



**JOINT STOCK COMPANY
HANSAMATRIX
UNIFIED REGISTRATION NUMBER 40003454390**

**CONSOLIDATED AND PARENT COMPANY'S ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017**

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

Riga, 2018

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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 2016 (end of the day)	SIA MACRO RĪGA (60.39%) Limited partnership FlyCap Investment Fund I AIF (22.08%) Swedbank AS customer accounts (10.38%)
Subsidiaries	SIA HansaMatrix Ventspils (100%) SIA HansaMatrix Innovation (100%) SIA Campus Pārogre (100%)
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 2017

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 of time.

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.

On 16 February 2018, one of the three members of the Management Board of the Parent Company Alvis Vagulis, Vice President of Operations and the Head of Ogre manufacturing plant, was dismissed and Māris Macijevskis, CFO of the Parent Company, was appointed a member of the Management Board.

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



Ilmārs Osmanis

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

Positions held in other companies:

- Campus Pārogre, SIA – Council Member
- 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): 1 104 729 shares

Participation in other companies:

- SIA Macro Rīga (100%)

Ilmārs Osmanis completed higher education in electrical engineering, later 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 an electronic components distribution business in the Baltic countries, SIA MACRO RĪGA, 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 the state-of-art high tech manufacturing groups in the Nordic and Baltic countries with 240 employees in its 3 manufacturing plants. In 2014 Mr. 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

Shares owned: 300

Participation in other companies:

- IQ Capital SIA (100%)

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. Mr. Macijevskis has been with the Parent Company since 2017.



Aldis Cimoška

Aldis Cimoška is a member of the Management Board of the Parent Company and the Head of Ventspils manufacturing plant.
Appointment date: 30 December 2015

Positions held in other companies:

- SIA HansaMatrix Ventspils – Board Member

Shares owned: 0

Aldis Cimoška holds an engineering degree in wood processing from Latvia University of Agriculture and EMBA degree from Riga Business School. He possesses extensive experience in managing a wooden house fabrication company. Mr. Cimoška has been with the Parent Company since 2013.

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: 13 June 2016

Term of office: 13 June 2021

Positions held in other companies:

- Riga Evangelical Parish – Chairman of the Board
- Cits medijs, AS – Council Member
- BuzzTale, SIA – Board Member
- TechHub Riga, foundation – Board Member
- KBZ, SIA – Chairman of the Board
- TechChill, foundation – Board Member
- Sonarworks, SIA – Council 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.

Krišs Osmanis

Krišs Osmanis is the Deputy Chairman of the Supervisory Board of the Parent Company.

Appointment date: 13 June 2016

Term of office: 13 June 2021

Shares owned: 0

Represents SIA MACRO RĪGA shareholding of 1 104 867 shares

Positions held in other companies:

- LightSpace Technologies, SIA – Chairman of the Council
- EUROLCDs, SIA – Deputy Chairman of the Council

Krišs Osmanis has been the leading electronics design engineer at the R&D department of the Parent Company since 2012. He holds a Dr.sci.ing. degree in Electronics from Riga Technical University. The professional experience of Krišs Osmanis includes high speed FPGA architecture and design, high speed driving of DLP based optical projection systems. He is the author of several scientific publications and patents.

Dagnis Dreimanis

Dagnis Dreimanis is a member of the Supervisory Board of the Parent Company.

Appointment date: 16 February 2018

Term of office: 16 February 2023

Positions held in other companies:

- Baltic Coffee Holding SIA, Council Member
- EVO grupa SIA, Chairman of the Council
- RUNWAY SIA, Council Member
- 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:

- 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: 13 June 2016

Term of office: 13 June 2021

Positions held in other companies:

- Mission Possible (Iespējamā Misija), Foundation – Chairman of the Board
- RĪGAS PIENA KOMBINĀTS, AS – Council Member
- i-bloom, SIA – Board Member
- Expobank, 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.

Gundars Strautmanis

Gundars Strautmanis is a member of the Supervisory Board of the Parent Company.

Appointment date: 27 April 2017

Term of office: 27 April 2022

Shares hold: 0

Gundars Strautmanis is an independent member of the Supervisory Board.

Positions held in other companies:

- Latvian Electrical Engineering and Electronics Industry Association – Board Member
- Engineer Jānis Linters fund – Board Member

Gundars Strautmanis, Dr.habil.sc.ing., professor, adds highly valuable executive and professional experience to the Supervisory Council of the Parent Company.

