilities	28	826 058	193 046	90 148	49 647
Prepayments received under contracts with customers	30	1 042 633	689 486	928 279	638 388
Trade payables	31	3 724 298	3 090 852	2 219 533	2 146 919
Payables to related companies	36	-	-	2 166 204	621 360
Taxes payable	32	558 704	563 801	14 705	13 490
Corporate income tax	33	809	211	-	43
Other liabilities	34	239 734	206 362	23 797	17 294
Deferred income	29	101 845	169 577	66 821	118 987
Accrued liabilities	35	236 789	250 090	43 483	50 201
Total current liabilities		**8 605 349**	**7 200 945**	**7 228 127**	**5 693 849**
TOTAL LIABILITIES		**20 783 425**	**16 579 490**	**17 237 757**	**14 366 406**
TOTAL EQUITY AND LIABILITIES		**29 811 642**	**25 349 981**	**25 625 050**	**22 503 225**

The accompanying notes form an integral part of these financial statements.

Ilmārs Osmanis
Chairman of the Management Board
April 22, 2020

Vineta Grecka
Chief Accountant
April 22, 2020

Statement of cash flows

	Group	Parent Company

	Notes	2019 EUR	2018 EUR	2019 EUR	2018 EUR
CASH FLOWS TO/ FROM OPERATING ACTIVITIES					
Profit before tax		226 182	781 018	342 579	659 501
Adjustments for:					
Depreciation and amortization	14.15	2 403 390	1 864 349	896 955	866 478
Depreciation included in the cost of work in progress		42 122	38 211		-
Interest expense	10	410 187	158 355	397 484	149 121
Interest income	36	(32 585)	(46 783)	(32 585)	(46 783)
Decrease in allowances for slow-moving items and receivables	19	121 868	(55 286)	130 024	(55 478)
Income from grant recognition	8	(101 846)	(169 577)	(66 822)	(118 987)
Gain on disposal of property, plant and equipment	8	(56 124)	(6 677)	-	(5 000)
Group's share of loss of an associate recognized in the statement of comprehensive income	15	623 202	483 143		-
Adjustments for:					
(Increase)/ decrease in inventories		601 344	(1 018 267)	(382 142)	(616 527)
(Increase)/ decrease in receivables		(3 106 894)	(231 579)	(2 218 591)	(353 831)
Increase/ (decrease) in payables		1 439 844	876 925	2 575 214	1 002 473
Cash generated from operations, gross		**2 570 690**	**2 673 832**	**1 642 116**	**1 480 967**
Interest paid		(408 986)	(151 406)	(396 283)	(142 172)
Corporate income tax paid		(18 294)	(176 702)	(18 294)	(177 659)
Net cash flows to/ from operating activities		**2 143 410**	**2 345 724**	**1 227 539**	**1 161 136**
Cash flows to/ from investing activities					
Purchase of intangible assets and property, plant and equipment	14.15	(3 502 064)	(2 530 042)	(2 234 585)	(1 074 835)
Proceeds from sale of property, plant and equipment		62 847	13 527	90 273	5 319
Investments in subsidiaries		-	-	(513 600)	(280 000)
Investments in and loans to other companies		(3 526 244)	(3 080 834)	(3 526 244)	(3 080 834)
Net cash flows to/ from investing activities		**(6 965 461)**	**(5 597 349)**	**(6 184 156)**	**(4 430 350)**
Cash flows to/ from fianancing activities					
Dividends paid		(73 175)	(146 350)	(73 175)	(146 350)
Funding received from European Union funds		721 558	-	653 450	-
Loans received from credit institutions		2 770 473	10 888 595	2 650 042	10 888 595
Loans repaid to credit institutions		(2 243 364)	(5 155 665)	(2 230 913)	(5 155 665)
Loans from lease companies		398 014	939 457	-	210 740
Payment of principal protion of lease liabilities		(642 178)	-	(112 988)	-
Loans repaid to lease companies		(231 579)	(1 156 816)	(52 979)	(413 338)
Loans repaid from related companies		2 000 001	-	2 000 001	-
Net cash flows to/ from financing activities		**2 699 750**	**5 369 221**	**2 833 438**	**5 383 982**
Change in cash and cash equivalents for the year		**(2 122 301)**	**2 117 596**	**(2 123 179)**	**2 114 768**
Cash and cash equivalents at the beginning of the year	24	**2 376 781**	**259 185**	**2 369 105**	**254 337**
Cash and cash equivalents at the end of the year	24	**254 480**	**2 376 781**	**245 926**	**2 369 105**

The accompanying notes form an integral part of these financial statements.

Ilmārs Osmanis
Chairman of the Management Board
April 22, 2020

Vineta Grecka
Chief Accountant
April 22, 2020

Statement of changes in equity

Group

	Share capital	Share premium	Reserves	Non-current asset revaluation reserve	Retained earnings/ (accumulated loss)	Non-controlling interest	Total
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Balance as at 31 December 2017	**1 829 381**	**2 435 579**	**313**	**2 286 031**	**1 583 508**	**-**	**8 134 812**
Profit for the reporting year	-	-	-	-	781 018	-	781 018
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	781 018	-	781 018
Depreciation of revalued items of property, plant and equipment	-	-	-	(123 692)	123 692	-	-
Share option reserves	-	-	1 011	-	-	-	1 011
Dividends paid	-	-	-		(146 350)	-	(146 350)
Balance as at 31 December 2018	**1 829 381**	**2 435 579**	**1 324**	**2 162 339**	**2 341 868**	**-**	**8 770 491**
Profit for the reporting year	-	-	-		214 490	(6 602)	207 888
Other comprehensive income	-	-	-		-		-
Total comprehensive income	-	-	-	-	214 490	(6 602)	207 888
Depreciation of revalued items of property, plant and equipment	-	-	-	(123 692)	123 692	-	-
Share option reserves	-	-	(636)	-	-		(636)
Dividends paid	-	-	-		(73 175)		(73 175)
Aqusition of subsidiary	-	-	-	-	-	123 649	123 649
Balance as at 31 December 2019	**1 829 381**	**2 435 579**	**688**	**2 038 647**	**2 606 875**	**117 047**	**9 028 217**

The accompanying notes form an integral part of these financial statements.

Ilmārs Osmanis
Chairman of the Management Board
April 22, 2020

Vineta Grecka
Chief Accountant
April 22 2020

Statement of changes in equity (cont'd)

Parent Company

	Share capital	Share premium	Reserves	Non-current asset revaluation reserve	Retained earnings/ (accumulated loss)	Total
	EUR	EUR	EUR	EUR	EUR	EUR
Balance as at 31 December 2017	**1 829 381**	**2 435 579**	**313**	**2 286 031**	**1 071 353**	**7 622 657**
Profit for the reporting year	-	-	-	-	659 501	659 501
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	659 501	659 501
Depreciation of revalued items of property, plant and equipment	-	-	-	(123 692)	123 692	-
Share option reserves	-	-	1 011	-	-	1 011
Dividends paid	-	-	-	-	(146 350)	(146 350)
Balance as at 31 December 2018	**1 829 381**	**2 435 579**	**1 324**	**2 162 339**	**1 708 196**	**8 136 819**
Profit for the reporting year	-	-	-	-	324 285	324 285
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	324 285	324 285
Depreciation of revalued items of property, plant and equipment	-	-	-	(123 692)	123 692	-
Share option reserves	-	-	(636)	-	-	(636)
Dividends paid	-	-	-	-	(73 175)	(73 175)
Balance as at 31 December 2019	**1 829 381**	**2 435 579**	**688**	**2 038 647**	**2 082 998**	**8 387 293**

The accompanying notes form an integral part of these financial statements.

Ilmārs Osmanis
Chairman of the Management Board
April 22, 2020

Vineta Grecka
Chief Accountant
April 22, 2020

Notes to the financial statements

1. Corporate information

AS HansaMatrix (hereinafter – the Parent Company) was registered with the Republic of Latvia Enterprise Register on 30 July 1999 and re-registered with the Republic of Latvia Commercial Register on 27 December 2002 under unified registration number 40003454390. The registered office of the Parent Company is at Akmeņu iela 72, Ogre. The shares of the Parent Company are listed on Riga Stock Exchange, Latvia.

The HansaMatrix Group (hereinafter – the Group) is a leading Baltic electronic system product developer and manufacturer. Information on the Group's structure and other related party relationships of the Group and the Parent Company is provided in Notes 16 and Note 36.

The financial statements for the year ended 31 December 2019 were approved by a decision of the Parent Company's Board on April 22, 2020.

The Parent Company's shareholders have the power to amend the consolidated and separate financial statements after the issue.

2. Significant accounting principles

2.1. Basis of preparation

The financial statements present the consolidated financial position of the AS HansaMatrix Group (i.e. AS HansaMatrix and its subsidiaries) and the financial position of AS HansaMatrix as a separate entity.

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union. The consolidated financial statements are prepared on a historical cost basis, unless stated otherwise in the accounting policies described below.

The monetary unit used in the financial statements is the euro (EUR). The consolidated financial statements cover the period 1 January 2019 through 31 December 2019.

2.2. Basis of consolidation

2.2.1 Subsidiaries

The consolidated financial statements comprise the financial statements of AS HansaMatrix and entities controlled by the Parent Company (its subsidiaries) as at 31 December 2019. The financial statements of the subsidiaries are prepared for the same reporting period as for the Parent Company, using consistent accounting policies.

Subsidiaries are companies that are controlled by the Parent Company. Control is the power to govern the financial and operating policies of the company so as to obtain benefits from its activities. Control is deemed to be existing where the Group has a possibility to achieve or obtain a power of control over benefiting from its investments and where it can make a return by using its influence on the investment (valid rights that provide a present opportunity to control the company through the investment). Consolidation of a subsidiary begins when the Parent Company obtains control over the subsidiary and ceases when the Parent Company loses control of the subsidiary. Reporting periods and dates of the financial statements of the Parent Company and subsidiaries correspond to those of the consolidated financial statements. Accounting policies of the subsidiaries are changed to bring them in line with that of the Group.

The financial statements of the Parent Company and its subsidiaries are consolidated in the Group's consolidated financial statements by adding together like items of assets and liabilities as well as income and expense. All intercompany transactions, balances and unrealized gains and losses on transactions between members of the Group are eliminated in full on consolidation.

2.2.2. Associate

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

Under the equity method, the investment in an associate or a joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment separately.

Unrealized gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The aggregate of the Group's share of profit or loss of an associate is shown on the face of the profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate. The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group. After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired.

2.2. Basis of consolidation (cont'd)

2.2.2. Associate (cont'd)

If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognizes the loss within 'Share of profit of an associate' in the profit or loss.
Upon loss of significant influence over the associate, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

2.2.3. Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses. When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree. Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments, is measured at fair value with the changes in fair value recognised in the statement of profit or loss in accordance with IFRS 9. Other contingent consideration that is not within the scope of IFRS 9 is measured at fair value at each reporting date with changes in fair value recognised in profit or loss. Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

2.3. Segments

Reportable segments are operating segments or their aggregation which meet certain criteria. No less frequently than once a year, the Group and the Parent Company assess and identify all potential business segments and determine whether these segments should be accounted for separately. The company reports the segment if it contributes 10% or more of the entity's total sales (combining internal and inter-segment sales), earns 10% or more of the combined reported profit of all operating segments that did not report a loss (or 10% or more of the combined reported loss of all operating segments that reported a loss), or has 10% or more of the combined assets of all operating segments.

The Group and the Parent Company have one business segment, i.e. the manufacturing services, on which specific financial information is available, which is regularly assessed by key decision-makers to allocate resources and evaluate the performance of this segment. In addition to segment reporting, the Group and the Parent Company also disclose the sales results by main market sectors – data network infrastructure products, the Internet of Things, industrial products and other as well as by geographical market sectors.

2.4. Foreign currency translation

The functional and presentation currency of the Group is the euro (EUR), the monetary unit of the Republic of Latvia. Transactions in foreign currencies are translated into the euro at the euro foreign exchange reference rate published by the European Central Bank at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the euro applying the euro foreign exchange reference rate published by the European Central Bank at the last day of the reporting year. The differences arising on settlements of transactions or on reporting foreign currency transactions at rates different from those at which these transactions have originally been recorded are netted in the statement of comprehensive income accounts. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. The non-monetary items are carried at historical cost and no further retranslation is performed.

Non-financial assets and liabilities

2.5. Intangible assets

Intangible non-current assets are stated at cost and amortized over their estimated useful lives on a straight-line basis. The carrying values of intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Losses from impairment are recognized where the carrying value of intangible non-current assets exceeds their recoverable amount.

After initial recognition, development expenditure is recognized as intangible assets at cost less accumulated amortization and any accumulated impairment losses. Assets are amortized over their expected useful lives. At each reporting date, it is analyzed whether there is any indication that the asset may be impaired. When computer software is an integral element of hardware that cannot operate without that specific software, computer software is treated as property, plant and equipment.

Other intangible assets are comprised of software and licenses. Amortization is calculated on straight line basis. Other intangible assets have a useful life of 3 – 5 years.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of comprehensive income when the asset is derecognized.

2.6. ODM (Original Design Manufacturing) assets

Intangible assets comprise intellectual property arising from research and development of the Parent Company and the Group in the form of ODM (Original Design Manufacturing) assets. The Parent Company and the Group recognizes and, according to IAS 38, capitalizes the results of development of products, materials, devices, processes and systems derived as a result of targeted projects, which are ODM assets. ODM assets may incorporate tangible elements, such as prototypes of materials or products, samples, devices, systems, and intangible elements, such as project or production documents, documented processes, inventions or innovations which are or are not protected by patents.

The creation of ODM assets is initiated only for a specific identified customer or several such customers after the expected economic result has been evaluated. This process is accurately managed by accounting for all costs, both costs of direct materials used in project development and the full cost of engineering hours spent, including salaries of engineers plus costs incurred to ensure their work, but excluding administrative expense.

When recognizing an ODM asset, the Group determines the amortization charge of each ODM asset per one unit of a product associated with the use of the ODM asset and the total number of units of the product by which the accrued value will be fully amortized. The expected amortization period of ODM assets is 3 years.

In the course of modifying an ODM asset by adapting it to the needs of several customers and various products, it is reclassified as property, plant and equipment, if the physical element of the asset is more significant than intangible element. If the development costs included in the asset are an integral part of the related hardware and the intangible components cannot function on their own, it is treated as property, plant and equipment. Where the costs of materials used in the development of ODM assets are prevailing, after its completion the respective asset is classified as property, plant and equipment.

2.7. Research and development costs

Research costs are expensed as incurred. Development expenditures on an individual project are recognized as an intangible asset when the Group can demonstrate the technical feasibility of completing the intangible asset so that the asset will be available for use or sale, its intention to complete and its ability and intention to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset and the ability to measure reliably the expenditure during development. Other development expenditure is written off.

After initial recognition, development expenditure is recognized as intangible assets at cost less accumulated amortization and any accumulated impairment losses. Assets are amortized over their expected useful lives. At each reporting date, it is analyzed whether there is any indication that the asset may be impaired.

2.8. Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value, except for land and buildings that are measured at revaluated amount less accumulated depreciation (of the buildings) and impairment losses recognized after date of revaluation. Land is not depreciated. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset, as follows:

Buildings	over 20 to 33 years
Equipment and machinery	over 5 to 10 years
Other property, plant and equipment	over 3 to 10 years

In 2019, the useful lives of property, plant and equipment were reviewed as the applied useful lives did not correspond to the actual ones. The current useful lives present more accurately the actual time of use of the assets thus giving a truer picture of the carrying amount of the assets disclosed in the company's financial statements.

Depreciation starts when the asset is ready for its intended use. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. To the extent that the Group depreciates separately some parts of property, plant and equipment, it also depreciates separately the remainder of the item. The remainder consists of the parts that are individually insignificant. The depreciation for the remainder is determined using approximation techniques to faithfully represent its useful life.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the higher of an asset's fair value less costs to sell and its value in use. In assessing the 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.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the cost of sales caption or in admirative expense caption.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the statement of comprehensive income in the year the item is derecognized.

Expenses related to leasehold improvements are capitalized as property, plant and equipment and depreciated over the lease period on a straight-line basis.

Construction in progress represents property, plant and equipment under construction and is stated at historical cost. This includes the cost of construction and other direct expenses. Construction in progress is not depreciated as long as the respective assets are not completed and available for use.

Revaluation of property, plant and equipment

Revaluations have been made with sufficient regularity (not less frequently than every 5 years) to ensure that the carrying amount of property, plant and equipment items subject to valuation does not differ materially from that which would be determined using fair value at the end of reporting period. Real estate (land and buildings) is revalued. The revaluation is performed by certified valuators.

Increase in the carrying amount arising on revaluation net of deferred tax is credited to the 'Other comprehensive income' as "Property, plant and equipment revaluation reserve" in shareholders' equity. Decreases that offset previous increases of the same asset are charged in 'Other comprehensive income' and debited against the revaluation reserve directly in equity; all other decreases are charged to the current year's Profit or Loss. Any gross carrying amounts and accumulated depreciation at the date of revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after the revaluation equals its revalued amount. Property, plant and equipment revaluation reserve is decreased over the useful life of the asset. Revaluation reserve cannot be distributed in dividends, used for indemnity, reinvested in other reserves, or used for other purposes.

2.9. Inventories

Inventories are valued at the lower of cost and net realizable value.
Costs incurred in bringing each product to its present location and condition are accounted for as follows:
- raw materials – purchase cost on a first-in, first-out basis;

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. Net realizable value is disclosed at the purchase (production) cost less allowances made. Allowances are made for slow moving inventories which haven't been sold or used for 24 month period.

2.10. Grants

Grants received from the government and international organizations are recognized where there is reasonable assurance that the grant will be received and all attached conditions will be complied with.

Grants received from the government and international organizations for the purchase, development or construction of non-current assets are initially recognized as deferred income and taken to the profit or loss on a systematic basis over the useful life of the relevant assets.

Other government grants are recognized as income on a systematic basis over the period when the Group and the Parent Company expense the costs that the grants compensate. A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group and the Parent Company with no future related costs is recognized as income of the period in which it becomes receivable.

2.11. Provisions

Provisions are recognized when the Group and the Parent Company have a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group and the Parent Company expect some or all of provisions to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

The Group manufactured products that malfunction, do not correspond to the specifications or have defects may be returned to the Company. The sole responsibility of the Company under the warranty is to repair or replace the non-confirming or damaged product. This warranty does not apply to:

- pilot products, prototypes, preproduction units, product testing batches;
- any products repaired by the seller or third party;
- any products used wrongfully due to misuse or negligence.

Warranty period is 1 to 2 years and set on an individual basis. Because the warranty provides the customer with the assurance that the product will work as intended for one year, HansaMatrix accounts for this 'assurance-type' warranty in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets, i.e. a provision is raised for the expected cost of repairing the product in the next 12 months. Assurance-type warranties do not result in a change to current practice for the recognition of revenue, i.e. this does not represent a separate performance obligation.

2.12. Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets epresenting the right to use the underlying assets.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

• Plant and machinery 2 to 5 years
• Lease of land up to 50 years
• Motor vehicles and other equipment 2 to 5 years

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are also subject to impairment.

2.13. Lease liabilities

At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate.
Variable lease payments that do not depend on an index or a rate are recognized as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

The Group's lease liabilities are included in Interest-bearing loans and borrowings (see Note 21.2)

Short-term leases and leases of low-value assets
The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

Group as a lessor
Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included the profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Comparative period

Group and Parent Company as a lessee
Finance leases which transfer to the Group and the Parent Company substantially all the risks and benefits incidental to ownership of the leased item are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the principal lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized directly in the statement of comprehensive income as interest expense.
If there is reasonable certainty that the lessee will obtain ownership by the end of the lease term, the period of expected use is the useful life of the asset; otherwise capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term on a straight-line basis.
Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the statement of comprehensive income on a straight-line basis over the lease term. The commitments undertaken by the Group and the Parent Company with respect to operating lease contracts are recorded as off-balance sheet liabilities.

Group and Parent Company as a lessor
Assets that are leased out under operating lease terms are recognized as property, plant and equipment at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis in order to write down each asset over its estimated useful life to its estimated residual value.

Income from operating leases is recognized in the statement of comprehensive income on a straight-line basis over the lease term.

Financial assets and liabilities

2.14. Financial assets

The Group classifies financial assets as follows:
- financial assets at amortized cost;
- equity investments at fair value through other comprehensive income (FVTOCI);
- financial assets at fair value through profit or loss (FVTPL),
- debt investments at fair value through other comprehensive income (FVTOCI).

Financial assets at amortized cost

A financial asset is measured at amortized cost in case it satisfies both of the following requirements and is not classified as at FVTPL: a) it is held within a business model whose objective is to hold assets to collect contractual cash flows; and b) its contractual terms on specified dates ensures cash flows that are solely payments of principal and interest. These assets are initially measured at fair value plus transaction costs, directly attributable to their acquisition. After the initial recognition, the assets are measured at amortized cost applying the effective interest rate method. The amortized cost value is decreased by impairment losses. Foreign exchange gains and losses, impairment, and interest income are recognized in profit or loss statement. On derecognition, any gain or loss is recognized in profit or loss statement.

Equity investments at FVTOCI

Upon initial recognition, the Group can choose to irrevocably classify its equity investments as equity instruments designated at fair value through OCI, in case these investments a) meet the definition of equity instrument under IAS 32 Financial Instruments and b) and are not held for trading. The Group evaluates and applies this classification for each instrument separately. These instruments are initially measured at fair value plus transaction costs, directly attributable to their acquisition. After the initial recognition, these instruments are measured at fair value. Dividends are recorded in profit or loss statement. Other net gains and losses are accumulated in OCI and are never applied or reclassified to profit or loss statement.

Financial assets at FVTPL

These financial instruments include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial instruments are deemed as held for trading in case they are planned to be sold in the short term. Derivatives are also classified as held for trading, except when they are hedging instruments. Financial instruments with contractual cash flows that are not solely principal and interest payments are classified and measured at fair value through profit or loss. For these instruments, directly attributable transaction costs are recognized in profit or loss as incurred. After the initial recognition, these instruments are measured at fair value. Net value changes are recognized in profit or loss statement.

Debt investments at FVTOCI

A debt investment is measured at FVTOCI if it meets both of the following requirements and is not classified as at FVTPL: a) it is held within a business model whose objective is to hold assets to collect contractual cash flows and to sell these financial assets; and b) its contractual terms on specified dates ensures cash flows that are solely payments of principal and interest. These assets are initially measured at fair value plus transaction costs directly attributable to their acquisition. After the initial recognition, the assets are measured at fair value. Foreign exchange gains and losses, interest income calculated using the effective interest method, and impairment are recognized in profit or loss. Other net gains and losses are recognized in other comprehensive income (OCI). In case of derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

2.15. Financial liabilities

The Group classifies financial liabilities as follows:
- financial liabilities at amortized cost;
- financial liabilities at fair value through profit or loss (FVTPL).

Financial liabilities at amortized cost

A financial liability is measured at amortized cost in case it is not held-for-trading and is not designated as held-for-trading in the initial recognition. These financial liabilities are initially measured at fair value less directly attributable transaction costs. After the initial recognition, these liabilities are measured at amortized cost, using the effective interest rate.

2.15. Financial liabilities (cont'd)

Financial liabilities at FVTPL

A financial liability is classified as at FVTPL in case it is held-for-trading or is designated as held-for-trading in the initial recognition. For this type of liabilities, directly attributable transaction costs are recognized in profit or loss statement, as incurred. Liabilities at FVTPL are measured at fair value, with changes in value and interest expense recognized through profit or loss statement.

In case the Group uses derivative financial instruments, such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Derivative embedded in a hybrid contract, with a financial liability is separated from the host and accounted for as a separate derivative if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognized in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's and the Parents financial statement of financial position) when:
• The rights to receive cash flows from the asset have expired or
• The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through
arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset,
or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset,
but has transferred control of the asset

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor

transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2.16. Fair value measurement

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.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:
- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The Group measures the fair value of a financial instrument using the quoted price in an active public market for that instrument, when available. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

In case a financial instrument measured at fair value has a bid price and an ask price, then the Group measures the assets at a bid price and liabilities - at an ask price.

When there is no quoted price in an active market, the Group uses valuation techniques that are appropriate in the circumstances that maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Fair value of a financial instrument applied on initial recognition is normally the transaction price.

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:
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).

The Group recognizes transfers between the levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

2.17. Impairment of financial instruments and contract assets

The Group recognizes an allowance for expected credit losses (ECLs) for financial assets measured at amortized cost and contract assets. The impairment model is based on the premise of providing for expected losses.

Impairment is measured with one of the following approaches: a) 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and b) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

For trade receivables and contract assets, the Group and the Parent Company apply a simplified approach – a loss allowance is always established equal to the amount of credit losses expected over the remaining life of the asset (lifetime ECLs).

For individually assessed financial assets that are measured at amortized cost (Loan to shareholder) the IFRS 9 general approach is used, applying the Expected Credit Losses Model, which foresees calculating the financial asset value adjustments as the product of three variables: Exposure at Default (EAD), Loss Given Default (LGD) and the Probability of Default (PD)..

For financial assets measured at amortized cost, considered to have acceptable credit risk, the ECLs are based on the 12-month ECLs. However, when there has been a significant increase in credit risk since origination, the allowance is based on the lifetime ECLs.

2.18. Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand and short-term deposits with an original maturity of three months or less. The statement of cash flows has been prepared according to the indirect method by making adjustments to reconcile operating profit with cash flows from operating, investing, and financing activities.

2.19. Receivables

A receivable represents the Group and Parent Company's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

The Group and the Parent Company split trade receivable balances in two portfolios based on a business model.

- Trade receivables from contracts with customers within a business model with the objective to hold financial assets in order to collect contractual cash flows are accounted at amortized cost and reviewed for impairment;
- Trade receivables from contracts with customers held with the only objective of selling the financial assets are accounted for at FVTPL.

For receivables, the Group and the Parent Company measure the ECLs based on the historical data for the last 3 years, and where the historical data are not available, make assumptions.

Factoring

Proceeds received in accordance with factoring agreements are recognized as liability to the factor when the Group or the Parent Company remain exposed to credit risk associated with the respective debtor. When credit risk remains with the contracting party or the factor, the proceeds are netted against the respective debtor balance. For the existing factoring agreements, the Group and the Parent Company only recognize the portion of the receivable that is not factorized in their statement of financial position - usually 10%. The portion of the receivable that is not factorized is stated at FVTPL based on the expected cash flows.

Considering that the 10% repayment is usually done within a period of 2-3 months, the time value of money does not significantly affect the FV of the remaining receivable.

2.20. Revenue recognition

The Group and the Parent Company have concluded that the performance obligation for provided services is exercised over time.

2.20.1. Sale of goods and services

The Group and the Parent Company recognizes revenue from sale of goods and services over time because the goods and services delivered to the clients are highly customized to fulfill the customer needs, and it would take significant rework for the asset to be used alternatively. Moreover, Group and the Parent Company are also entitled for payment of any products made to date. Trade receivables are generally due in 30 - 90 days after delivery.

Due to the specifics of the production cycle of the Group and the Parent Company it is impracticable to reasonably measure the progress towards complete satisfaction of the performance obligation. Therefore, the Group and the Parent Company are recognizing revenue to the extent of the costs incurred.

The Group and the Parent Company consider whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated (e.g., warranties). In determining the transaction price for the services, the Group considers the effects of variable consideration, the existence of significant financing components, and consideration payable to the customer (if any).

If the consideration in a contract includes a variable amount, the Group and the Parent Company estimate the amount of consideration to which they will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognized will not occur when the associated uncertainty with the variable consideration is subsequently resolve.

As the Group and the Parent Company are manufacturing products that are highly customized to fulfill the customer needs, and it would take significant rework for the asset to be used alternatively, the performance creates an asset that the customer controls as the asset is created and finally the Group and the Parent Company are also entitled to payment for performance completed to date the revenue is being recognized over time

2.20.2. Volume rebates

The Group and the Parent Company provide retrospective volume rebates to certain customers once the quantity of products purchased during the period exceeds a threshold specified in the contra. Rebates are only applied to the aggregate amount of goods purchased in the relevant period (in one calendar month) and are not attributed to other periods. Rebates are offset against amounts payable by the customer.

2.20.3. Significant financing component

Generally, the Group and the Parent Company receive short-term advances from its customers. Using the practical expedient in IFRS 15, the Group and the Parent Company do not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised good or service to the customer and when the customer pays for that good or service will be one year or less.

In cases where the period exceeds one year, the transaction price for such contracts is discounted, using the rate that would be reflected in a separate financing transaction between the Group and its customers at contract inception, to take into consideration the significant financing component.

2.20.4. Principal versus agent consideration

In most cases the Group operates as a principal in providing production services to the clients. However, in some cases, the Group and the Parent Company receives from its customers materials that are used in manufacturing the products ordered by customers and returned to customers. These materials are owned by customers and are only intended for executing a particular customer order, and the Parent Company accepts them only for processing. The cost of the materials belonging to customers is recorded off-balance sheet as the Parent Company does not have the ability to direct the use of the equipment or obtain benefits from the equipment.

2.20.5. Contract assets

A contract asset is initially recognised for revenue earned from services because the receipt of consideration is conditional on successful completion of the installation. Upon completion of the installation and acceptance by the customer, the amount recognised as contract assets is reclassified to trade receivables. Contract assets are subject to impairment assessment. Refer to accounting policies on impairment of financial assets in section 2.27.

2.20.6. Contract liabilities (prepayments received under contracts with customers)

A contract liability is the obligation to transfer goods or services to a customer for which the Group and the Parent Company have received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group and the Parent Company transfer goods or services to the customer, a contract liability is recognized when the payment is made, or the payment is due (whichever is earlier). Contract liabilities are recognized as revenue when the Group and the Parent Company perform under the contract.

2.20.7. Income from investments

The Group and the Parent Company recognize income from investments (dividends) only when the right to receive the payment is established.

2.21. Distribution of dividends

Dividends payable to the shareholder of the Parent Company are recognized as a liability in the financial statements for the period the shareholder of the Parent Company has authorized thereof.

2.22. Taxes

2.22.1. Current corporate income tax

Legal entities have not been required to pay income tax on earned profits starting from 1 January 2018 in accordance with amendments made to the Corporate Income Tax Law of the Republic of Latvia. Corporate income tax is paid on distributed profits and deemed profit distributions. Consequently, current and deferred tax assets and liabilities are measured at the tax rate applicable to undistributed profits. Starting from 1 January 2018, both distributed profits and deemed profit distributions have been subject to the tax rate of 20 per cent of their gross amount, or 20/80 of net expense. Corporate income tax on dividends is recognized in the consolidated profit or loss as expense in the reporting period when respective dividends are declared, while, as regards other deemed profit items, at the time when expense is incurred in the reporting year.
Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or other comprehensive income, in which case it is recognized in equity or other comprehensive income.

2.22.2. Deferred corporate income tax

Deferred tax is provided using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying value for accounting purposes. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized, or the liability is settled, based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Corporate income tax on dividends and deferred income tax expense on dividends of subsidiaries, associates and joint ventures are reported in the consolidated statement of comprehensive income.

2.22.3. Value added tax

Expenses and assets are recognized net of the amount of value added tax, except:

- When value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, value added tax is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable,
- When receivables and payables are stated with the amount of value added tax included.

The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

2.23. Related parties

The parties are considered related when one party has a possibility to control the other one or has significant influence over the other party in making financial and operating decisions. Related parties of the Parent Company are associates and shareholders who could control or who have significant influence over the Parent Company in accepting operating business decisions, key management personnel of the Parent Company including members of Supervisory body – Audit committee and close family members of any above-mentioned persons, as well as entities over which those persons have a control or significant influence. Related parties of the Group do not include subsidiaries.

2.24. Earnings per share

Earnings per share are calculated by dividing the net profit after taxation for the year by the average number of ordinary shares in issue during the year. The average number of shares in issue during the year is weighted to consider the timing of the issue of new shares.

2.25. Share-based payments

Under the Senior Executive Plan (SEP), share options of the parent are granted to senior executives of the parent with more than 12 months' service, given that these senior executives meet their individual or company key performance indicators. The exercise price of the share options is equal to the market price of the underlying shares on the date of grant. The share options vest within three years from the date of grant and the senior executive remains employed on such date

The fair value of the share options is estimated using HansaMatrix Nasdaq Riga share price as at the date of fair value estimation. The fair value of the options, determined at the grant date, is expensed over the vesting period, creating equity reserve for SEP share options. Cost is recognized in employee benefits expense, together with a corresponding increase in equity (other capital reserves), over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period).

The share options can be exercised without term limitations, after the three-year vesting period. There are no cash settlement alternatives. SEP after the vesting period is entitled to receive HansaMatrix shares free of charge. The Group accounts for the SEP as an equity-settled plan.

2.26. Subsequent events

Post-year-end events that provide additional information about the Group's and Parent Company's position at the balance sheet date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

2.27. Significant accounting judgments, estimates and assumptions

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses, and disclosure of contingencies. The significant areas of judgment used in the preparation of the financial statements relate to capitalization of development costs. Estimates include depreciation, allowances for doubtful receivables and inventories and contract assets, and impairment evaluation. Although these estimates are based on the management's best knowledge of current events and actions, the actual results may ultimately differ from those estimates.

The Group assessed the potential impact of COVID-19 pandemic situation, including the quarantine that has been announced in Latvia in March 2020, on the financial statements, including going concern assumption. The management has assessed that this matter will not affect the Group's ability to continue as a going concern as the Group has not yet experienced and does not expect to experience a significant business disruption due to this matter and also has sufficient balance of cash and cash equivalents and liquid assets in order to manage the short-term volatility in the Group's cash flows if caused by COVID-19 situation. In addition, the management has concluded that this event is a non-adjusting subsequent event and therefore its potential impact was not considered when making estimates and assumptions about impairment of property, plant and equipment, net realisable value of inventory and expected credit losses on trade receivables and contract assets. This matter might have a significant impact on these estimates in the next financial period, which cannot be reasonably quantified at this stage by the management due to great level of uncertainty associated with further development of COVID-19 pandemic situation in the countries of operations of the Group and its customers and the economy as the whole due to general business disruption caused by this matter.

The following are the critical judgments and key estimates concerning the future, and other key sources of estimation uncertainty which exist at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities during the next reporting period:

2.27.1. Carrying amounts of property, plant and equipment (at cost)

The Group's management reviews the carrying amounts of property, plant and equipment and assesses whether any indications exist that the assets' recoverable amounts are lower than their carrying amounts. The Group's management calculates and records an impairment loss on property, plant and equipment based on the estimates related to the expected future use, planned disposal or sale of the assets. Taking into consideration the Group's planned level of activities and the estimated market value of the assets, the Group's management considers that no significant adjustments to the carrying values of property, plant and equipment are necessary (Note 14).

2.27.2. Revaluation of property, plant and equipment

Revaluation of certain items of the Group's property, plant and equipment (real estate – buildings and land plots) is performed by external certified valuators by using the amortized replacement cost method. The valuation is performed in accordance with property valuation standards and IAS 36 Impairment of Assets based on the highest and best use of the asset. As a result of the revaluation, the residual replacement cost of each item of property, plant and equipment is established. The residual replacement cost is the current market value of the asset considering its current use plus the replacement cost of related improvements in buildings, engineering structures and equipment less depreciation and other impairment. The real estate was revalued as at 31 December 2017 (Note 26) and next revaluation is planned in 2022.

2.27.3. Net realizable value of inventories

The Group's management evaluates the net realizable value of inventories based upon the expected sales prices and selling costs and assesses the physical condition of inventories during the annual stock count. If the net realizable value of inventories is lower than the cost of inventories, an allowance is recorded. The Group's management has evaluated the net realizable value of inventories and considers that it is not necessary to make an additional significant allowance as at 31 December 2019 (Note 19).

2.27.4. Receivables from contracts with customers

Receivables from contracts with customers are recorded at transaction price according IFRS 15.

2.27.5. Allowances for doubtful and bad receivables

For receivables, the Group and the Parent Company measure the ECLs based on the historical data for the last 3 years, and where the historical data are not available, make assumptions using the following matrix:

Past due status	Expected credit loss rate %
Total neither past due nor impaired	0,3%
Past due from 1 to 30 days	1%
Past due from 31 to 60 days	5%
Past due from 61 to 90 days	10%
Past due from 91 to 120 days	15%
Past due from 121 to 180 days	40%
Past due from 181 to 270 days	70%
Past due over 270 days	100%

2.27.6. Loan to shareholders

The Group and the Parent Company hold this financial asset to collect contractual cash flows representing solely payments of principal and interest on the principal amount outstanding. This financial instrument is measured at amortized cost.

2.27.7. Other investment loans

The Group and the Parent Company hold these financial assets to collect contractual cash flows representing solely payments of principal. However, considering that the Group and the Parent Company have an option of conversion of these loans into the borrower's equity shares, these financial instruments are measured at fair value through profit or loss. No less frequently than once a year, the Group and the Parent Company determine the fair value of these financial instruments. If the fair value obtained after the application of the valuation technique differs from the net current amount, the Group and the Parent Company recognize the respective change through profit or loss.

2.27.8. Investments in other companies

Equity investments in non-listed companies have been classified and measured as equity instruments designated at fair value through OCI. The Group elected to classify irrevocably its non-listed equity investments under this category as it intends to hold these investments for the foreseeable future.

2.27.9. Deferred tax assets and liabilities

The management of the Group has decided not to distribute the subsidiaries' profit in dividends until 21 April 2022. The Company controls the timing of the reversal of the temporary difference and believes that the latter will not reverse in the foreseeable future. Deferred tax liabilities arising from the subsidiaries profit are not recognized in the Group's financial statements. No deferred tax liability arrise from investments in associate as up to the date there are no profits to be distributed.

2.27.10. Determination of lease term

See Note 3. (Changes in accounting policies and disclosures)

2.27.11. Revenue recognition over time

As the Group and the Parent Company are manufacturing products that are highly customized to fulfill the customer needs, and it would take significant rework for the asset to be used alternatively, the performance creates an asset that the customer controls as the asset is created and finally the Group and the Parent Company are also entitled to payment for performance completed to date the revenue is being recognized over time

3. Changes in accounting policies and disclosures

(a) Basis of preparation and adoption of new and revised standards

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Group as of 1 January 2019:

- **IFRS 16: Leases**
  IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their financial statements. Lessees have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. See below.

- **IFRS 9: Prepayment features with negative compensation (Amendment)**
  The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortized cost or at fair value through other comprehensive income. The amendments had no material impact on the Group and the Parent Company.

- **IAS 28: Long-term Interests in Associates and Joint Ventures (Amendments)**
  The Amendments relate to whether the measurement, in particular impairment requirements, of long- term interests in associates and joint ventures that, in substance, form part of the 'net investment' in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The Amendments clarify that an entity applies IFRS 9 Financial Instruments, before it applies IAS 28, to such long-term interests for which the equity method is not applied. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long- term interests that arise from applying IAS 28. The amendments had no material impact on the Group and the Parent Company .

- **IFRIC INTERPETATION 23: Uncertainty over Income Tax Treatments**
  The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. The amendments are not applicable for the Group.

- **IAS 19: Plan Amendment, Curtailment or Settlement (Amendments)**
  The Amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The Amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements. The amendments are not applicable for the Group.The **IASB has issued the Annual Improvements to IFRSs 2015 – 2017 Cycle**, which is a collection of amendments to IFRSs. The amendments are not applicable for the Group.

- ***IFRS 3 Business Combinations and IFRS 11 Joint Arrangements*: ** The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
- ***IAS 12 Income Taxes*:** The amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits has been recognized.
- ***IAS 23 Borrowing Costs*:** The amendments clarify paragraph 14 of the standard that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally.

- **Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**
The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU. The amendments had no material impact on the Group and the Parent Company.

- **Conceptual Framework in IFRS standards**
The IASB issued the revised Conceptual Framework for Financial Reporting on 29 March 2018. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. IASB also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. Its objective is to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020. These amendments will not affect the financial statements of the Group.

- **IFRS 3: Business Combinations (Amendments)**
The IASB issued amendments in Definition of a Business (Amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The Amendments are effective for business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, with earlier application permitted. These Amendments have not yet been endorsed by the EU. The amendments had no material impact on the Group and the Parent Company.

- **IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of 'material' (Amendments)**
The Amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The Amendments clarify the definition of material and how it should be applied. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'. In addition, the explanations accompanying the definition have been improved. The Amendments also ensure that the definition of material is consistent across all IFRS Standards. The amendments had no material impact on the Group and the Parent Company

- **Interest Rate Benchmark Reform - IFRS 9, IAS 39 and IFRS 7 (Amendments)**
The amendments are effective for annual periods beginning on or after 1 January 2020 and must be applied retrospectively. Earlier application is permitted. In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7, which concludes phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. Phase two will focus on issues that could affect financial reporting when an existing interest rate benchmark is replaced with a risk-free interest rate (an RFR). The amendments published, deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate and address the implications for specific hedge accounting requirements in IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement, which require forward-looking analysis. The amendments provided temporary reliefs, applicable to all hedging relationships that are directly affected by the interest rate benchmark

reform, which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate. There are also amendments to IFRS 7 Financial Instruments: Disclosures regarding additional disclosures around uncertainty arising from the interest rate benchmark reform. The amendments had no material impact on the Group and the Parent Company

- **IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)** The amendments are effective for annual reporting periods beginning on or after January 1, 2022 with earlier application permitted. The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current or non-current. The amendments affect the presentation of liabilities in the statement of financial position and do not change existing requirements around measurement or timing of recognition of any asset, liability, income or expenses, nor the information that entities disclose about those items. Also, the amendments clarify the classification requirements for debt which may be settled by the company issuing own equity instruments. These Amendments have not yet been endorsed by the EU. These amendments will not affect the financial statements of the Group.

Standards issued but not yet effective and not early adopted:
The Group plans to adopt and assess the impact of the above-mentioned standards and interpretations on their effectiveness date.

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Group and the Parent Company as of 1 January 2019:

IFRS 16 Leases

The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged.

AS HansaMatrix applies IFRS 16 Leases for annual periods beginning on or after 1 January 2019. IFRS 16 was adopted applying the modified retrospective approach. Under this approach, the cumulative effect of initially applying IFRS 16 is recognized as an adjustment to equity at the date of initial application. (The standard also requires revising the leases signed before 1 January 2019, only allowing for not reassessing the compliance of the contract with the lease definition and not applying the standard to the leases expiring in 2019.) The Group elected to use the transition practical expedient to not reassess whether a contract is, or contains, a lease at 1 January 2019. Instead, the Group applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

The Group applied the available practical expedients wherein it:

1. Used a single discount rate to a portfolio of leases with reasonably similar characteristics;
2. Relied on its assessment of whether leases are onerous immediately before the date of initial application;
3. Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application;
4. Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application;
5. Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease.

Within the meaning of IFRS 16, a lease can be recognized if there is an identified asset and if the customer has the right to obtain substantially all of the economic benefits from the use of the identified asset throughout the period of use.

First, a lease liability is measured at the present value of all contractual future lease payments discounted using the interest rate implicit in the lease (or similar borrowing rate). Lease liabilities are recognized as any other liabilities. The right-of-use assets for all leases were recognized based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognized. A right-of-use asset is recognized under property, plant and equipment.

A right-of-use asset is depreciated and tested for impairment as any other long-term asset owned by the entity. When discounting is used, interest expense on the lease liability is recognized.

IFRS 16 Leases (cont'd)

The application effect of IFRS 16 can be disclosed as follows:

	Group			Parent Company		
	01.01.2019	**IFRS 16**	**01.01.2019**	**01.01.2019**	**IFRS 16**	**01.01.2019**
	After application		**Previously**	**After application**		**Previously**
NON-CURRENT ASSETS	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**
Property, plant and equipment						
Right-of-use assets	1 689 305	1 689 305	0	164 596	164 596	0
Total property, plant and equipment	**1 689 305**	**1 689 305**	**0**	**164 596**	**164 596**	**0**
TOTAL ASSETS	**1 689 305**	**1 689 305**	**0**	**164 596**	**164 596**	**0**
LIABILITIES						
Non-current liabilities						
Lease liabilities - IFRS 16	1 216 204	1 216 204	0	121 133	121 133	0
Current liabilities						
Lease liabilities - IFRS 16	473 101	473 101		43 463	43 463	0
TOTAL EQUITY AND LIABILITIES	**1 689 305**	**1 689 305**	**0**	**164 596**	**164 596**	**0**

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018, as follows:

	Group	Parent Company
	EUR	**EUR**
Assets		
Operating lease liabilities as at 31 December 2018	1 858 945	178916
The weighted average interest rate of the borrowing rate on 1 January 2019	4%	4%
Operating lease liabilities with a discount on January 1, 2019	1 693 029	168 320
Less		
Short - term lease obligations	3 724	3 724
Liabilities related to the lease of low value assets	-	-
	1 689 305	164 596
Commitments relating to leases previously classified as finance leases	1 325 865	202 709
Lease obligations on 1 January 2019	**3 015 170**	**367 305**

Leases previously classified as finance leases

The Group did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e., the right-of-use assets and lease liabilities equal the lease assets and liabilities recognised under IAS 17). The requirements of IFRS 16 were applied to these leases from 1 January 2019.

IFRS 16 Leases (cont'd)

Estimates

a) Leases - Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

a) Determining the lease term of contracts with renewal and termination options – Group as lessee

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. In addition the Group applies its reasonable expectations to determine the period during which the underlying asset will be used, by considering: the broader economics of the contract, and not only contractual termination payments (e.g. if either party has an economic incentive not to terminate the lease such that it would incur a penalty on termination that is more than insignificant, the contract is enforceable beyond the date on which the contract can be terminated) and whether each of the parties has the right to terminate the lease without permission from the other party with no more than an insignificant penalty (if only one party has the right to terminate the lease without permission from the other party with no more than an insignificant penalty, the contract is enforceable beyond the date on which the contract can be terminated by that party).

The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customization to the leased asset).

The Group included the renewal period as part of the lease term for leases of plant and machinery with shorter non-cancellable period (i.e., three to five years). The Group typically exercises its option to renew for these leases because there will be a significant negative effect on production if a replacement asset is not readily available. In addition, the renewal options for leases of motor vehicles are not included as part of the lease term because the Group typically leases motor vehicles for not more than five years and, hence, is not exercising any renewal options. Furthermore, the periods covered by termination options are included as part of the lease term only when they are reasonably certain not to be exercised. Refer to Note 28 for information on potential future rental payments relating to periods following the exercise date of extension and termination options that are not included in the lease term.

3.1. Correction of previous year errors

During year 2019, the Company/Group management identified that corrections in previously recognized revenue and cost of sales are required. Such conclusion has been reached after extensive analysis of relevant industry practice and taking into consideration the facts, that the Company is producing specific goods with no alternative use to its clients and the Company/Group has a present right to payment for the asset. Based on the in-depth evaluation of IFRS 15 requirements it was concluded that in most cases Company/Group must recognize its revenue over time. Same IFRS 15 requirements were in force for the year ended 31 December 2018. A change in accounting treatment allows a better comparison of the Company's/Groups performance with that of similar entities. This correction is applied retrospectively with corrections in comparative information presented in the table below:

Group

	2018	Adjustment	2018*restated
Work in progress	1 083 825	(1 083 825)	0
Finished goods	185 187	(185 187)	0
Contract assets	0	1 269 012	1 269 012
Revenue from contracts with customers	21 153 730	433 663	21 587 393
Cost of sales	(17 552 479)	(433 663)	(17 986 142)

3.1. Correction of previous year errors (cont'd)
Company

	2018	Adjustment	2018*restated
Work in progress	481 232	(481 232)	0
Finished goods	185 187	(185 187)	0
Contract assets	0	666 419	666 419
Revenue from contracts with customers	20 534 852	80 941	20 615 793
Cost of sales	(18 993 598)	(80 941)	(19 074 539)

4. Revenue from contracts with customers

Business customers of AS HansaMatrix are chiefly concentrated in the Baltic and Nordic countries. Revenue from contracts with customers by geographical area in accordance with management accounting can be specified as follows:

	Group		Parent Company	
	2019	2018 restated	2019	2018 restated
	EUR	EUR	EUR	EUR
Baltic countries	10 354 872	9 461 644	8 886 996	9 017 968
Nordic countries	6 347 965	5 840 756	6 467 946	5 521 026
Other EU Member States	6 315 206	5 776 072	6 189 251	5 575 018
Other	1 592 572	508 921	1 519 890	501 781
TOTAL:	**24 610 615**	**21 587 393**	**23 064 083**	**20 615 793**

Sales efforts of AS HansaMatrix are focused on the following five main product types, market sectors: data network infrastructure, Internet of Things, industrial products and other. Revenue by product types in accordance with the manufacturing product type is as follows:

	Group		Parent Company	
	2019	2018	2019	2018
	EUR	EUR	EUR	EUR
Data network infrastructure	9 787 947	9 884 334	9 859 602	9 968 980
Industrial products	9 856 370	7 462 160	8 536 676	6 522 807
Internet of Things	1 686 184	1 313 740	1 629 762	1 200 529
Optics and photonics	2 152 809	1 429 215	985 551	845 244
Other products	1 127 305	1 497 944	2 052 492	2 048 233
TOTAL:	**24 610 615**	**21 587 393**	**23 064 083**	**20 615 793**

All revenue constitutes one operating segment. Revenue from contracts with customers is also disclosed in Note 8 (Revenue from contracts with customers - organization of training).

5. Cost of sales

	Group		Parent Company	
	2019	**2018**	**2019**	**2018**
	EUR	**EUR**	**EUR**	**EUR**
Costs of raw materials	10 545 149	9 729 115	10 303 074	9 417 049
Production process management costs*	3 745 113	2 276 071	10 227 826	8 585 569
Staff costs (Note 12)	2 288 700	2 266 443	78 076	58 938
Depreciation and amortization (Notes 13 and 14)	1 969 699	1 470 406	787 662	732 033
Research costs	1 684 522	1 043 734	47 945	12 108
including staff costs (Note 12)	*972 964*	*668 734*	-	-
including amortization and depreciation (Notes 13 and 14)	*155 712*	*108 813*	-	*12 108*
Production facilities utilities	220 348	709 265	30 461	23 710
Transport expense	203 324	208 812	177 180	185 304
Low-value items	91 293	153 056	2 213	7 710
Repair and maintenance expense	63 434	45 339	7 130	4 311
Real estate tax	7 794	6 092	5 732	5 732
Lease of equipment and premises	-	99 640	-	103 953
Change in allowances for slow-moving items (Note 19)	109 030	(61 116)	109 030	(62 248)
Other production costs	43 665	39 285	382	370
TOTAL:	**20 972 071**	**17 986 142**	**21 776 711**	**19 074 539**

* Due to the increased volume of orders, in 2018 and 2019 production services provided by SIA Quality Jobs were used.

6. Distribution costs

	Group		Parent Company	
	2019	**2018**	**2019**	**2018**
	EUR	**EUR**	**EUR**	**EUR**
Staff costs (Note 12)	648 129	647 247	37 664	60 439
Marketing expense	68 948	52 494	7 909	12 028
Transport expense	54 620	162 300	38 402	145 382
Business trips	31 901	32 610	7 326	8 332
Communications expense	10 343	8 185	374	214
Other sales-related costs	10 781	15 560	-	-
TOTAL:	**824 722**	**918 396**	**91 675**	**226 395**

7. Administrative expense

	Group		Parent Company	
	2019	2018	2019	2018
	EUR	EUR	EUR	EUR
Staff costs (Note 12)	781 657	834 281	314 583	341 008
Amortization and depreciation (Notes 13 and 14)	277 979	285 130	109 293	134 445
Staff training	116 398	164 738	7 850	8 709
Bank charges	96 984	67 799	81 589	63 356
Allowances for doubtful receivables	45 268	8 094	63 287	6 535
Provision for financial investent	42 293	-	-	-
Provision of administrative functions *	64 178	57 323	50 122	45 357
Professional fees**	84 083	64 942	91 993	52 172
Transport expense	50 641	44 122	11 844	11 930
Office expense	45 233	49 724	590	735
IT expense	30 089	18 080	3 313	13 593
Representation expense	28 617	22 951	2 048	140
Insurance	27 842	24 998	24 651	22 014
Non-operating expense	18 921	35 875	2 893	2 942
Communications expense	11 759	8 931	3 282	2 692
Business trips	4 887	9 568	4 760	8 038
Other administrative expense	78 806	38 234	16 785	22 903
TOTAL:	**1 805 635**	**1 734 790**	**788 883**	**736 569**

* Due to the increased volume of orders, in 2018 and 2019 administrative services provided by SIA Quality Jobs were used.

** Includes the total fee paid to the firm of certified auditors SIA Ernst & Young Baltic for the annual audit amounting to EUR 35 500 (2018: EUR 31 661).

8. Other operating income

	Group		Parent Company	
	2019	2018	2019	2018
	EUR	EUR	EUR	EUR
Income from research grant recognition*	186 530	218 283		-
Income from EU grant recognition (accrued)**	101 846	169 577	66 822	118 987
Income from EU grant recognition (one-off)***	29 960	77 842	8 127	25 134
Revenue from contracts with customers - organization of training	7 650	45 050	7 650	45 050
Currency exchange gain, net	458	15 362		-
Gain on disposal of property, plant and equipment, net	50 814	6 677	-	5 000
Lease of premises	19 976	1 818	291 677	57 778
Other income	23 112	30 637	6 349	9 824
TOTAL:	**420 346**	**565 246**	**380 625**	**261 773**

*During the reporting period, in cooperation with SIA "Lightspace Technologies" was realized a CFLA-supervised research project "Development of a compact high-brightness laser image projection system for applications in volumetric 3D display systems" was implemented within the measure "Practical orientation research" funded by the European Regional Development Fund (ERDF). Project implementation period from April 1, 2019 to March 31, 2021. The total planned project costs are EUR 830,530, ERDF support funding is EUR 553,000. The aim of the project is to develop a compact high-gloss laser image projection system. In 2019, a payment request was submitted to the CFLA for funding for the project's eligible costs.

**Accrued income from EU grant recognition represents financing received for the acquisition of property, plant and equipment, which is taken to income over the useful life of the relevant asset.

******* One-off income from EU grant recognition represents financing received for the implementation of specific projects during the reporting period.

9. Other operating expense

	Group		Parent Company	
	2019	**2018**	**2019**	**2018**
	EUR	**EUR**	**EUR**	**EUR**
Currency exchange loss, net	35 697	52 061	34 214	51 736
Penalties	38 773	45 782	3 180	7 051
Donations	22 763	8 300	10 000	2 000
Losses from the sale of securities	10 000	-	10 000	-
CIT on non-operating expense	5 583	4 408	428	967
Loss on disposal of property, plant and equipment, net	-	8 122	-	-
TOTAL:	**112 816**	**118 673**	**57 822**	**61 754**

10. Finance costs

	Group		Parent Company	
	2019	**2018**	**2019**	**2018**
	EUR	**EUR**	**EUR**	**EUR**
Interest expense	410 187	158 355	392 645	149 121
Interest expense on lease obligations	66 088	-	4 839	-
Directly attributable transaction costs	22 643	18 905	22 139	16 470
TOTAL:	**498 918**	**177 260**	**419 623**	**165 591**

Finance costs relate to the loans received from credit institutions and lease (see Notes 27 and 28).

11. Corporate income tax

	Group		Parent Company	
	2019	**2018**	**2019**	**2018**
	EUR	**EUR**	**EUR**	**EUR**
Current corporate income tax charge for the reporting year on dividends	18 294	-	18 294	-
Corporate income tax on non-operating expense*	5 583	4 408	428	967
TOTAL Corporate income tax:	**23 877**	**4 408**	**18 722**	**967**

*deemed profit distributions are taxed at income tax rate, but related expense is not presented as income tax expense but on Statement of comprehensive income line Other operating expense instead

12. Staff costs and number of employees

	Group		Parent Company	
	2019	**2018**	**2019**	**2018**
	EUR	**EUR**	**EUR**	**EUR**
Wages and salaries	3 836 109	3 722 219	348 016	371 488
Statutory social insurance contributions	920 727	892 764	81 422	86 942
Employee health insurance	38 535	36 671	841	903
Other staff costs	2 472	3 222	44	1 052
TOTAL:	**4 797 843**	**4 654 876**	**430 323**	**460 385**

Including key management personnel compensation

		Group		Parent Company	
		2019	**2018**	**2019**	**2018**
		EUR	**EUR**	**EUR**	**EUR**
Management Board					
	Wages and salaries	285 575	262 247	164 213	144 627
	Statutory social insurance contributions	67 060	61 056	37 824	33 046
	Other staff costs	667	2 399	360	1 184
Supervisory Board					
	Wages and salaries	44 935	40 910	44 935	40 910
	Statutory social insurance contributions	10 569	9 615	10 569	9 615
	Other staff costs	13	13	13	13
	TOTAL:	**408 819**	**376 240**	**257 914**	**229 395**

The total staff costs are included in the following captions of the statement of comprehensive income:

	Group		Parent Company	
	2019	**2018**	**2019**	**2018**
	EUR	**EUR**	**EUR**	**EUR**
Cost of sales (Note 5)	2 288 700	2 266 443	78 076	58 938
Cost of sales – under research costs (Note 5)	972 964	668 734	-	-
Distribution costs (Note 6)	648 129	647 247	37 664	60 439
Administrative expense (Note 7)	781 657	834 281	314 583	341 008
Wages and salaries – under contract assets	106 393	238 171	-	-
TOTAL:	**4 797 843**	**4 654 876**	**430 323**	**460 385**

	Group		Parent Company	
	2019	**2018**	**2019**	**2018**
Average number of employees during the reporting year	**204**	**224**	**10**	**10**

13. Earnings per share

Earnings per share are calculated by dividing the net result for the year after taxation attributable to shareholders by the weighted average number of shares in issue during the year. The table below presents the income and share data used in the computations of basic earnings per share for the Group:

	2019 EUR	2018 EUR
Net profit attributable to shareholders	214 490	781 018
Weighted average number of shares	1 829 381	1 829 381
Earnings per share (EUR):	0.12	0.43

	Change	Actual number of shares after transaction	Number of shares used in calculating earnings per share
2018			
Number of shares at the beginning of the year	-	1 829 381	1 829 381
Number of shares at the end of the year	-	1 829 381	1 829 381
Weighted average number of shares:			**1 829 381**
2019			
Number of shares at the beginning of the year	-	1 829 381	1 829 381
Number of shares at the end of the year	-	1 829 381	1 829 381
Weighted average number of shares:			**1 829 381**

The Parent Company has no potential dilutive ordinary shares; therefore, diluted earnings per share are the same as the basic earnings per share.

In the reporting period, the total amount of the dividends calculated and paid for the year 2018 in amount at EUR 73 175. In 2018, the total amount of the dividends calculated and paid for the year 2017 in amount at EUR 146 350.

14. Intangible assets

Group

	ODM assets EUR	Other intangible assets EUR	Goodwill* EUR	TOTAL EUR
COST				
As at 31 December 2017	**23 021**	**929 739**	**-**	**952 760**
Additions	-	127 730	-	127 730
As at 31 December 2018	**23 021**	**1 057 469**	**-**	**1 080 490**
Additions	296 063	447 032	360 653	1 120 568
Reclasification**	-	(19 182)	-	(19 182)
As at 31 December 2019	**319 084**	**1 485 319**	**360 653**	**2 165 056**
ACCUMULATED AMORTIZATION				
As at 31 December 2017	**2 019**	**739 237**	**-**	**741 256**
Charge for the year	4 889	138 418	-	143 307
As at 31 December 2018	**6 908**	**877 655**	**-**	**884 563**
Charge for the year	2 178	119 703	-	121 881
Reclasification**	-	(1 686)	-	(1 686)
As at 31 December 2019	**9 086**	**995 672**	**-**	**1 004 758**
NET CARRYING AMOUNT				
As at 31 December 2018	**16 113**	**179 814**	**-**	**195 927**
As at 31 December 2019	**309 998**	**489 647**	**360 653**	**1 160 298**

14.Intangible assets (cont'd)

Parent Company

	ODM assets	Other intangible assets	TOTAL
	EUR	EUR	EUR
COST			
As at 31 December 2017	**-**	**787 296**	**787 296**
Additions	-	76 527	76 527
As at 31 December 2018	**-**	**863 823**	**863 823**
Additions	-	424 150	424 150
Disposals	-	(116 322)	(116 322)
Reclasification**	-	(1 056)	(1 056)
As at 31 December 2019	**-**	**1 170 595**	**1 170 595**
ACCUMULATED AMORTIZATION			
As at 31 December 2017	**-**	**676 177**	**676 177**
Charge for the year	-	87 502	87 502
As at 31 December 2018	**-**	**763 679**	**763 679**
Charge for the year	-	73 926	73 926
Disposals	-	(116 321)	(116 321)
Reclasification**	-	(440)	(440)
As at 31 December 2019	**-**	**720 844**	**720 844**
NET CARRYING AMOUNT			
As at 31 December 2018	**-**	**100 144**	**100 144**
As at 31 December 2019	**-**	**449 751**	**449 751**

* Goodwill has been recognized since 29.04.2019 as a result of acquisition of Zinatnes parks SIA shares see Note 16.
The Group performed its annual impairment test of intangible assets as at 31 December 2019. Impairment test was performed based on the five year business plan approved by the management and applying a post-tax discount rate of 8,3 % per annum and no impairment was identified
**In 2019, in accordance with IFRS 16, property, plant and equipment acquired under finance leases are reclassified to the right to use the asset.
A number of intangible assets that have been fully depreciated are still in active use. The total original cost value of these assets as at the end of the year was as follows:

	Group		Parent Company	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
	EUR	EUR	EUR	EUR
Cost of depreciated intangible assets	801 642	747 043	605 798	718 838

15. Property, plant and equipment

Group

	Land and buildings	Equipment and machinery	Other fixtures and fittings, tools and equipment	Right of use asset (Note 28)	Leasehold improvements	Construction in progress	Total
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
COST/ revalued amount							
As at 31 December 2017	**5 444 810**	**12 127 036**	**1 960 404**	**-**	**111 957**	**214 460**	**19 858 667**
Additions	-	1 936 805	363 865	-	31 942	69 700	2 402 312
Disposals	-	(14 447)	(8 696)	-	-	-	(23 143)
As at 31 December 2018	**5 444 810**	**14 049 394**	**2 315 573**	**-**	**143 899**	**284 160**	**22 237 836**
Additions	227 370	1 657 130	427 388	2 105 883	9 615	364 115	4 791 501
Disposals	-	(50 618)	(7 920)		-	-	(58 538)
Aqusition of subsidiary (Note 16)	-	-	-	-	-	1 692 949	1 692 949
Reclasification *	-	(1 231 261)	(101 510)	1 431 188	39 878	(45 761)	92 534
As at 31 December 2019	**5 672 180**	**14 424 645**	**2 633 531**	**3 537 071**	**193 392**	**2 295 463**	**28 756 282**
ACCUMULATED AMORTIZATION							
As at 31 December 2017	**1 691 810**	**7 523 096**	**1 356 340**	**-**	**74 101**	**-**	**10 645 347**
Charge for the year	192 095	1 224 013	317 886	-	25 259	-	1 759 253
Disposals	-	(8 445)	(7 847)	-	-	-	(16 292)
As at 31 December 2018	**1 883 905**	**8 738 664**	**1 666 379**	**-**	**99 360**	**-**	**12 388 308**
Charge for the year	193 042	964 099	309 957	828 161	28 372	-	2 323 631
Disposals	-	(39 111)	(7 394)	-	-	-	(46 505)
Reclasification *	-	(65 539)	(38 098)	51 972	-	-	(51 665)
As at 31 December 2019	**2 076 947**	**9 598 113**	**1 930 844**	**880 133**	**127 732**	**-**	**14 613 769**
NET CARRYING AMOUNT							
As at 31 December 2018	**3 560 905**	**5 310 730**	**649 194**	**-**	**44 539**	**284 160**	**9 849 528**
As at 31 December 2019	**3 595 233**	**4 826 532**	**702 687**	**2 656 938**	**65 660**	**2 295 463**	**14 142 513**

15. Property, plant and equipment (cont'd)

Parent Company

	Land and buildings	Equipment and machinery	Other fixtures and fittings, tools and equipment	Right to use asset (Note 28)	Leasehold improvements	Construction in progress	Total
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
COST/ revalued amount							
As at 31 December 2017	**5 444 810**	**3 835 559**	**328 470**	**-**	**50 879**	**214 460**	**9 874 178**
Additions	-	931 937	1 671	-	-	64 700	998 308
Disposals	-	-	(4 728)	-	-	-	(4 728)
As at 31 December 2018	**5 444 810**	**4 767 496**	**325 413**	**-**	**50 879**	**279 160**	**10 867 758**
Additions	227 370	1 328 724	56 215	181 490	997	197 129	1 991 925
Disposals	-	(281 252)	(51 008)	-	-	-	(332 260)
Reclasification *	-	(93 976)	(73 246)	247 512	-	(79 234)	1 056
As at 31 December 2019	**5 672 180**	**5 720 992**	**257 374**	**429 002**	**51 876**	**397 055**	**12 528 479**
ACCUMULATED AMORTIZATION							
As at 31 December 2017	**1 691 810**	**1 696 681**	**205 155**	**-**	**38 371**	**-**	**3 632 017**
Charge for the year	192 095	518 510	56 311	-	12 060	-	778 976
Disposals	-	-	(4 409)	-	-	-	(4 409)
As at 31 December 2018	**1 883 905**	**2 215 191**	**257 057**	**-**	**50 431**	**-**	**4 406 584**
Charge for the year	193 042	475 404	12 962	140 325	1 296	-	823 029
Disposals	-	(191 317)	(50 671)	-	-	-	(241 988)
Reclasification *	-	(9 647)	(34 717)	44 804	-	-	440
As at 31 December 2019	**2 076 947**	**2 489 631**	**184 631**	**185 129**	**51 727**	**-**	**4 988 065**
NET CARRYING AMOUNT							
As at 31 December 2018	**3 560 905**	**2 552 305**	**68 356**	**-**	**448**	**279 160**	**6 461 174**
As at 31 December 2019	**3 595 233**	**3 231 361**	**72 743**	**243 873**	**149**	**397 055**	**7 540 414**

* In 2019, property, plant and equipment acquired under finance leases in accordance with IFRS 16 are reclassified to the right to use the asset. When the fixed assets are put into operation in 2019, the costs from the creation of the fixed assets are reclassified to the fixed assets of the respective group.

On 1 January 2019, the Parent Company and the Group changed the accounting estimate revising the useful lives of the items of property, plant and equipment with a view to align them to the real ones. From 1 January 2019, the monthly depreciation charges have been calculated considering the new (estimated) useful lives, while maintaining the straight-line depreciation method. In general, the Parent Company's monthly depreciation charges decreased on average by EUR 9 933 thousand; the total reduction effect in 2019 was EUR 119 195 (13%) comparing to the year 2018.Tthe Group`s monthly depreciation charges decreased on average by EUR 21 564 thousand; the total reduction effect in 2019 was EUR 258 768 (14%) comparing to the year 2018

15. Property, plant and equipment (cont'd)

Considering in the future decrease in the production volume and intensity of the use of property, plant and equipment in recent years, in 2019 the Group reviewed the useful lives of the assets and concluded that the share of fully depreciated assets still in active. A number of assets that have been fully depreciated are still in active use. The total original cost value of these assets as at the end of the year was as follows:

	Group		**Parent Company**	
	31.12.2019	**31.12.2018**	**31.12.2019**	**31.12.2018**
	EUR	**EUR**	**EUR**	**EUR**
Cost of depreciated assets	5 050 730	4 926 802	332 601	398 745

Pledges and other restrictions on title

The Group has pledged its movable and immovable properties at Akmeņu iela 72 and 74, Ogre, as security for all the loans granted by AS SEB Banka (see Note 27).

The total depreciation and amortization costs are included in the following captions of the statement of comprehensive income:

	Group		**Parent Company**	
	2019	**2018**	**2019**	**2018**
	EUR	**EUR**	**EUR**	**EUR**
Cost of sales (Note 5)	1 969 699	1 470 406	787 662	732 033
Costs of research and product development (Note 5)	155 712	108 813	-	-
Administrative expense (Note 7)	277 979	285 130	109 293	134 445
SUBTOTAL:	**2 403 390**	**1 864 349**	**896 955**	**866 478**
Depreciation change included in contract assets *	42 122	38 211	-	-
TOTAL:	**2 445 512**	**1 902 560**	**896 955**	**866 478**

* Changes in depreciation result from the allocation of indirect costs of production to Contract assets.

16. Investments in subsidiaries and associates

Investments in subsidiaries (Parent Company)

			Parent Companys investment		Financial data of investee			
			31.12.2019	31.12.2018	2019 Comprehensive income statement	31.12.2019 Equity	2018 Comprehensive income statement	31.12.2018 Equity
Company	Type of business	%	EUR	EUR	EUR	EUR	EUR	EUR
Subsidiaries								
SIA "HansaMatrix Ventspils" (Latvia)	Integrated production at Ventspils manufacturing plant	100	426 862	426 862	171 455	1 105 685	216 899	934 231
SIA "HansaMatrix Innovation" (Latvia)	New product development; creation and licensing of intellectual property; prototype production	100	300 000	300 000	206 031	850 769	154 796	644 738
SIA "HansaMatrix Pārogre" (Latvia)	Integrated production at Pārogre manufacturing plant	100	200 000	2 800	199 977	790 595	234 524	393 418
SIA Zinātnes parks" (Latvia) from 30.04.2019	Development of infrastructure of high-tech industrial park in the territory of Riga airport	74.67 from 30.04.2019 (before 24%)	800 960	-	(29 065)	462 090	-	-
Total subsidiaries			**1 727 822**	**729 662**	**548 398**	**3 209 139**	**606 219**	**1 972 387**

			Parent Companys investment		Financial data of investee			
			31.12.2019	31.12.2018	2019 Comprehensive income statement	31.12.2019 Equity	2018 Comprehensive income statement	31.12.2018 Equity
Company	Type of business	%	EUR	EUR	EUR	EUR	EUR	EUR
Associates								
SIA Zinātnes parks" (Latvia) until 30.04.2019	Development of infrastructure of high-tech industrial park in the territory of Riga airport	24	-	960	-	-	(99 151)	(308 846)
SIA "Lightspace Technologies" (Latvija)	Development and commercialization of 3D display technologies	49.86 % no 30.09.2019 (31.12.2018 39.99%)	3 709 889	2 208 389	(1612 688)	2 683 593	(1123 194)	2 796 267
Total associates			**3 709 889**	**2 209 349**	**(1612 688)**	**2 683 593**	**(1 222 345)**	**2 487 421**

16. Investments in subsidiaries and associates (cont'd)

SIA HansaMatrix Ventspils (hereinafter – HansaMatrix Ventspils) is a subsidiary, established on 1 November 2005 (until 26 April 2016 named SIA Ventspils Elektronikas Fabrika). The Company was established in order to create for AS HansaMatrix a second manufacturing plant at a sufficient distance from the Riga region to have a reasonably separate labor market. The creation of a second manufacturing plant was necessary so that, as the company develops, the size of the labor force at the first manufacturing plant in Pārogre would not exceed 200 employees, which is considered to be the top limit for a flexible and well-managed production organization.

Currently, HansaMatrix Ventspils ensures integrated production services mostly for clients who require box build processes. The business model is to sell production services to the Parent company, which manages the added value chain from raw materials and component sourcing to selling the final product to the client.

As at 31 December 2019, the equity of HansaMatrix Ventspils was EUR 1 105 thousand and the profit for 2019 amounted to EUR 171 thousand. The Parent Company intends to increase its orders to the subsidiary, and to continue increasing its contracting with the subsidiary. HansaMatrix equity exceeds the investment's net carrying amount in the Parent Company's balance sheet, which is EUR 427 thousand as at 31 December 2019. The Parent Company considers the investment in HansaMatrix Ventspils as fully recoverable.

SIA HansaMatrix Innovation (hereinafter– HansaMatrix Innovation) is a subsidiary, established on 6 August 2014 (until 26 April 2016 known as SIA Mārupes Elektronikas Tehnoloģijas). The company was established to develop new products, automation solutions and innovations, as well as to develop a rapid industrialization organization, including the manufacture of prototypes, offering a "fast time to market" solution for new products.

Starting from Q1 2017, the HansaMatrix Group has concentrated all new product and technology development activities and assets in its 100% subsidiary HansaMatrix Innovation SIA.

Over the past few years, the engineer and research teams of HansaMatrix Innovation R&D have developed a world class competence in several fields of electro-optics areas, such as AR/VR (augmented and virtual reality) hardware; heads up display optical systems, fast structured light projection systems or 3D robotic vision systems. Development of medical devices complies with the requirements of ISO 13485 Quality Management System and EN60601-1 safety standard. Experience has been gained in several new technical areas including high-precision current monitoring as well as in plastic-molding technology. The R&D team currently consists of 40 engineers and researchers; seven of them hold a Dr. Sci. Eng. degree either in optics or physics or electronics.

The share capital of SIA HansaMatrix Innovation is EUR 300 000 and consists of 3 000 shares. The par value of each share is EUR 100. The shares are owned by AS HansaMatrix (100%).

HansaMatrix Innovation equity was EUR 850 thousand as at 31 December 2019, and the profit for 2019 was EUR 206 thousand. The company's equity exceeds the net carrying amount of the investment the Parent Company's balance sheet, which was EUR 300 thousand as at 31 December 2019. The Parent Company considers the investment in HansaMatrix Ventspils as fully recoverable.

SIA HansaMatrix Pārogre (hereinafter– HansaMatrix Pārpogre) is a subsidiary, established on 30 September 2015 to transform the business model of the Pārogre (Ogre) manufacturing plant, namely, from a structural unit of the Parent Company to a separate related entity.

HansaMatrix Pārogre offers integrated manufacturing services mostly to those clients, who need high complexity manufacturing processes, such as printed circuit boards and miniaturized modules, or box build processes. The business model entails selling monthly manufacturing services to the Parent Company, who manages the added value chain from raw materials and component sourcing to selling the final product to the client.

On June 4, 2019 HansaMatrix Pārogre 100% shareholder HansaMatrix increased paid up its share capital from 2800 EUR to 200 000 EUR, by issuing and paying up 197 200 new shares with par value 1 EUR. After the capital increase HansaMatrix Parogre capital cosists of 200 000 shares with par value of 1 EUR each.

HansaMatrix Pārogre equity was EUR 790 thousand as at 31 December 2019, and the profit for 2019 was EUR 199 thousand. The Parent Company intends to expand orders to HansaMatrix Pārogre in the future, and make greater use of its capacities. HansaMatrix Pārogre equity exceeds the net carrying amount of the investment in the parent company's balance sheet, which was EUR 200 000 as at 31 December 2019. The Parent Company considers the investment in HansaMatrix Pārogre as fully recoverable.

16. Investments in subsidiaries and associates (cont'd)

SIA Zinatnes parks (hereinafter – Zinatnes parks) was established to develop hi-tech products for electronics and optics companies, as well as to develop infrastructure for an industrial park at the Riga airport.
In order to strengthen the paid-up capital of SIA Zinatnes parks, on April 29, 2019 HansaMatrix has increased its capital participation in the SIA Zinatnes parks to 74.67% by paying up according to decision of SIA Zinātnes parks shareholders newly issued 200 (two hundred) capital shares of the Company in amount of 800 thousand EUR, including 8 thousand EUR value of share capital and 792 thousand EUR share premium. The capital was paid up by partially converting the previously issued HansaMatrix investment loan to Zinatnes parks.
Following the transaction, SIA Zinātnes parks shareholder structure is the following: 74.67% HansaMatrix, 9.33% Latvijas Elektrotehnikas un elektronikas rūpniecības asociācija, 8% SAF Tehnika and 8% LEO Pētījumu centrs.
The convertible investment loan issued by HansaMatrix to Zinatnes parks balance as of December 31, 2019 amounted to EUR 0,8 million. The loan was issued and used for taking over a lease on a land plot of 4.51 ha, the purchase of a partially constructed building and designing on the Riga International Airport territory the construction of the industrial premises with a total area of 26 thousand m2. The loan agreement provides that the loan can be either repaid or re-financed in the future. AS HansaMatrix additionally reserves the right to request a conversion of the loan into share capital at par value. Part of the loan in amount of 0.8 million EUR was converted to Zinatnes parks equity on April 29, 2019.
On the date of making the additional investment, the Group gained control over Zinates Parks. It's previously held equity investment of 24% was remeasured to fair value at the date of the business combination and formed part of the consideration transferred.
At the end of the reporting period, the total Parent Company investment amounted to EUR 1.6 million, consisting of convertible loan in amount of EUR 0.8 million and paid up capital EUR 0.8 million. Investments received from HansaMatrix were used for land plot rental payments to VAS Starptautiskā lidosta Rīga, construction technical project development for industrial premises at Riga airport area and for loan repayments to AS SEB banka.
Starting with April 30, 2019 SIA Zinatnes parks is consolidated with AS HansaMatrix group.

Zinatnes parks SIA has contributed 0 EUR and -26 thousand to the Group's revenues and profit, respectively from the acquisition date to 31 December 2019. Had the acquisition occurred on 1 January 2019, the Group's revenue for the period to 31 December 2019 would have been influenced by 0 EUR and the Group's profit for the period would have been influenced by -29 thousand EUR. These amounts have been determined by applying the Group's accounting policies.

The fair value of an investment loan issued by the Parent Company is determined on the basis of the cash flow projections for 8 years assuming that the sales growth will be in line with the business development strategy. The estimate depends, inter alia, on the assumptions regarding the discount rate. In 2019, a discount rate of 8.3% (post-tax WACC rate) was applied (2018: 9.37%).

Investment in SIA Zinātnes parks (until gaining control)

	01.01.2019 30.04.2019 EUR	**2018 EUR**
Current assets	21 230	10 014
Non-current assets	1 770 306	1 699 639
Current liabilities	204 157	211 833
Non-current liabilities	1 899 226	1 806 666
Equity	**(311 847)**	**(308 846)**
Group's share	24%	24%
Investment amount	960	960
Loss for the year	(3 001)	(99 151)
Group's share of loss of an associate recognized in the statement of comprehensive income	(723)	(23 796)
Attributed to investment	(960)	(960)
Attributed to investment loan	(74 843)	(74 120)
Recognized investment amount	-	-
Decrease in investment loan amount	**(74 843)**	**(74 120)**

Assets acquired and liabilities assumed

The fair values of the identifiable assets and liabilities of Extinguishers Limited as at the date of acquisition were:

Assets aquired and libabilities assumed

Assets	**EUR**
Property, plant and equipment	1 763 616
Other receivables	23 646
Cash and cash equivalents	4 273
Total Assets	**1 791 535**
Liabilities	
Loans from credit institutions	730 847
Other loans	567 700
Trade payables	4 568
Other liabilities	267
Total Liabilities	**1 303 382**
Total identifiable net assets at fair value	**488 153**
Non-controlling interest measured at fair value (25.33%)	(123 649)
Goodwill arising on acquisition	360 653
Purchase consideration transferred	**725 157**

* as historically net book value of investment in associate was decreased by EUR 75 803 as loss from investment in associate were recognized.

16. Investments in subsidiaries and associates (cont'd)

Income from investments in subsidiaries

In 2018 and 2019, the Parent Company did not receive any dividends from its subsidiaries.

Investments in associates (the Group)

Investments in associates are measured in the consolidated financial statements according to the equity method.

SIA Lightspace Technologies (hereinafter – Lightspace technologies) was established on 12 February 2014 as a subsidiary of SIA EUROLCDS. In 2016, SIA EUROLCDS was restructured and SIA Lightspace Technologies was split off from it. As a result, on 9 March 2016 AS HansaMatrix acquired 451 shares or 16.11% of the share capital of SIA Lightspace Technologies, proportionate to its share capital in SIA EUROLCDS.

On 10 January 12017, the investment loan to SIA Lightspace Technologies of EUR 200 thousand was converted into equity shares. After the conversion, the HansaMatrix held 866 shares or 17.21% of the share capital of SIA Lightspace Technologies.

On 21 April 2017, AS HansaMatrix signed an agreement with KS AIF Imprimatur Capital Technology Venture Fund on granting the next investment round of EUR 799 365 to SIA Lightspace Technologies. Accordingly, AS HansaMatrix planned to invest EUR 649 635, which were paid in 2017 increasing its shareholding in SIA Lightspace Technologies to 33.07%.

On 23 May 2017, AS HansaMatrix signed an agreement with Hornell Teknikinvest AB on purchasing 14.21% of its shares in SIA Lightspace Technologies after which AS HansaMatrix became the owner of 47.28% of the shares in SIA Lightspace Technologies.

On 8 May 2018, SIA Lightspace Technologies increased its share capital by issuing 7 186 new shares. After the share capital increase, the company's share capital is EUR 13 871 and consists of 13 871 shares.

The share capital was increased as follows: KS BaltCap Latvia Venture Capital Fund acquired 4 300 new shares of SIA Lightspace Technologies via a contribution in kind, i.e. contributing 1 117 shares or 34.33% of equity interest in SIA EUROLCDS worth of EUR 892 501.48; HansaMatrix acquired 2 386 new shares of SIA Lightspace Technologies via a contribution in kind, i.e. contributing 360 shares or 11.06% of equity interest in SIA EUROLCDS worth of EUR 287 646.06, and via cash contribution of EUR 483 000 from the AS HansaMatrix' operating cash flow; and Ilmārs Osmanis, Chairman of the Board of HansaMatrix, acquired 500 new shares of SIA Lightspace Technologies via a cash contribution of EUR 500 EUR.

After the share capital increase, the breakdown of the share capital of SIA Lightspace Technologies was as follows: 44.08% - KS BaltCap Latvia Venture Capital Fund; 39.99% - AS HansaMatrix; 9.34% - KS AIF Imprimatur Capital Technology Venture Fund; 3.60% - Ilmārs Osmanis, 2.99% KS AIF Imprimatur Capital Seed Fund.

The new shares of SIA Lightspace Technologies were paid via the above contributions in kind on 26 April 2018 as follows: the title to the 360 shares or 11.06% in SIA EUROLCDS owned by HansaMatrix and 1 117 shares or 34.33% in SIA em áráno "EUROLCDS owned by KS BaltCap Latvia Venture Capital Fund was transferred to SIA Lightspace Technologies (stock swap).

As a result of the transaction, Lightspace Technologies has obtained 76.12% of the shares in its main supplier SIA EUROLCDS thus ensuring an optimal business structure and reducing supply chain risks; moreover, after the transaction, SIA EUROLCDS is no longer an associate of HansaMatrix. The remaining 23.88% of the shares in SIA EUROLCDS belong to Hornell Teknikinvest AB, a company incorporated in Sweden.

On 28 July 2018, SIA MACRO RĪGA acquired 1620 shares or 11.68% of equity interest in SIA Lightspace Technologies from the fund KS BaltCap Latvia Venture Capital Fund managed by SIA BaltCap AIFP. As a result the share capital was split among the shareholders of SIA Lightspace Technologies as follows: AS HansaMatrix – 39.99%, KS BaltCap Latvia Venture Capital Fund – 32.40%, KS AIF Imprimatur Capital Technology Venture Fund - 9.34%, Ilmārs Osmanis – 3.6%, KS AIF Imprimatur Capital Seed Fund – 2.99%.

In order to strengthen the paid-up capital of SIA Lightspace technologies, on September 30, 2019 HansaMatrix has increased its capital participation in the SIA Lightspace technologies to 49.86% by paying up (carrying out the convertible loan conversion) according to September 30, 2019 decision of SIA Lightspace technologies shareholders newly issued 2730 (two thousand seven hundred thirty) capital shares of SIA Lightspace technologies in amount of 1.5 million EUR or 550 EUR per 1 share.

Following the transaction, Lightspace technologies shareholder structure is the following: HansaMatrix 49.86%, BaltCap Latvia Venture Capital Fund 27.07%, Ilmārs Osmanis 12.77%, Imprimatur Capital Technology Venture Fund 7.8%, Imprimatur Capital Seed Fund 2.5%.

Investments in SIA Lightspace Technologies

	2019 EUR	2018 EUR
Current assets	822 310	2 237 890
Non-current assets	7 809 237	4 122 309
Current liabilities	1 486 509	1 067 977
Non-current liabilities	4 461 446	29 057
Equity	**2 683 592**	**5 523 165**
Group's share	39.99% / 49.86%*	47% / 39.99%
Investment amount	3 709 889	2 208 389
Loss for the year	(1 505 992)	(1 123 194)
Group's share of loss of an associate recognized in the statement of comprehensive income	(622 479)	(459 347)
Attributed to investment	(1 154 891)	(532 412)
Recognized investment amount	**2 554 998**	**1 675 977**

* Until 30 September 2019, the Group's share in equity totaled 39.99%, afterwards – 49.86%.

Investment loans to associates and subsidiaries

	Group		Parent Company	
	31.12.2019 **EUR**	**31.12.2018** **EUR**	**31.12.2019** **EUR**	**31.12.2018** **EUR**
Investment loan to SIA Lightspace Technologies		2 454 123	4 461 446	2 454 123
Investment loan to SIA Zinātnes parks	-	1 208 700	823 700	1 208 700
Decrease in investment loan amount (SIA Zinātnes parks)	-	(74 120)	-	-
TOTAL:	**4 461 446**	**3 588 703**	**5 285 146**	**3 662 823**

The convertible interest-free investment loan Lightspace Technologies for financing the development of 3D imaging technologies was issued in 2017, 2018 and 2019 and as at 31 December 2018 totaled EUR 4.5 million.

In 2019 the aggregate HansaMatrix investments into Lightspace Technologies amounted to the aggregate of EUR 3.5 million, out of which EUR 2 million in a form of convertible loan and EUR 1.5 million in a form of equity investment (carrying out the convertible loan conversion as of September 30, 2019). At the end of the reporting period, the total HansaMatrix investment in SIA Lighstapce Technologies amounted to EUR 8.1 million, consisting of convertible loan in amount of EUR 4.5 million and paid up capital in amount of EUR 3.7 million.

The purpose of the loan to SIA Lightspace Technologies is the development of optically deep 3D image display technologies and innovative product development on the basis thereof. One of the assets of SIA Lightspace Technologies is the 100% owned SIA Lightspace Technologies, Inc. (Delaware), which in turn has approximately 10 patents on volumetric multi-planar 3D displays; the latter secures the intellectual property rights for this innovation in most of the world, including the USA, Europe, China, Korea and other territories.

It is also a part of AS HansaMatrix development strategy envisioning equity investments in companies which have a synergy with AS HansaMatrix integrated manufacturing service and with HansaMatrix Innovation engineering and knowledge resources, and which can lead to new, high value-added product manufacturing within 3 to 5 years.

The fair value of an investment in Lightspace technologies is determined on the basis of the cash flow projections for 6 years assuming that the sales growth will be in line with the business development strategy. The estimate depends, inter alia, on the assumptions regarding the discount rate. In 2019, a discount rate of 28% (after-tax cost of equity) was applied (2018: 25,4 %).

In assessing the potential impact of the above mentioned convertible loan of AS HansaMatrix on its control over Lightspace Technologies, it can be concluded that the convertible loan does not affect the control level of AS HansaMatrix over Lightspace Technologies as, in accordance with Chapter 2, Article 196 of the Commercial Law of the Republic of Latvia, a share capital of any entity be increased or reduced only on the basis of a decision of a shareholders' meeting in which the regulations for the increase or reduction of the share capital have been specified; and a decision on changes in the share capital is regarded as taken, if not less than two-thirds of votes of the shareholders present vote for it, unless a greater number of votes is specified in the Articles of Association.

17. Investments in other companies

Strategic investments in service organizations:

		Group		Parent Company	
	%	31.12.2019 EUR	31.12.2018 EUR	31.12.2019 EUR	31.12.2018 EUR
Investments					
SIA LEO PĒTĪJUMU CENTRS (Latvia)	10	-	-	711	711
SIA LEO PĒTĪJUMU CENTRS (Latvia)	14	996	996	-	-
Buildit Latvia Seed Fund (Latvia)	6.67	16 419	16 419	16 419	16 419
SIA LEITC (Latvia)	4.25	20 339	2 918	20 339	2 918
	TOTAL:	**37 754**	**20 333**	**37 469**	**20 048**

SIA LEO PĒTĪJUMU CENTRS was established on 27 July 2010 by 20 companies and research institutions in Latvian Electronics and Optics Cluster. AS HansaMatrix owns 711 of 6 818 shares, representing 10.43% of the total shares. SIA HansaMatrix Ventspils owns 284 of 6 818 shares, or 4.17%. Together investments by the Group in SIA LEO PĒTĪJUMU CENTRS total 995 shares, representing 14.6% of the total 6 818 shares in the company.

SIA LEO PĒTĪJUMU CENTRS was established to administer projects for the competence center for companies working in the electronics and optics sector. AS HansaMatrix and SIA HansaMatrix Innovation participate in grant programs managed by SIA LEO PĒTĪJUMU CENTRS.

SIA LEITC was established on 14 July 2011. On 12 September 2012, in exchange for writing off a EUR 14 929 zero-interest loan to Latvian Electrical Engineering and Electronics Industry Association, AS HansaMatrix acquired 79 shares in SIA LEITC, representing 3.95% of the share capital.

On 14 July 2014, SIA LEITC renominated its share capital in the EUR; as a result, the entity's total share capital was EUR 2 840 as the par value of each share changed. Accordingly, the number of the entity's shares owned by AS HansaMatrix increased from 79 to 112.

On 17 October 2017, AS HansaMatrix entered into an agreement with LSIA ARCUS ELEKTRONIKA on the acquisition of 9 shares or 0.32% of the shares in SIA LEITC. After the acquisition date, AS HansaMatrix owns 4.25% of the shares in SIA LEITC.

The company was established in cooperation with other industry partners, to create and manage the only accredited electromagnetic compatibility testing laboratory in the Baltics, which significantly speeds up the compliance process for CE and FCC standards during the development of new products.

The fair value of the investment of AS HansaMatrix in SIA LEITC is based on the company's expected discounted cash flow for the next 5 years assuming that its amount will remain at least at the 2019-year's level. The assessment showed that as at 31 December 2019 the carrying amount of the investment of AS HansaMatrix in SIA LEITC corresponded to the fair value of this financial instrument.

On 12 June 2018, HansaMatrix entered into a subscription agreement with **SIA AIFP Buildit Latvia** committing to invest EUR 150 000 EUR and become a 6.67% partner in **KS Buildit Latvia Seed Fund AIF** (hereinafter – the Fund). The Fund is a VAS Latvijas Attīstības finanšu institūcija Altum co-operational acceleration fund managed by SIA AIFP Buildit Latvia. KS Buildit Latvia Seed Fund AIF plans investing in one period maximum up to EUR 250 thousand in one start-up focusing on the Internet of Things and hardware sectors. The investment corresponds to the strategy of HansaMatrix facilitating knowledge exchange and creating synergies to the company through the cooperation with start-ups.

Investment period of the Fund is limited to 5 years from the first conclusion date foreseen by the Limited Partnership Agreement and that is till 20 June 2023. The deadline for the Fund operations is set by 20 June 2026. The meeting of the investors of the Fund may take the decision of extension of the operations of the Fund by one year. No more than two one-year extension decisions may be passed.

HansaMatrix has decided to account for the fair value of investments in the Fund using the cost method. This method is used because the Fund invests in companies that are in their early development stage (there is no income or insignificant income). This takes into account that investment is made as a convertible loan and Fund becomes owner of shares only after conversion and until then the company that has received the investment has the option to cancel the convertible loan, thus repaying the loan and calculated interest. As at December 31, 2019 HansaMatrix paid in investments into the Fund amounted to 16 thousand EUR SIA AIFP Buildit Latvia As at December 31, 2019 has made 2 investments.

18. Other financial assets and liabilities

Other financial assets

		Group		Parent Company	
		31.12.2019	**31.12.2018**	**31.12.2019**	**31.12.2018**
	%	**EUR**	**EUR**	**EUR**	**EUR**
Right to obtain equity					
Airdog Inc (USA)	1.45	126 371	123 987	126 371	123 987
Change in fair value		(42 293)	-	(42 293)	-
	TOTAL:	**84 078**	**123 987**	**84 078**	**123 987**

18.Other financial assets and liabilities (cont'd)

On 8 October 2018, AS HansaMatrix entered into a warrant agreement with SIA Airdog and Airdog Inc (incorporated in Delaware, USA). The agreement grants AS HansaMatrix a right to acquire 365 235 preferred shares (Series A) in Airdog Inc Series for 0.001 USD per share until 9 October 2028. The value of the potentially obtainable shares amount to USD 246,460.84 as a compensation for the outstanding receivable amounts and other balances due from SIA Airdog to AS HansaMatrix.
The fair value of Airdog Inc (USA) preferred share warrants owned by HansaMatrix is determined on the basis of the March 16, 2020 asset purchase agreement concluded by Airdog, Inc., a Delaware corporation and SIA Airdog SIA as sellers with the U.S. based technology company as a Buyer to sell and assign to Buyer certain assets of the Sellers, implying that after the creditor liability repayment of the Sellers, the remaining amount is to be distributed to Airdog Inc. Series A (preferred shares) sharholders.

Other financial liabilities

	Group		Parent Company	
	31.12.2019	**31.12.2018**	**31.12.2019**	**31.12.2018**
	EUR	**EUR**	**EUR**	**EUR**
EIB warrants	1 345 930	1 345 930	1 345 930	1 345 930
	1 345 930	**1 345 930**	**1 345 930**	**1 345 930**

On 3 December HansaMatrix signed a EUR 10 million financing agreement with European Investment Bank (EIB) to expand its manufacturing capacity and build a more all-round business model. The facility is made possible by the European Fund for Strategic Investments (EFSI), the core of the Investment Plan for Europe.

The financing will support HansaMatrix' ongoing growth strategy and the ongoing shift from manufacturing towards offering a full range of services, including value added design, engineering and aftermarket services. The financing will also help HansaMatrix boost its research and development activities as well as advance its 3D-image display technology developed by Lightspace Technologies. All investments will be made in Latvia, at the existing sites of HansaMatrix, namely, in Mārupe, Ogre and Ventspils.

On 6 December 2018, meeting the conditions of the EUR 10 million financing agreement with EIB, HansaMatrix issued 205 298 warrants that are held by EIB and can be converted at the holders' discretion into 205 298 HansaMatrix shares via a new share issue provided that as a result of the new share issue EIB obtains 10% of the HansaMatrix' total share capital.

In the reporting year, AS HansaMatrix fulfilled all the conditions of the financing agreement with EIB and on 19 December 2018 received the first tranche of EUR 5 000 000.

Warrants issued for European Investment Bank are classified as financial liabilities at fair value through profit or loss (FVTPL). The fair value of a warrant is determined under the Black-Scholes model. The estimate depends, inter alia, on the share market price at the reporting date, option purchase price (1 EUR per share), capital fluctuation rate – 25.2%, contract term and other factors.

19.Inventories

	Group		Parent Company	
	31.12.2019 EUR	**31.12.2018 EUR**	**31.12.2019 EUR**	**31.12.2018 EUR**
Raw materials and consumables (at cost)	3 363 241	2 695 573	2 763 401	2 381 259
Allowances for raw materials and consumables	(311 635)	(199 376)	(307 901)	(198 871)
TOTAL:	**3 051 606**	**2 496 197**	**2 455 500**	**2 182 388**

The total value of inventories used during year 2019 was EUR 10 636 442 and during year 2018 EUR 10 717 520

Movement in allowances for slow-moving items:

	Group		Parent Company	
	2019 EUR	**2018 EUR**	**2019 EUR**	**2018 EUR**
At the beginning of the year	**199 376**	**262 756**	**198 871**	**261 119**
Release of allowances	(11 378)	(86 290)	(10 730)	(86 290)
Established in the reporting year	123 637	22 910	119 760	24 042
At the end of the year	**311 635**	**199 376**	**307 901**	**198 871**

Changes in allowances are recognized under cost of sales (Note 2).

The Group has pledged its inventories as security for all the loans granted by AS SEB banka (see Note 27).

20. Trade receivables from contracts with customers

	Group		Parent Company	
	31.12.2019 EUR	**31.12.2018 EUR**	**31.12.2019 EUR**	**31.12.2018 EUR**
Trade receivables without factoring	797 140	678 704	185 502	169 434
Allowances for expected credit loss / doubtful receivables	(55 466)	(4 888)	(12 967)	(3 181)
SUBTOTAL:	**741 674**	**673 816**	**172 535**	**166 253**
Trade receivables with factoring	1 410 579	1 205 340	1 410 579	1 170 600
Received payments for factoring	(1 194 761)	(1 021 958)	(1 194 761)	(990 692)
PAVISAM:	**957 492**	**857 198**	**388 353**	**346 161**

The Group had entered with SIA Swedbank Līzings into a factoring agreement which expired on 25 June 2019.

On 11 December 2018, HansaMatrix signed new factoring agreements with SEB līzings for the total amount of EUR 2.76 million to be used for financing of working capital and operations, including export transactions. The agreements expire on 22 December 2020.

Trade receivables are non-interest bearing and are generally on 30-60 days' terms.

As at 31 December 2018, the ageing analysis of the receivables may be specified as follows:

	Total	Neither past due nor impaired	Past due but not impaired				
			<30	30-60	60-90	90-120	>120
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Applied ECL %		**0.30%**	**1%**	**5%**	**10%**	**15%**	**40%**
Group							
Other trade receivables, gross	678 404	582 631	81 441	3 047	2 477	2 811	5 997
Allowances for expected credit loss	(4 888)	(1 370)	(532)	-	(165)	(422)	(2 399)
2018	**673 516**	**581 261**	**80 909**	**3 047**	**2 312**	**2 389**	**3 598**
Parent company							
Other trade receivables, gross	169 434	108 436	53 750	-	1 251	-	5 997
Allowances for expected credit loss	(3 181)	(120)	(538)	-	(125)	-	(2 398)
2018	**166 253**	**108 316**	**53 212**	**-**	**1 126**	**-**	**3 599**

As at 31 December 2019, the ageing analysis of the receivables may be specified as follows:

	Total	Neither past due nor impaired	Past due but not impaired				
			<30	30-60	60-90	90-120	>120
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Applied ECL %		**0.30%**	**1%**	**5%**	**10%**	**15%**	**40%-100%**
Group							
Other trade receivables, gross	797 140	181 563	230 788	282 223	56 741	15 572	30 253
Allowances for expected credit loss	(55 466)	(784)	(2 308)	(14 111)	(5 674)	(2 336)	(30 253)
2019	**741 674**	**180 779**	**228 480**	**268 112**	**51 067**	**13 236**	**-**
Parent company							
Other trade receivables, gross	185 502	138 205	23 727	6 346	5 697	-	11 527
Allowances for expected credit loss	(12 967)	(316)	(237)	(317)	(570)	-	(11 527)
2019	**172 535**	**137 889**	**23 490**	**6 029**	**5 127**	**-**	**-**

21. Receivables from related companies from contracts with customers

	Group		Parent Company	
	31.12.2019	**31.12.2018**	**31.12.2019**	**31.12.2018**
	EUR	**EUR**	**EUR**	**EUR**
SIA "HansaMatrix Innovation"	-	-	128 045	6 761
SIA "HansaMatrix Pārogre"	-	-	116 125	26 767
SIA "HansaMatrix Ventspils"			20 181	-
Allowances for expected credit loss	-	-	(16 666)	(148)
TOTAL:	**-**	**-**	**247 685**	**33 380**

The ageing analysis of the receivables may be specified as follows:

	Total	Not past due	Past due			
			<30	30-60	60-90	>90
	EUR	EUR	EUR	EUR	EUR	EUR
Applied ECL %		**0.30%**	**1%**	**5%**	**10%**	**15%**
Parent Company						
SIA "HansaMatrix Innovation"	128 045	-	18 452	14 750	84 188	10 655
SIA "HansaMatrix Pārogre"	116 125	5 087	1 808	109 230	-	-
SIA "HansaMatrix Ventspils"	20 181	-	19 418	763	-	-
Uzkrājums šaubīgiem debitoriem	(16 666)	(15)	(397)	(6 237)	(8 419)	(1 598)
2019	**247 685**	**5 072**	**39 281**	**118 506**	**75 769**	**9 057**
Parent Company						
SIA "HansaMatrix Innovation"	6 761	-	6 761	-	-	-
SIA "HansaMatrix Pārogre"	26 767	26 767	-			
Uzkrājums šaubīgiem debitoriem	(148)	(80)	(68)	-	-	-
2018	**33 380**	**26 687**	**6 693**	**-**	**-**	**-**

22. Prepayments for goods

	Group		Parent Company	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
	EUR	EUR	EUR	EUR
Prepayments for goods to suppliers	50 117	33 676	39 175	10 223
Prepayment to SIA HansaMatrix Innovation	-	-	1005 248	835 248
TOTAL:	**50 117**	**33 676**	**1 044 423**	**845 471**

23. Other receivables

	Group		Parent Company	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
	EUR	EUR	EUR	EUR
Overpayment of VAT	254 842	217 683	242 626	217 683
Accrued income	118 420	31 673	-	-
Security deposit	3 295	3 294	2 988	2 988
Overpayment of Real Estate tax	20	-	20	-
Other Receivables	2 470	3 011	2 353	42
TOTAL:	**379 047**	**255 661**	**247 987**	**220 713**

24. Cash and cash equivalents

	Group		Parent Company	
	31.12.2019 EUR	**31.12.2018 EUR**	**31.12.2019 EUR**	**31.12.2018 EUR**
Cash at bank	254 480	2 376 781	245 926	2 369 105
TOTAL:	**254 480**	**2 376 781**	**245 926**	**2 369 105**

Cash and cash equivalents by currency profile:

	Group		Parent Company	
	31.12.2019 EUR	**31.12.2018 EUR**	**31.12.2019 EUR**	**31.12.2018 EUR**
EUR	218 908	2 375 572	210 354	2 367 896
USD	35 572	1 209	35 572	1 209
TOTAL:	**254 480**	**2 376 781**	**245 926**	**2 369 105**

25. Share capital

As at 31 December 2019, the share capital of the Parent Company was EUR 1 829 381 (31 December 201: EUR 1 829 381). The par value of one share is 1 EUR (31 December 2017: EUR 1). All the shares are fully paid.

Since 12 July 2016, shares of the Parent Company have been listed on the Riga Stock Exchange. The following table summarizes the changes in the number of shares and their par value:

	Number of shares	**Par value, EUR**	**Share capital, EUR**	**Share premium, EUR**
31.12.2019	**1 829 381**	**1**	**1 829 381**	**2 435 579**
31.12.2018	**1 829 381**	**1**	**1 829 381**	**2 435 579**

In 2014 a difference of EUR 313 arising from the share capital denomination in EUR was recognized in reserves.

Major shareholders (over 5% of equity interest) of the Parent Company:

	31.12.2019		**31.12.2018**	
Major shareholders (over 5% of equity interest) **Shareholder**	**Number of shares and votes**	**Equity interest**	**Number of shares**	**Equity interest**
SIA "MACRO RĪGA"	622 503	34.03%	898 065	49.09%
Limited Partnership "ZGI-4" AIF KS	275 562	15.06%	-	-
Swedbank AS customer accounts	259 142	14.17%	270 107	14.76%
Limited Partnership "BaltCap Latvia Venture Capital Fund"	182 000	9.95%	182 000	9.95%
Limited Partnership "FlyCap Investment Fund I AIF"	175 738	9.61%	175 738	9.61%
IPAS "CBL Asset Management" Managed Funds	120 000	6.56%	120 000	6.56%
"Swedbank Ieguldījumu Pārvaldes Sabiedrība" AS Managed Funds	93 369	5.10%	-	-
Other	101 067	5.52%	183 471	10.03%
TOTAL:	**1 829 381**	**100%**	**1 829 381**	**100.00%**

26. Non-current revaluation reserve

Real estate was revalued in 2007, 2012 and 2017 by certified valuators. Revaluation is performed on a regular basis, which is at least every five years. Land and buildings are stated at their revalued amount, which is equal to the fair value at the revaluation date less any subsequent accumulated depreciation and impairment. The measurement of the fair value disclosed herein is classified as Level 3 — fair value measurements using significant unobservable inputs.

As a result, the carrying amount of the real estate was increased as follows: by EUR 1 989 062 in 2007, by EUR 237 251 in 2012, and by EUR 793 644 in 2017. The revaluation reserve for the building is taken to income over the useful life of the asset. The revaluation reserve established for the land remains unchanged.

	Group		**Parent Company**	
	31.12.2019 EUR	**31.12.2018 EUR**	**31.12.2019 EUR**	**31.12.2018 EUR**
Revaluation reserve (building)	1 775 209	1 898 901	1 775 209	1 898 901
Revaluation reserve (land)	263 438	263 438	263 438	263 438
TOTAL:	**2 038 647**	**2 162 339**	**2 038 647**	**2 162 339**

At amounts stated on historicalcost basis

	Group		**Parent Company**	
	31.12.2019 EUR	**31.12.2018 EUR**	**31.12.2019 EUR**	**31.12.2018 EUR**
Building	1 010 602	1 079 005	1 010 602	1 079 005
TOTAL:	**1 010 602**	**1 079 005**	**1 010 602**	**1 079 005**

27. Loans from credit institutions

The Parent Company has received the following loans from AS SEB Banka and the European Investment Bank:

Non-Current			**Group**		**Parent Company**	
Initial loan amount	Interest rate	Maturity	**31.12.2019 EUR**	**31.12.2018 EUR**	**31.12.2019 EUR**	**31.12.2018 EUR**
5 200 000 EUR	3m EURIBOR+1.9%	25.12.2022	2 167 478	2 924 445	2 167 478	2 924 445
2 000 000 EUR	3m EURIBOR+1.9%	30.11.2023	1 543 318	-	1 543 318	-
980 000 EUR	3m EURIBOR+1.9%	20.12.2022	398 644	-	-	-
5 000 000 EUR		30.11.2023	5 178 601	5 000 000	5 178 601	5 000 000
		Non-current loans from credit institutions:	**9 288 041**	**7 924 445**	**8 889 397**	**7 924 445**
		Loan agreement closing costs – non-current portion	(11 511)	(12 719)	(11 511)	(12 719)
		TOTAL:	**9 276 530**	**7 911 726**	**8 877 886**	**7 911 726**

EIB loan: 31.12.2018 loan amount 3 591 325 EUR, warrant 1 345 930 EUR total 4 937 255 and 31.12.2019 loan amount 3 832 671 EUR, warrant 1 345 930 EUR total 5 178 601

Current						
5 200 000 EUR	3m EURIBOR+1.9%	25.12.2022	1 056 966	1 056 966	1 056 966	1 056 966
2 000 000 EUR	3m EURIBOR+1.9%	30.11.2023	400 000	-	400 000	-
980 000 EUR	3m EURIBOR+1.9%	20.12.2022	199 322	-	-	-
700 000 EUR	6m EURIBOR+1.9%	22.12.2020	221 373	988 595	221 373	988 595
		Current loans from credit institutions:	**1 877 661**	**2 045 561**	**1 678 339**	**2 045 561**
		Accrued Interest	**2 149**	**1 201**	**2 149**	**1 201**
		Loan agreement closing costs – non-current portion	(5 331)	(9 242)	(5 331)	(9 242)
		TOTAL:	**1 874 479**	**2 037 520**	**1 675 157**	**2 037 520**

* Total initial loan amount from the European Investment Bank, Note 18. Loan measured at amortized cost using the effective interest rate method, 2.3. (q).

On 22 December 2017, a loan agreement for EUR 4 900 000 and a credit line agreement for EUR 600 000 were signed. The actual refinancing took place in January 2018 when all the previous loans and lease liabilities were settled. On 11 July 2018, credit line agreement limit was increased to 1 000 000 EUR. On 6 December 2018, credit line agreement term was extended for a year, until 22 December 2019.

On 17 March 2019, the Parent Company signed a EUR 2 million loan agreement with AS SEB banka to obtain a partial funding for the implementation of project No 1.2.1.4/16/A/021 "Development of Experimental Production of 3D Volumetric Imaging Equipment and its Components" under activity 1.2.1.4 "Support in introduction of new products into production" of specific objective 1.2.1 "To increase investments of private sector in R&D" of the operational program "Growth and Employment". To secure the loan, the Parent Company will pledge the real estate at Akmeņu iela 72 and Akmeņu iela 74, Ogre, its own movable property and establish a financial pledge on its settlement accounts with AS SEB banka.

The loan amount is reduced by lending-related charges amortized over the loan term. Interest is calculated and paid on a monthly basis. Loan principal payments by their maturity dates can be specified as follows:

	Group		Parent Company	
	31.12.2019 EUR	**31.12.2018 EUR**	**31.12.2019 EUR**	**31.12.2018 EUR**
Payable:				
In less than one year	1 877 661	2 045 561	1 678 339	2 045 561
Between one and five years	9 288 041	7 924 445	8 889 397	7 924 445
In more than five years	-	-	-	-
TOTAL:	**11 165 702**	**9 970 006**	**10 567 736**	**9 970 006**

As at 31 December 2019, the unused credit line amount available to the Group and the Parent Company was EUR 478 627 (31 December 2018: EUR 11 405). As at 31 December 2019 and 2017 all the Group and Parent Company's property, plant and equipment and current assets were pledged as security for the loans received. The pledge agreements are registered in the Commercial Pledge register.

28. Leases

The Group has lease contracts for various items of plant, machinery, vehicles and other equipment used in its operations. Leases of plant and machinery generally have lease terms between 3 and 15 years, while motor vehicles and other equipment generally have lease terms between 3 and 5 years. The Group's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the Group is restricted from assigning and subleasing the leased assets and some contracts require the Group to maintain certain financial ratios.

There are several lease contracts that include extension and termination options and variable lease payments, which are further discussed below.

The Group also has certain leases of machinery with lease terms of 12 months or less and leases of office equipment with low value. The Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

Set out below are the carrying amounts of right-of-use assets recognized and the movements during the period:

	Group				
	Other intangible assets	Property and Land	Equipment and machinery	Motor vehicles	Total
-	EUR	EUR		EUR	EUR
At 1 January 2019	17 496	1 687 067	1 254 820	55 787	3 015 170
Additions	-	427 805	-	42 124	469 929
Depreciation charge	(12 414)	(613 568)	(168 009)	(34 170)	(828 161)
As at 31 December 2019	**5 082**	**1 501 304**	**1 086 811**	**63 741**	**2 656 938**

	Parent company				
	Other intangible assets	Property and Land	Equipment and machinery	Motor vehicles	Total
-	EUR	EUR	EUR	EUR	EUR
At 1 January 2019	616	160 000	163 563	43 126	367 305
Additions	-	-	-	16 893	16 893
Depreciation charge	(616)	(98 073)	(19 136)	(22 500)	(140 325)
As at 31 December 2019	**-**	**61 927**	**144 427**	**37 519**	**243 873**

Set out below are the carrying amounts of lease liabilities (included under interest-bearing loans and borrowings) and the movements during the period:

	Group	Parent company
	2019	2019
	EUR	EUR
At 1 January 2019	**2545 147**	**348 114**
Additions	469 929	16 893
Accretion of interest	413 974	8 146
Payments	(873 757)	(165 967)
At 31 December 2019	**2555 293**	**207 186**
Current	826 058	90 148
Non-current part	1729 235	117 038

The following are the amounts recognised in profit or loss:

	Group	Parent company
	2019	2019
	EUR	EUR
Depreciation expense of right-of-use assets	828 161	140325
Interest expense on lease liabilities	413 974	8146
Expense relating to short-term leases (included in other operating costs)	3 724	3724
TOTAL:	**1 245 859**	**152 195**

The Group had total cash outflows for leases of EUR 873 757 in 2019. The Group also had non-cash additions to right-of-use assets and lease liabilities of EUR 2 105882 in 2019.

Group as a lessor

The Group has entered into operating leases on certain office and manufacturing buildings. These leases have terms of between 1 and 5 years.

For Rental income recognised by the Group during the year refer to Note 8.

29. Deferred income

	Group		Parent Company	
	2019	**2018**	**2019**	**2018**
	EUR	**EUR**	**EUR**	**EUR**
Balance at the beginning of the year	**572 707**	**742 284**	**345 054**	**464 041**
Grants received	653 450		653 450	
Attributed to income (Note 7)	(101 846)	(169 577)	(66 822)	(118 987)
Balance at the end of the year	**1 124 311**	**572 707**	**931 682**	**345 054**

Non-current and current deferred income comprises the grants received, considering the expected gradual recognition of the grants as income.

	Group		Parent Company	
	31.12.2019	**31.12.2018**	**31.12.2019**	**31.12.2018**
	EUR	**EUR**	**EUR**	**EUR**
Non-Current	1 022 466	403 130	864 861	226 067
Current	101 845	169 577	66 821	118 987
TOTAL:	**1 124 311**	**572 707**	**931 682**	**345 054**

Participation of the Parent Company in EU projects

In the recent years the Parent Company participated in the following EU grant projects related to technological equipment acquisition:

On 15 May 2014, the Parent Company entered into an agreement on the implementation of the project "Set-up of the Robotic Printed Circuit Board Assembly and Production Line" with the Investment and Development Agency of Latvia. The Parent Company fulfilled all the conditions set out in the agreement and acquired production equipment under the project for a total amount of EUR 660 546. After assessing the implementation relating the conditions of project, on 16 September 2015 the Parent Company received a grant of EUR 298 582.

On 18 September 2014, the Parent Company entered into an agreement on the implementation of the project "Launch of the Production of Precision Metal Parts of the Volumetric 3D Display System at SIA Hanzas Elektronika" with the Investment and Development Agency of Latvia. The Parent Company fulfilled all the conditions set out in the agreement and acquired production equipment under the project for a total amount of EUR 232 913. After assessing the implementation relating the conditions of project, on 8 October 2015 the Parent Company received a grant of EUR 105 313.

In the reporting period HansaMatrix started and continued to carry out investments in the technological equipment and continued the realization of European Regional Development Fund (ERDF) funding project "Development of experimental production of 3D volumetric imaging equipment and its components"under ERDF "Operational Program "Growth and Jobs" 1.2.1 Specific Support Objective "Increase Private Investment in R&D" measure 1.2.1.4. "Support for Introduction of New Products in Production"". Total and ERDFfunding eligible costs of the aforementioned project amount to 2899000EUR, with the planned ERDF funding 1014650 EUR, or 35% of the eligible project costs.

Participation of SIA HansaMatrix Ventspils in EU projects

In the recent years the Parent Company participated in the following EU grant projects related to technological equipment acquisition:

On 15 May 2014, SIA HansaMatrix Ventspils entered into an agreement on the implementation of the project "Acquisition of Printed Circuit Component Surface Mount Modules" associated with the implementation of the state aid program. SIA HansaMatrix Ventspils fulfilled all the conditions set out in the agreement signed between SIA HansaMatrix Ventspils and the Investment and Development Agency of Latvia. The subsidiary acquired production equipment under the project for a total amount of EUR 895 347. After assessing the implementation relating the conditions of project, on 14 September 2015 the subsidiary received a grant of EUR 404 717.

30. Prepayments received under contracts with customers

In 2018, the Group started cooperation with new customers. Manufacturing of new products is material intensive and requires specific materials for which prepayments must be made. The prepayments received in the years 2019-2021 will be settled upon the product sale.

Movement in prepayments:

	Group		Parent Company	
	2019 EUR	2018 EUR	2019 EUR	2018 EUR
At the beginning of the year	**1153 124**	**517 148**	**1102 026**	**429 735**
Written off to income	(420 129)	(216 377)	(369 031)	(147 117)
Received	459 483	852 353	345 129	819 408
At the end of the year	**1 192 478**	**1 153 124**	**1 078 124**	**1 102 026**

Breakdown of the prepayments received according to the predicted settlement terms:

	Group		Parent Company	
	31.12.2019 EUR	31.12.2018 EUR	31.12.2019 EUR	31.12.2018 EUR
Non-Current	149 845	463 638	149 845	463 638
Current	1 042 633	689 486	928 279	638 388
TOTAL:	**1 192 478**	**1 153 124**	**1 078 124**	**1 102 026**

31. Trade payables

	Group		Parent Company	
	31.12.2019 EUR	31.12.2018 EUR	31.12.2019 EUR	31.12.2018 EUR
Trade payables, EUR	2 920 625	2 382 042	1 427 759	1 444 242
Trade payables, USD	796 426	676 522	784 527	670 389
Trade payables, JPY	6 200	32 288	6 200	32 288
Trade payables, CHF	1 047	-	1 047	-
TOTAL:	**3 724 298**	**3 090 852**	**2 219 533**	**2 146 919**

Trade payables are non-interest bearing and are generally on 30-60 days' terms.

	Group		Parent Company	
	31.12.2019 EUR	31.12.2018 EUR	31.12.2019 EUR	31.12.2018 EUR
Trade payables without factoring	3 628 788	3 021 063	2 124 023	2 077 130
Trade payables with factoring	95 510	69 789	95 510	69 789
TOTAL:	**3 724 298**	**3 090 852**	**2 219 533**	**2 146 919**

The Group has signed a reverse factoring agreement with SIA SEB Līzings, limit 450 000 EUR. The agreement expires on 22 December 2020.

Trade payables, which are not factorized, are non-interest bearing and are generally on 30-60 days' terms.

32. Taxes payable

The Group and Parent Company's taxes payable to the State budget as at 31 December 2019 and 2018 may be specified as follows:

	Group		Parent Company	
	31.12.2019 EUR	31.12.2018 EUR	31.12.2019 EUR	31.12.2018 EUR
Statutory social insurance contributions	(196 864)	(204 807)	(9 413)	(8 109)
Personal income tax	(87 656)	(89 023)	(5 172)	(5 213)
Value added tax – payable	(273 530)	(268 648)	-	-
Value added tax – receivable	254 842	217 683	242 626	217 683
Natural resource tax	(575)	(1 171)	(116)	(91)
Real estate tax	20	(74)	20	(74)
Unemployment risk duty	(79)	(78)	(4)	(3)
TOTAL:	**(303 842)**	**(346 118)**	**227 941**	**204 193**
TOTAL PAYABLE:	**(558 704)**	**(563 801)**	**(14 705)**	**(13 490)**
TOTAL RECEIVABLE (Note 23):	**254 862**	**217 683**	**242 646**	**217 683**

33. Corporate income tax

	Group		Parent Company	
	31.12.2019 EUR	31.12.2018 EUR	31.12.2019 EUR	31.12.2018 EUR
Corporate income tax – payable	(809)	(211)	-	(43)
Corporate income tax – receivable	685	1 347	219	-

34. Other liabilities

	Group		Parent Company	
	31.12.2019 EUR	31.12.2018 EUR	31.12.2019 EUR	31.12.2018 EUR
Wages and salaries	229 801	203 051	18 974	15 568
Balances due to employees	2 557	1 175	2 251	353
Credit cards	-	1 154	-	1 154
LMT agreements	7 039	982	2 572	219
Other liabilities	337	-	-	-
TOTAL:	**239 734**	**206 362**	**23 797**	**17 294**

35. Accrued expense

	Group		Parent Company	
	31.12.2019 EUR	31.12.2018 EUR	31.12.2019 EUR	31.12.2018 EUR
Vacation pay reserve	169 271	170 259	25 701	23 813
Other accrued liabilities	67 519	79 831	17 782	26 388
TOTAL:	**236 790**	**250 090**	**43 483**	**50 201**

36. Related party disclosures

The major shareholder of the Parent Company is SIA MACRO RĪGA, which owns 34.03% (2018: 49.09%) of the Parent Company's shares. The table below summarizes transactions of the Group and the Parent Company with related parties for the relevant financial year.

			Goods and services delivered to/ loans issued to related parties		Goods and services received from / loans received from related parties		Amounts owed by related parties (gross)		Amounts owed to related parties (gross)	
Related party	**Type of services**		**Group**	**Parent Company**	**Group**	**Parent Company**	**Group**	**Parent Company**	**Group**	**Parent Company**
			EUR	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**
1. Associates										
SIA "Zinātnes parks"(AS HansaMatrix daļa 24% līdz 29.04.20190)	Loan, contribution in share capital	31.12.2018	363 000	363 000	-	-	1 208 700	1 208 700	-	-
		31.12.2019	-	-	-	-	-	-	-	-
SIA "Lightspace Technologies" (AS HansaMatrix daļa 40%)	Loan	31.12.2018	2 231 916	2 231 916	-	-	2 454 123	2 454 123	-	-
		31.12.2019	2 007 323	2 007 323	-	-	4 461 446	4 461 446	-	-
	Services, purchase of materials, sales	31.12.2018	1 362 034	1 362 034	717	717	499 299	499 299	-	-
		31.12.2019	2 991	2 991	-	-	502	502	-	-
	TOTAL	**31.12.2018**	**3 956 950**	**3 956 950**	**717**	**717**	**4 162 122**	**4 162 122**	**-**	**-**
	TOTAL	**31.12.2019**	**2 010 314**	**2 010 314**	**-**	**-**	**4 461 948**	**4 461 948**	**-**	**-**
2. Entities with significant influence over the Parent Company										
SIA "Macro Rīga" (akcionārs)	Loan	31.12.2018	46 783	46 783	-	-	2 502 290	2 502 290	-	-
		31.12.2019	32 585	32 585	-	-	540 133	540 133	-	-
	Services, purchase of materials, sales	31.12.2018	1 422	1 422	-	-	-	-	-	-
		31.12.2019	-	-	-	-	-	-	-	-
	TOTAL	**31.12.2018**	**48 205**	**48 205**	**-**	**-**	**2 502 290**	**2 502 290**	**-**	**-**
	TOTAL	**31.12.2019**	**32 585**	**32 585**	**-**	**-**	**540 133**	**540 133**	**-**	**-**
3. Subsidiaries										
SIA "HansaMatrix Ventspils" AS "HansaMatrix" daļa 100%	Production services, material supplies	31.12.2018	-	201 109	-	4 719 287	-	-	-	100 751
		31.12.2019	-	192 379	-	5 678 132	-	20 181	-	719 179
SIA "HansaMatrix Innovation" AS "HansaMatrix" daļa 100%	Production services, material supplies	31.12.2018	-	312 342	-	290 853	-	842 009	-	58 864
		31.12.2019	-	397 464	-	827 855	-	1 133 293	-	470 704
SIA "HansaMatrix Pārogre" AS "HansaMatrix" daļa 100%	Payment in share capital	31.12.2018	-	-	-	-	-	-	-	-
		31.12.2019	-	197 200	-	-	-	-	-	98 600
	roduction services, material supplies	31.12.2018	-	687 666	-	5 586 902	-	26 767	-	461 745
		31.12.2019	-	569 479	-	6 615 665	-	116 125	-	877 721
SIA "Zinātnes parks" (AS HansaMatrix daļa 74.67% no 30.04.20190)	Loan, payment in share capital	31.12.2018	-	-	-	-	-	-	-	-
		31.12.2019	415 000	415 000	-	-	823 700	823 700	-	-
	TOTAL	**31.12.2018**	**-**	**1 201 117**	**-**	**10 597 042**	**-**	**868 776**	**-**	**621 360**
	TOTAL	**31.12.2019**	**415 000**	**1 771 522**	**-**	**13 121 652**	**823 700**	**2 093 299**	**-**	**2 166 204**
3. Other related companies										
	Production services, material supplies	31.12.2018	54 607	54 607	6 805	6 805	-	-	1 325	1 325
		31.12.2019	9 257	9 257	10 089	10 089	-	-	720	720
	TOTAL	**31.12.2018**	**54 607**	**54 607**	**6 805**	**6 805**	**-**	**-**	**1 325**	**1 325**
	TOTAL	**31.12.2019**	**9 257**	**9 257**	**10 089**	**10 089**	**-**	**-**	**720**	**720**

In April, 2020 HansaMatrix loan to SIA MACRO RĪGA maturity is intended to be prolonged until December 31, 2021.

* Including the recognized impairment (Note 16).

** Amount classified as Trade receivables from contracts with customers, Note 20)

36. Related party disclosures (cont'd)

The amounts owed by related parties include a loan issued by the Parent Company to its major shareholder SIA MACRO RĪGA.

		Interest charged		Amounts owed by related parties			
		2019	2018	31.12.2019		31.12.2018	
				EUR	EUR	EUR	EUR
Interest rate	Maturity			Non-current	Current	Non-current	Current
1.9	01.09.2019	32 585	46 783	-	541 593	2 502 240	-

	Group				Parent Company			
	31.12.2019	**31.12.2019**	**31.12.2018**	**31.12.2018**	**31.12.2019**	**31.12.2019**	**31.12.2018**	**31.12.2018**
	EUR	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**
	Current	**Non-Current**	**Current**	**Non-Current**	**Current**	**Non-Current**	**Current**	**Non-Current**
SIA "MACRO RĪGA"								
Loan	537 480	-	-	2 462 227	537 480	-	-	2 462 227
Interest charged	4 113	-	-	46 783	4 113	-	-	46 783
Accrual	(1 460)	-	-	(6 770)	(1 460)	-	-	(6 770)
TOTAL:	**540 133**	-	-	**2 502 290**	**540 133**	-	-	**2 502 290**

The assessment of the recoverability of the loan issued to the shareholder SIA MACRO RĪGA is based on the forecast provided by the shareholder for the planned sales of the Parent Company's shares the proceeds of which will be used for the loan repayment.

In 2019, a number of large transactions were carried out with HansaMatrix shares, described in more detail in the Management Report section Stock and Securities market. The largest transaction with HansaMatrix shares in 2019 took place on August 08, 2019: pursuant to Article 240, paragraph one, clause 8 of the Commercial Law of the Republic of Latvia, Macro Riga entered into an agreement with HansaMatrix, partially reducing the outstanding balance of HansaMatrix loan to Macro Riga in amount of 2 million EUR, carrying out the outstanding loan repayment by 275562 HansaMatrix shares, owned by Macro Riga. As a result of the transaction, the shareholding of Macro Riga in HansaMatrix decreased by 15.06% to 34.03%.

On August 12, 2019 Hansamatrix has attracted EUR 2 million investment from venture capital fund ZGI-4. ZGI Capital, alternative investment fund manager, with venture capital fund ZGI-4 invested EUR 2 million in HansaMatrix to enhance the company's growth and competitiveness. As a result of the transaction, ZGI-4 Fund became a 15.06% shareholder of HansaMatrix.

In 2019, the number and volume of transactions executed with HansaMatrix shares indicate that the sale of HansaMatrix shares planned by SIA MACRO RĪGA for loan repayment could be realized within the next 3 years.

SIA "MACRO RĪGA" loan recoverability is evaluated using Expected Credit Losses model, using the following variables: Exposure at Default (EAD), Loss Given Default (LGD), and Probability of Default (PD), the latter variable value obtained from the available public data by Moody's investors service for high-tech industry.

Terms and conditions of transactions with related parties

Outstanding balances at the year-end are unsecured, interest-free (except for the loans issued).

38. Off-balance sheet items

In the ordinary course of business, the Group receives raw materials from customers. Such raw materials are processed and delivered back to the respective customers. Raw materials are owned by customers and the Group accepts them only for processing. As at 31 December 2019, the total value of these materials was EUR 10 810 251 (31 December 2018: EUR 18 160 832).

On 22 December 2017, the Parent Company entered into a guarantee line agreement with AS SEB banka for a total amount of EUR 100 000 to receive guarantees for the participation in the EU grant programs administered by Latvian authorities and to be used as security for prepayments due from customers. In 2018, the Parent Company increased the limit of the guarantee line agreement with AS SEB banka up to EUR 800 000. The maturity of the guarantee line agreement is December 22, 2020. The above agreement is secured by a commercial pledge on the Parent Company's assets. As at 31 December 2019, three guarantees were used: a) a guarantee of EUR 40 586 as a performance guarantee under EU funding programs expiring on 18 June 2020; b) a guarantee of USD 599 399 as security for the prepayment received from a customer expiring on 4 October 2020.

On 22 December 2017, the Parent Company entered into a guarantee agreement with AS SEB banka for the liabilities of SIA Zinātnes parks arising from loan agreement No 2017012425 signed with AS SEB banka on 22 December 2017. The said loan matures on 20 December 2022.

On 22 December 2017, the subsidiaries SIA HansaMatrix Pārogre, SIA HansaMatrix Ventspils and SIA HansaMatrix Innovation entered into guarantee agreements with AS SEB banka for the liabilities of the Parent Company arising from loan agreement No 2017012423 of 22 December 2017 (maturing on 25 December 2022), overdraft agreement No 2017012422 of 22 December 2017 (maturing on 22 December 2020) and from surety agreement of 22 December 2017 No 2017012424 (maturing on 22 December 2020), signed with AS SEB banka.

On 3 December 2018, SIA HansaMatrix Ventspils, SIA HansaMatrix pārogre and SIA HansaMatrix Innovation entered into a guarantee agreement with the European Investment Bank for the liabilities of the Parent Company arising from EUR 10 million financing agreement No 89375, No 90409. The loan is repayable within 5 years after the receipt of each tranche.

39. Commitments and contingencies

The Parent Company has pledged its real estate at Akmeņu iela 72, Ogre, and movable property as security for loan granted by AS SEB banka (Note 27).

40. Financial risk management

The Group and Parent Company's principal financial instruments comprise loans from credit institutions, leases, cash and short-term deposits. The main purpose of these financial instruments is to ensure financing for the Group and Parent Company's operations. The Group and the Parent Company have various other financial instruments such as trade and other receivables and trade and other payables, which arise directly from its operations. The activities of the Group and the Parent Company expose them to a variety of financial risks: market risk (including foreign currency risk and interest rate risk), liquidity risk, credit risk and cash flow risk. The Group's financial management identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units.

Foreign currency risk

The Group's financial assets and liabilities, which are exposed to foreign currency risk, comprise cash and cash equivalents, trade receivables and trade payables. The Group is mainly exposed to foreign currency risk of the U.S. dollar. In order to control foreign currency risk, trade receivables which can be potentially exposed to this risk are managed in accordance with the appropriate pricing policy. The Group is mainly exposed to foreign currency risk of the U.S. dollar (USD). The goal of the Group's financial risk management is to hedge all anticipated cash flows (capital expenditure or purchases of raw materials or consumables) in foreign currencies that might lead to significant foreign currency risk.
Currency risk as at December 31, 2018 and as at December 31, 2019 may be specified as follows:

40. Financial risk management (cont'd)

Group		USD EUR	JPY EUR	CHF EUR	EUR EUR	TOTAL EUR
Trade receivables	2019	234 915	-	-	772 694	1 007 609
	2018	137 924	-	-	738 736	876 660
Cash	2019	35 572	-	-	218 908	254 480
	2018	1 209	-	-	2 375 572	2 376 781
Total financial assets subject to currency risk, EUR	2019	270 487	-	-	991 602	1 262 089
	2018	139 133	-	-	3 114 308	3 253 441
Trade and other payables	2019	1 525 052	6 200	1 047	3 384 477	4 916 776
	2018	1 403 431	32 288	-	2 794 806	4 230 525
Total financial liabilities subject to currency risk, EUR	2019	1 525 052	6 200	1 047	3 384 477	4 916 776
	2018	1 403 431	32 288	-	2 794 806	4 230 525
Net assets / (liabilities) subject to currency risk, EUR	2019	**(1 254 565)**	**(6 200)**	**(1 047)**	**(2 392 875)**	**(3 654 687)**
	2018	**(1 264 298)**	**(32 288)**	**-**	**319 502**	**(977 084)**

Parent Company		USD EUR	JPY EUR	CHF EUR	EUR EUR	TOTAL EUR
Trade receivables	2019	232 150	-	-	1 448 311	1 680 461
	2018	123 245	-	-	1 101 767	1 225 012
Cash	2019	35 572	-	-	210 354	245 926
	2018	1 209	-	-	2 367 896	2 369 105
Total financial assets subject to currency risk, EUR	2019	267 722	-	-	1 658 665	1 926 387
	2018	124 454	-	-	3 469 663	3 594 117
Trade and other payables	2019	1 513 153	6 200	1 047	3 943 461	5 463 861
	2018	1 397 298	32 288	-	2 381 855	3 811 441
Total financial liabilities subject to currency risk, EUR	2019	1 513 153	6 200	1 047	3 943 461	5 463 861
	2018	1 397 298	32 288	-	2 381 855	3 811 441
Net assets / (liabilities) subject to currency risk, EUR	2019	**(1 245 431)**	**(6 200)**	**(1 047)**	**(2 284 796)**	**(3 537 474)**
	2018	**(1 272 844)**	**(32 288)**	**-**	**1 087 808**	**(217 324)**

40. Financial risk management (cont'd)

The following table demonstrates the sensitivity of the Group and Parent Company's profit before tax to a reasonably possible change in USD and JPY exchange rates in four different scenarios, with all other variables held constant.

Group Change in exchange rate		Potential net effect from the changes in the USD exchange rate EUR	Potential net effect from the changes in the JPY exchange rate EUR	Potential net effect from the changes in the CHF exchange rate EUR	TOTAL EUR
+10%	2019	114 051	564	95	114 710
	2018	114 936	2 935	-	117 871
+5%	2019	59 741	295	50	60 086
	2018	60 205	1 538	-	61 743
-5%	2019	(66 030)	(326)	(55)	(66 411)
	2018	(66 542)	(1 699)	-	(68 241)
-10%	2019	(139 396)	(689)	(116)	(140 201)
	2018	(140 478)	(3 588)	-	(144 066)

Parent Company Change in exchange rate		Potential net effect from the changes in the USD exchange rate EUR	Potential net effect from the changes in the JPY exchange rate EUR	Potential net effect from the changes in the CHF exchange rate EUR	TOTAL EUR
+10%	2019	113 221	564	95	113 880
	2018	115 713	2 935	-	118 648
+5%	2019	59 306	295	50	59 651
	2018	60 612	1 538	-	62 150
-5%	2019	(65 549)	(326)	(55)	(65 930)
	2018	(66 992)	(1 699)	-	(68 691)
-10%	2019	(138 381)	(689)	(116)	(139 186)
	2018	(141 427)	(3 588)	-	(145 015)

40. Financial risk management (cont'd)

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the market interest rates. The Group and the Parent Company are exposed to cash flow interest rate risk mainly in relation to borrowings with floating interest rates as the finance costs increase significantly with the interest rate growing.

The Group is exposed to interest rate risk mainly through its current and non-current borrowings. The average interest rate payable on the Group's borrowings is disclosed in Note 27.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on mainly EURIBOR floating rate borrowings). There is no impact on the equity, except for the effect on the current year result.
Interest rate sensitivity for the Group and the Parent Company may be specified as follows:

Group

		Effect on profit before tax
Year	EURIBOR	EUR
2019	+0.5%	(35 065)
2018		(29 148)
2019	+1.0%	(70 131)
2018		(58 297)
2019	-0.5%	35 065
2018		29 148

Parent Company

		Effect on profit before tax
Year	EURIBOR	EUR
2019	+0.5%	(27 617)
2018		(25 786)
2019	+1.0%	(55 233)
2018		(51 575)
2019	-0.5%	27 617
2018		25 786

In 2018, the calculation method was changes – the impact of the change in interest rate on the profit is calculated by multiplying all liability balances (including maximum credit line limits) as at 31 December 2018 by the respective change in the interest rate.
The calculation method used in 2017 required to recalculate the effective interest rate for all financial liabilities for the whole reporting year by increasing or reducing it respectively.

The calculation method was changed in order to reflect more precisely the risk associated with future interest rate fluctuations by using maximum balances of financial liabilities at the last day of the reporting period.

Liquidity risk

The Group's liquidity and cash flow risk management objective is to maintain an adequate amount of cash and cash equivalents and the availability of non-current and current borrowings through access to sufficient credit amounts to meet the existing and expected liabilities. The Group manages its liquidity risk by arranging an adequate amount of committed credit facilities with banks, planning of terms of payment of trade payables, developing and analyzing future cash flows comprising both the existing and planned loans and interest on such loans.

The table below summarizes the maturity profile of the Group's financial liabilities as at 31 December 2018 based on contractual undiscounted payments.

40. Financial risk management (cont'd)

Group

		Up to 3 months	3 to 12 months	1 to 5 years	TOTAL
Loans from credit institutions	2019	364 242	1 314 097	7 543 467	**9 221 806**
	2018	264 241	1 781 320	7 924 445	**9 970 006**
Interest expense	2019	26 983	73 125	99 151	**199 259**
	2018	18 452	53 564	97 117	**169 133**
Finance lease liabilities	2019	12 380	29 805	92 006	**134 191**
	2018	49 099	147 298	663 258	**859 655**
Interest expense	2019	637	1 580	2 455	**4 672**
	2018	3 745	11 234	23 592	**38 571**
Trade and other payables	2019	3 649 154	75 144	-	**3 724 298**
	2018	3 090 852	-	-	**3 090 852**
Taxes	2019	559 513	-	-	**559 513**
	2018	564 012	-	-	**564 012**
TOTAL	**2019**	**4 612 909**	**1 493 751**	**7 737 079**	**13 843 739**
	2018	**3 990 401**	**1 993 416**	**8 708 412**	**14 692 229**

Parent Company

		Up to 3 months	3 to 12 months	1 to 5 years	TOTAL
Loans from credit institutions	2019	364 242	1 314 097	7 543 467	**9 221 806**
	2018	264 241	1 781 320	7 924 445	**9 970 006**
Interest expense	2019	26 983	73 125	99 151	**199 259**
	2018	18 452	53 564	97 117	**169 133**
Finance lease liabilities	2019	12 380	29 805	92 006	**134 191**
	2018	13 239	39 715	134 217	**187 171**
Interest expense	2019	637	1 580	2 455	**4 672**
	2018	824	2 472	4 646	**7 942**
Trade and other payables	2019	4 311 602	74 135	-	**4 385 737**
	2018	1 666 253	1 102 026	-	**2 768 279**
Taxes	2019	14 705	-	-	**14 705**
	2018	13 533	-	-	**13 533**
TOTAL	**2019**	**4 730 549**	**1 492 742**	**7 737 079**	**13 960 370**
	2018	**1 976 542**	**2 979 097**	**8 160 425**	**13 116 064**

The Group also manages liquidity by calculating EBITDA – earnings before interest, tax and depreciation/amortization.

		Group		Parent Company	
		2019	**2018**	**2019**	**2017**
		EUR	**EUR**	**EUR**	**EUR**
EBITDA	EUR	3 719 107	3 258 987	1 559 749	1 644 787
EBITDA	%	15	15	7	8

Credit risk

The Group is exposed to credit risk through its trade receivables and cash. The Group manages its credit risk by continuously assessing the credit history of customers and assigning trade credit limits and terms on an individual basis. In addition, receivable balances are monitored on an ongoing basis to ensure that the Group's exposure to bad debts is minimized. The

40. Financial risk management (cont'd)

Group uses credit risk insurance for factoring transactions where credit limits and credit rating are established. The Group's counterparties in money transactions are local financial institutions.

The Group's revenue from its largest customer does not exceed 30% of its total turnover. Except for that, the Group has no other customer or customer group the transactions with which would exceed 13% of the Group's total turnover.

Group		31.12.2019 EUR	31.12.2018 EUR
Trade receivables – not insured		791 791	707 492
Insured trade receivables (factoring)		1 410 579	1 205 340
	TOTAL:	**2 202 370**	**1 912 832**
Factoring prepayment made		(1 194 761)	(1 021 958)
		1 007 609	**890 874**

Parent Company		31.12.2019 EUR	31.12.2018 EUR
Trade receivables – not insured		1 216 958	1 011 724
Insured trade receivables (factoring)		1 410 579	1 170 600
	TOTAL:	**2 627 537**	**2 182 324**
Factoring prepayment made		(1 194 761)	(990 692)
		1 432 776	**1 191 632**

Capital management

The Group's objective is to maximize the return on capital to the companies' shareholders and by retaining a sound capital structure to maintain credibility with creditors, customers and market participants as well as to ensure sustainable operations. The primary task of the Group's capital management is to ensure that the Group maintains a strong credit rating and healthy capital ratios to support its business and increase the shareholder value. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions.

The Group and the Parent Company monitor the capital adequacy by calculating the equity-to-asset ratio:

Group	31.12.2019 EUR	31.12.2018 EUR
Equity	8 969 134	8 770 491
Total assets	29 752 560	25 349 981
Equity-to-asset ratio	**30%**	**35%**

Parent Company	31.12.2019 EUR	31.12.2018 EUR
Equity	8 387 293	8 136 819
Total assets	25 625 050	22 503 225
Equity-to-asset ratio	**33%**	**36%**

In the reporting period, both the equity level and the equity-to-asset ratio grew significantly. The existing equity level is more than sufficient for sound operations of the Group and meets the financial covenants set by the lending bank with a good margin. It is also sufficient to obtain new bank loans, if necessary.

40. Financial risk management (cont'd)
Geopolitical risk

Income from sales outside the European Union represents a small part of the Group's turnover (approximately 5% of the revenue), which gives rise to geopolitical risk. The global market of electronic manufacturing services is mainly affected by the US-China "trade war". The manufacturers of electronic systems in Eastern Europe benefit from higher US import tariffs on Chinese electronics products on the US market. On the other hand, the "trade war" has a dampening effect on the economy and reduces investment in infrastructure. The situation is not stable and may change at any time. The suspended raising of import duties has calmed down the market which has become more stable.

41. Fair value

The fair value of the financial assets and liabilities represent the amount at which the financial instrument could be exchanged in a current transaction between independent willing parties, other than in a forced or liquidation sale.

The table below provides the fair value measurement hierarchy of the Group's assets and liabilities at December 31, 2019.

41. Fair value (cont'd)

Group			Fair value measurement using		
	Total at carrying amount	Total at fair value	quoted prices in active markets (level 1)	significant observable inputs (level 2)	significant unobservable inputs (level 3)
	EUR	EUR	EUR	EUR	EUR
Assets and liabilities valued at fair value					
Convertible loan SIA Lightspace Technologies	4 461 446	4 461 446	-	4 461 446	-
Convertible loan SIA Zinātnes parks	-	-	-	-	-
Warrants	1 345 930	1 345 930	-	1 345 930	-
Investments in other companies	37 754	37 754	-	-	37 754
Other financial assets	84 078	84 078	-	-	84 078
Other financial liabilities	1 345 930	134 930	-	1 345 930	
Assets and liabilities valued at fair value					
Loan to shareholder	540 133	540 133	-	-	540 133
Loans from credit institutions	9 805 079	9 805 079	-	9 805 079	-
Lease liabilities	1 025 502	1 025 502	-	1 025 502	-

41. Fair value (cont'd)

Parent Company			Fair value measurement using		
	Total at carrying amount	Total at fair value	quoted prices in active markets (level 1)	significant observable inputs (level 2)	significant unobservable inputs (level 3)
	EUR	EUR	EUR	EUR	EUR
Assets and liabilities valued at fair value					
Konvertējamais aizdevums SIA "Lightspace Technologies"	4 461 446	4 461 446	-	4 461 446	-
Konvertējamais aizdevums SIA "Zinātnes parks"	823 700	823 700	-	823 700	-
Konvertējamie garantiju vērtspapīri (warrants)	1 345 930	1 345 930	-	1 345 930	-
Līdzdalība pārējo sabiedrību kapitālā	37 469	37 469	-	-	37 469
Citi finanšu ieguldījumi	84 078	84 078	-	-	84 078
Citas finanšu saistības	1 345 930	134 930	-	1 345 930	
Assets and liabilities valued at fair value					
Aizdevums akcionāram	540 133	540 133	-	-	540 133
Aizņēmumi no kredītiestādēm	9 207 113	9 207 113	-	9 207 113	-
Finanšu nomas saistības	133 846	133 846	-	133 846	-

41. Fair value (cont'd)

The table below provides the fair value measurement hierarchy of the Group's assets and liabilities at 31st December, 2019.

Group			Fair value measurement using		
	Total at carrying amount	Total at fair value	quoted prices in active markets (level 1)	significant observable inputs (level 2)	significant unobservable inputs (level 3)
	EUR	EUR	EUR	EUR	EUR
Assets and liabilities valued at fair value					
Convertible loan SIA Lightspace Technologies	2 454 123	2 454 123	-	2 454 123	-
Convertible loan SIA Zinātnes parks	1 134 580	1 134 580	-	1 134 580	-
Warrants	1 345 930	1 345 930	-	1 345 930	-
Investments in other companies	20 333	20 333	-	-	20 333
Other financial assets	123 987	123 987	-	-	123 987
Other financial liabilities	1 345 930	134 930	-	1 345 930	
Assets and liabilities valued at fair value					
Loan to shareholder	2 502 240	2 502 240	-	-	2 502 240
Loans from credit institutions	8 540 571	8 540 571	-	8 540 571	-
Lease liabilities	855 842	855 842	-	855 842	-

41. Fair value (cont'd)

Parent Company			Fair value measurement using		
	Total at carrying amount	Total at fair value	quoted prices in active markets (level 1)	significant observable inputs (level 2)	significant unobservable inputs (level 3)
	EUR	EUR	EUR	EUR	EUR
Assets and liabilities valued at fair value					
Convertible loan SIA Lightspace Technologies	2 454 123	2 454 123	-	2 454 123	-
Convertible loan SIA Zinātnes parks	1 134 580	1 134 580	-	1 134 580	-
Warrants	1 345 930	1 345 930	-	1 345 930	-
Investments in other companies	20 048	20 048	-	-	20 048
Other financial assets	123 987	123 987	-	-	123 987
Other financial liabilities	1 345 930	134 930	-	1 345 930	
Assets and liabilities valued at fair value					
Loan to shareholder	2 502 240	2 502 240	-	-	2 502 240
Loans from credit institutions	8 540 571	8 540 571	-	8 540 571	-
Lease liabilities	183 518	183 518	-	183 518	-

Assets measured at fair value are revalued property, plant and equipment (Note 26), which are revalued on non-recurring basis (once every five years) and would be classified under Level 3.

The following methods and assumptions were used to estimate the fair values:

- Cash and short-term deposits, trade receivables, trade payables and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.
- The fair value of the loans and borrowings has been calculated by discounting the expected future cash flows at prevailing interest rates, which are based on Level 2 measurement. No material difference between book value and fair value has been recognized.

42. Going concern

As at 31 December 2019, the Group's working capital (current assets) amounted to EUR 6.766 million, including a cash balance of EUR 254 thousand. The liquidity ratio of the Group historic values from 2015 to 2019 in the exhibit below indicate the ability of the company to effectively manage the current asset volumes.

Year	Dec 31, 2015	Dec 31, 2016	Dec 31, 2017	Dec 31, 2018	Dec 31, 2019
Liquidity ratio	1.41	0.91	0.69	1.02	0.85

The Group's management has prepared the budget and cash flow projection for the year 2020 ensuring adequate resources for financing the Group's operating activities as well as the expected investment flows. The prepared budget and cash flow were adjusted to the COVID-19 virus spread emergency situation, using the best knowledge available to the management of the Company at the time of preparing these financial projections. Future developments in the business environment may differ from the forecasts of the Group's management, nevertheless the key assumptions used in the Group's cash flow and liquidity projection for the year 2020 are as follows:

- No significant changes occur either in the business environment or the market both in the EU and Latvia, except for the emergency situation due COVID-19 virus spread estimated effects on the Group key financial indicators;
- In 2020, the Group continues to serve the existing customers and acquiring new customers.
- In response to emergency situation HansaMatrix has introduced internal code of emergency aimed to ensure safeguarding and maintaining good health of the employees in the Company. New internal regulations and business practices have been introduced to maintain ofperations of the Group during COVID-19 emergency situation.
- As a result of the impact of COVID-19, HansaMatrix does not expect to meet the previously announced 2020 revenue guidance published in the information exchange system of AS Nasdaq Riga on May 28, 2019.
- The Group invests in property, plant and equipment to maintain the equipment to the required standards and to ensure maintaining the existing production capacity;
- In 2020, the working capital is increased from the Group's operating cash flow;
- The Group continues investing up to certain limited levels in the strategic development projects to maintain their operation until the funding is obtained from EU grants, strategic or financial investors;
- In January 2020, HansaMatrix has signed agreements with SEB banka and SEB lizings to extend the maturity of factoring, overdraft, guarantee and reverse factoring for the next annual period of one year for a total amount of EUR 4.56 million for working capital financing that also include export financing transactions.
- The Group utilizes partial principal payment holidays for the existing longterm loans with SEB banka up to 6 months and utilizes the opportunities of the government support as applicable to HansaMatrix group to improve liquidity situation during the COVID-19 virus spread extraordinary situation.

In 2018, the Group entered into a EUR 10 million financing agreement with the European Investment Bank. The objective of the funding is to support the AS HansaMatrix Group's planned investments in 2018-2020 amounting to EUR 20 million. The funds granted by the European Investment Bank are mainly intended for co-funding the R&D activities, IT system development, boosting the production capacity at Ogre and Ventspils manufacturing plants and investments in production automation, thus facilitating the business growth as well as for increasing the current assets. The Group has utilized 5 million of this financing and in 2020 will evaluate the necessity to receive the remaining 5 million of EIB financing.

43. Events after the reporting date

Group companies SIA "HansaMatrix Ventspils", SIA "HansaMatrix Pārogre" and SIA "Zinātnes parks" (Subsidiaries) as at 31 December 2019 have short-term liabilities exceeding current assets, the management of AS "HansaMatrix" (Company) has assessed financial resources and opportunities and on April 22, 2020 has provided to its subsidiaries SIA "HansaMatrix Ventspils", SIA "HansaMatrix Pārogre" and SIA "Zinātnes parks" confirmations on the provision of financial support, if the Subsidiaries would need it for timely fulfillment of financial obligations.

The current developments regarding COVID-19 globally and in the Baltic states and the declaration of emergency situation introduced by March 12, 2020 Cabinet of Ministers of Latvian Republic Order No.103 On the Declaration of Emergency Situation (Latvian Republic Official Journal "Latvijas Vēstnesis", 2020, No. 51A, 52A, 52B, 54A) and by amendements thereof are influencing HansaMatrix business operations.

HansaMatrix top priority is safety and security of its employees and continuation of the operations during COVID-19 emergency situation period. As per report preparation date among company employees there are no infection cases. All business units operate at the available capacity.

HansaMatrix has a diversified supplier base. The Company has been in contact and discussed the developing COVID-19 situation with the key suppliers and logistics partners, all of which, located in the affected countires, are continuing the operations and are taking the virus spread and contraction precautionary measures. The electronic component supply chain disruptions due to coronavirus are expected to impact HansaMatrix manufacturing order execution, potentially shifting fulfillment times, and could increase component sourcing costs.

HansaMatrix continues to work closely with customers to better identify and understand the potential impact the COVID-19 situation may have on the manufacturing order book. Customers, located in the affected countries, are continuing the operations and are taking the virus spread and contraction precautionary measures. The manufacturing order volume can be influenced by potential decisions by businesses to postpone investments and by consumers to decrease expenditures and also by international travel restrictions preventing customers from promptly accepting the executed orders, which potentially can be mitigated by online solutions.

In response to the emergency situation HansaMatrix has introduced internal code of emergency aimed to ensure safeguarding and maintaining good health of the employees in the Company. New internal regulations and business practices have been introduced.

HansaMatrix plans to evaluate the necessity and suitability to utilize the available Latvian Republic government support mechanisms and programs for enterprises to minimize and overcome COVID-19 negative business impact.

As a result of management effort all business units of the Company, including Pārogre and Ventspils manufacturing plants, metal parts and optics product unit in Mārupe and head office in Mārupe are fully operational. HansaMatrix ensures safe working condition to workers present at all plants and offices of the Company and ensures remote work from home for employees where it is possible, effective and necessary. All requirements of self-isolation and quarantine stipulated by law are supported and enforced when necessary.

HansaMatrix remains confident in the Company long-term prospects and growth strategy. However current international travel restrictions, large-scale quarantines and social-distancing measures, implemented by many countries in Europe and worldwide could drive fall in business and consumer spending until the end of 2020 Q2, potentially impacting business volumes in 2020 Q3 as well.

As a result of the impact of COVID-19, HansaMatrix does not expect to meet the previously announced 2020 revenue guidance. Q1 2020 sales results are estimated to exhibit around 15% year on year decrease, compared to Q1 2019. Due to dynamic changes in the COVID-19 situation it is too early to provide the estimations of the potential impact on HansaMatrix sales in Q2 and Q3 of 2020.

HansaMatrix considers the COVID-19 impact to be short-term in nature, especially taking into account China experience with containing the virus, where indicators of people and goods movement, have significantly improved in only six weeks after the initial outbreak. (source: Harward Business review online article "How Chinese Companies Have Responded to Coronavirus", available: http://bit.ly/38VMPaV).

In January 2020, HansaMatrix has signed agreements with SEB banka and SEB lizings to extend the maturity of factoring, overdraft, guarantee and reverse factoring for the next annual period of one year for a total amount of EUR 4.56 million for working capital financing that also include export financing transactions.

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of HansaMatrix AS

Opinion

We have audited the accompanying consolidated financial statements of HansaMatrix AS and its subsidiaries (the Group) and the accompanying financial statements of HansaMatrix AS (the Parent Company) set out on pages 20 to 85 of the accompanying Annual Report, which comprise the statements of financial position as at 31 December 2019 and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements of the Group and the Parent Company give a true and fair view of the financial position of the Group and the Parent Company as at 31 December 2019, and of financial performance of the Group and the Parent Company and cash flows of the Group and the Parent Company for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union (the IFRS).

Basis for opinion

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 are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the independence requirements included in the Law on Audit Services of Republic of Latvia that are relevant to our audit of the financial statements in the Republic of Latvia. We have fulfilled our other ethical responsibilities in accordance with the Law on Audit Services of Republic of Latvia and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the Group and the Parent Company of the current period. These matters were addressed in the context of our audit of the financial statements of the Group and the Parent Company as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements of the Group and the Parent Company. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements of the Group and the Parent Company.

Key audit matter	How we addressed the key audit matter
Recoverability of investments in associated companies and valuation of investments in other companies and other loans (the Group and the Parent Company)	
The Group's and the Parent Company's investments in associated and other companies as at 31 December 2019 amounts to EUR 2 592 752 and EUR 3 747 358, respectively. (*Note 16 and Note 17*). Furthermore, other loans in the statements of financial position of the Group and the Parent Company amount to EUR 4 461 446 and EUR 4 461 446 as at 31 December 2019 (*Note 18*).	We obtained assessment of recoverability of investments in associated companies and valuation of other investments and loans prepared by the Group's management and identified the key assumptions used. We involved valuation specialists to assist us in performing our audit procedures and assessing the key assumptions used by the Group's management.

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Other loans, investments in associated and other companies correspond to 31% and 44% of the Group's and the Parent Company's assets, respectively.

Some of the companies, in which the Group and the Parent Company has invested in, are in the process of starting up their operations and their future cash flows are difficult to forecast. The Group's management has evaluated recoverability for these investments as disclosed in *Note 16, Note 17* and *Note 18*.

Investments in other companies and other loans in year 2019 are measured at fair value based on Group's management valuation as disclosed in *Note 16, Note 17* and *Note 18*.

Recoverability of investments in associated companies and valuation of other investments and loans requires the Group's management to make significant assumptions and judgements.

Due to the above facts and circumstances, we considered recoverability and valuation of investments and loans as key audit matter.

We discussed with the Group's management the development status of each start-up company and assessed the information and data used in the recoverability assessment and internal valuation prepared by the management. We considered the development plans of each company. In doing so, among other procedures, we reviewed whether the activities performed by Group's management are consistent with the milestones of investment programs and budgets of the companies.

We evaluated adequacy of the disclosures made in the financial statements, including the disclosures of the Group's management key assumptions and judgements (*Note 16, Note 17* and *Note 18*).

Monitoring of liquidity position (the Group and the Parent Company)

As explained in *Note 42*, as at 31 December 2019 the Group's current liabilities exceed its current assets by EUR 1 298 503. The Parent Company's current assets exceed its current liabilities by EUR 367 510.

The Group has to manage its liquidity risk by sustaining sufficient working capital, which, among others, includes ensuring that the Group is able to continue the use of trade receivables factoring facilities (*Note 20.*) and continuing the use of overdraft facilities (*Note 25*).

Due to the nature of the business and active expansion of the Group's activities, additional funding might be required, as reflected in the *Note 42*. The management's ability to generate adequate funds to ensure sufficient liquidity is based on several management assumptions, including prolongation of trade receivables factoring agreements, which expire within year 2019.

In addition, since the beginning of year 2020, the Covid-19 outbreak might leave an impact on the Group's activities and liquidity.

This matter is important to our audit since liquidity position and ability to secure continuing factoring and overdraft facilities can have an impact on the going concern assumption, on the basis of which the financial statements of the Group are prepared.

We obtained the liquidity forecasts prepared by the Group's management and evaluated the underlying assumptions, including assumptions related to the prolongation of trade receivables factoring facilities, continuing the use of overdraft facilities. We evaluated the significant assumptions made by the Group's management in the context of liquidity forecasts and Covid-19 impact assessment. We performed this evaluation with reference to the approved budgets and the supporting documents, where appropriate.

Regarding financial forecasts, we compared the estimates made by the Group's management in the budget with the actual trends. Furthermore, we evaluated the actual financial results for the first months of year 2020 and compared against the budgeted results. We also reviewed the financing available to the Group subsequently to the financial year end.

We also assessed the adequacy of related disclosures contained in *Note 42, Note 43*.

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Revenue recognition from contracts with customers (the Group and the Parent Company)

The Group and the Parent Company in 2019 have recognized in the statement of profit or loss revenue from contracts with customers amounting to 24 611 thousand EUR and 23 064 thousand EUR, respectively, as disclosed in Note 4.

There were significant judgements made by management in determining the appropriate basis of revenue recognition including recognition of revenue from production services, as outlined in Note 3.

Additionally, during year 2019 management reassessed implementation of IFRS 15 Revenue from Contracts with Customers (the IFRS 15). As a result, management identified that certain changes in revenue recognition principles were needed and correction in comparatives was recognized, as disclosed in Note 3.1.

Given the variety of contractual terms with the customers, as well as unique product types, revenue recognition is considered to be relatively complex and requires, among other things, continual operating effectiveness of controls over the revenue streams.

Revenue recognition was significant to our audit due to the materiality of revenue to the financial statements, potential impact from IFRS 15 and judgements related with revenue recognition.

In relation to revenue recognition we performed the following procedures, among others:

- we gained an understanding of the revenue recognition and measurement for production revenue streams;
- we tested a sample of key controls implemented over revenue recognition and measurement for production services revenue streams;
- we tested a sample of key controls over revenue recording, calculation of amounts billed to the Group's and Parent Company's customers and matching of cash receipts to the customers' accounts;
- we obtained external customer confirmations for selected largest customers recognized by the Group and the Company;
- we performed analytical review procedures by forming an expectation of revenue based on the key performance indicators, including taking into consideration the number and composition of the Group's and Parent Company's customers, production volumes, changes in service prices and comparing the results of our analysis against the prior reporting period.
- we tested a sample of revenue transactions near the financial year-end for their recognition in the appropriate accounting period.

In relation to IFRS 15 our procedures included the following:

- we obtained and reviewed updated IFRS 15 impact assessment prepared by the management;
- We have involved our IFRS specialists to assist us with the assessment of the judgements made by the management;
- we reviewed the arguments for changes in revenue recognition principles and resulting calculation of the correction in comparatives outlined in Note 3.1;
- we tested sample of customer contracts and reviewed management's IFRS 15 analysis to assess, whether performance obligations in the sales contracts have been appropriately identified and whether revenue related to the different performance obligations is recognized in accordance with IFRS 15 requirements.

We also assessed the adequacy of the revenue related disclosures in *Note 3*. In addition, we evaluated the disclosures related to significant judgements made by the management in relation to revenue recognition (Note 3) and disclosure regarding correction of error disclosed in Note 3.1.

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Reporting on other information

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

- the Management Report as set out on pages 4 to 18 of the accompanying Annual Report;
- the Statement on Management Responsibility, as set out on page 19 of the accompanying Annual Report;
- the Statement of Corporate Governance for the year 2019, set out in separate statement provided by HansaMatrix AS management and available on the HansaMatrix AS website http://www.hansamatrix.com,

but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information 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 Group and the Parent Company and their environment obtained in the course of our audit, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.
Other reporting responsibilities in accordance with the legislation of the Republic of Latvia

We have other reporting responsibilities in accordance with the Law on Audit Services of the Republic of Latvia with respect to the Management Report. These additional reporting responsibilities are beyond those required under the ISAs.

Our responsibility is to consider whether the Management Report is prepared in accordance with the requirements of the Law on 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 Annual Reports and Consolidated Annual Reports of the Republic of Latvia.

In accordance with the Law on Audit Services of the Republic of Latvia with respect to the Statement of Corporate Governance, our responsibility is to consider whether the Statement of Corporate Governance includes the information required in Article 56^1, paragraph one, clauses 3, 4, 6, 8 and 9 and Article 56^2, paragraph two, clause 5 of the Financial Instruments Market Law and if it includes the information stipulated in Article 56^2, paragraph two, clauses 1, 2, 3, 4, 7 and 8 of the Financial Instruments Market Law.
In our opinion, the Statement of Corporate Governance includes the information required in Article 56^1, paragraph one, clauses 3, 4, 6, 8 and 9 and Article 56^2, paragraph two, clause 5 of the Financial Instruments Market Law and it includes the information stipulated in Article 56^2, paragraph two, clauses 1, 2, 3, 4, 7 and 8 of the Financial Instruments Market Law.

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 the International Financial Reporting Standards 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 Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group and the Parent Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities 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 Group's and the Parent Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent Company'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 Group and the Parent Company 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 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.

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 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 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 and confirmations required by the legislation of the Republic of Latvia and European Union when providing audit services to public interest entities

We were first appointed as auditors of the Group and the Parent Company on 19th November, 2014 by shareholders. Our appointment has been renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of 5 years.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Parent Company;

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- as stipulated in paragraph 37^5 of the Law on Audit Services of the Republic of Latvia we have not provided to the Group and the Parent Company the prohibited non-audit services (NASs) referred to in EU Regulation (EU) No 537/2014. We also remained independent of the audited entity in conducting the audit.

The partner in charge of the audit resulting in this independent auditor's report is Diāna Krišjāne.

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Diāna Krišjāne
Chairperson of the Board
Latvian Certified Auditor
Certificate No. 124

Riga, 22 April 2020

Other notes to the financial statement

Definitions of alternative performance measures (APM)

APR, definition, components	Relates to past or future reporting periods	ASR usefulness	The Group uses APM for
EBIT: Operating profit	past	Shows the entity's ability to generate enough earnings to be profitable, pay down debt and taxes and fund ongoing operations.	Liquidity management and assessment of earning capacity and cash flows
EBIT margin: EBIT/ Revenue	Past	*Shows* the proportion of revenues that are *available* to *cover non-operating costs*.	Profitability assessment
EBITDA: Operating profit + Depreciation and amortization	Past	Shows an indicative amount of operating cash flows before changes in current assets	Liquidity management and assessment of earning capacity and cash flows
EBITDA margin: EBITA/ Revenue	Past	Shows the entity's ability to generate operating cash flows	Profitability assessment
Normalized earnings: Profit adjusted by the most significant expense or income that are not associated with actual cash expenditures (except depreciation).*	Past	Shows the entity's earning capacity by enhancing comparability between the periods	Liquidity management and assessment of earning capacity and cash flows
P/E ratio: Share price / Normalized earnings per share	Past	Can be used in making conclusions as to whether the Nasdaq Riga market price of the Group's shares is overstated or understated in comparison to other similar companies or the average market price	Determining the relative value per share
Net profit margin: Normalized earnings / Revenue	Past	Shows the entity's earning capacity	Profitability assessment
ROA: Normalized earnings / Total assets	Past	Shows how efficiently the assets are used to generate earnings.	Assessment of return on assets
ROE: Normalized earnings / Equity	Past	Shows how efficiently the equity is used to generate earnings	Determining return on equity
Current ratio: Current assets/ Current liabilities	Past	*Shows* the *extent* to which an entity has sufficient *current assets* to *cover* its *current liabilities*	Liquidity assessment
Return on Capital Employed (ROCE): Normalized earnings / (Total assets – Current liabilities)	Past	Shows how efficiently the capital employed is used to generate earnings	Assessment of return on capital employed

Compound annual growth rate (CAGR): (Investment's ending value/ Investment's beginning value)^(1/Number of periods)-1. CAGR is the rate of return that would be required for an investment to grow from its beginning balance to its ending balance, assuming the profits were reinvested at the end of each year of the investment's lifespan. .	Past	Shows a growth rate of a financial measure over a certain period of time assuming that the growth rate is the same over the equal span of time of the said period.	Assessment of the dynamics of financial indicators

*In these financial statements, the net profit has been adjusted to the normalized earning sonly for the year 2017 and the normalized earnings are disclosed only in the management report.

Normalized earnings in 2017: Net profit for 2017 – Deferred CIT liabilities reversed in 2017.
In 2017, deferred tax liabilities of EUR 0.451 million, calculated and recognized in the previous reporting periods, were reversed in the statement of profit or loss, pursuant to amendments made to the tax legislation of the Republic of Latvia, which entered into force on 1 January 2018; accordingly, the normalized earnings for the year 2017 was EUR 1.227 million.