Gundars Strautmanis has graduated from Riga Polytechnic Institute with a degree in engineering and the Moscow Institute of Electronic Technology with a postgraduate degree. Additional business education includes programs at York University (Canada), Mastery University and Columbia University Business School (USA).

Dr. Gundars Strautmanis currently serves as a First Vice-president of Latvian Chamber of Commerce and Industry. He is a member of the European Economic and Social committee (EESC), a member of two internal structures of EESC – the

Employers' Group and the Consultative Commission on Industrial Change (CCMI), a non-executive adviser to CEO of Lattelecom SIA.

The previous positions: President-Chairman of the Board of Directors at Lattelecom SIA; Deputy Chairman of the Supervisory Council at Latvian Mobile Telephone (LMT) SIA; Supervisory Board member at the European Telecommunications Satellite Organization EUTELSAT, and others.

Gundars Strautmanis has received several state awards.

Changes in the Management Board

No changes in the Management Board during the reporting period.

On 16 February 2018, one of the three members of the Management Board of the Parent Company Alvis Vagulis, Vice President of Operations and the Head of Ogre manufacturing plant, was dismissed and Māris Macijevskis, CFO of the Parent Company, was appointed a member of the Management Board.

Changes in the Supervisory Board

On 27 April 2017, Gundars Strautmanis was re-appointed a member of the Supervisory Board. On 27 April 2017, the Supervisory Board of the Parent Company was dismissed - Jānis Skutelis, Chairman of the Supervisory Board; Krišs Osmanis, Deputy Chairman of the Supervisory Board; Andris Bērziņš, a member of the Supervisory Board; Māris Rambaks, a member of the Supervisory Board; and Ingrīda Blūma, a member of the Supervisory Board; and a new Supervisory Board of the Parent Company was appointed - Jānis Skutelis, Chairman of the Supervisory Board; Krišs Osmanis, Deputy Chairman of the Supervisory Board; Andris Bērziņš, a member of the Supervisory Board; Ingrīda Blūma, a member of the Supervisory Board; and Gundars Strautmanis, a member of the Supervisory Board.

On 18 January 2018, Jānis Skutelis left office of the Chairman of the Supervisory Board of the Parent Company. On 16 February 2018, the Supervisory Board of the Parent Company was dismissed - Krišs Osmanis, Deputy Chairman of the Supervisory Board; Andris Bērziņš, a member of the Supervisory Board; Gundars Strautmanis, a member of the Supervisory Board; Ingrīda Blūma, a member of the Supervisory Board; and a new Supervisory Board of the Parent Company was appointed - Andris Bērziņš, Chairman of the Supervisory Board; Krišs Osmanis, Deputy Chairman of the Supervisory Board; Dagnis Dreimanis, a member of the Supervisory Board; Ingrīda Blūma, a member of the Supervisory Board; and Gundars Strautmanis, a member of the Supervisory Board.

Audit Committee

The Audit Committee is responsible for supporting the Supervisory Board with internal and independent audits of the Parent Company and related issues, including relationships with independent auditors, developing plans for internal audits, reviewing internal audit reports, supervising the independent audit procedure. The shareholders' meeting appoints the members of the Audit Committee.

At the date of signing these financial statements, the shareholders of the Parent Company with their decision of 16 February 2018 entrusted the duties of the Audit Committee to the Supervisory Board of the Parent Company. The Audit Committee's functions in the Parent Company are executed by:

Andris Bērziņš, Chairman of the Supervisory Board, acting Chairman of the Audit Committee
Appointment date: 16 February 2018

Krišs Osmanis, Deputy Chairman of the Supervisory Board, acting member of the Audit Committee
Appointment date: 16 February 2018

Dagnis Dreimanis, a member of the Supervisory Board, acting member of the Audit Committee
Appointment date: 16 February 2018

Ingrīda Blūma, a member of the Supervisory Board, acting member of the Audit Committee
Appointment date: 16 February 2018

Gundars Strautmanis, a member of the Supervisory Board, acting member of the Audit Committee
Appointment date: 16 February 2018

By 27 April 2017, the shareholders of the Parent Company, in line with the decision of the shareholders' meeting, had transferred the responsibilities of the Audit Committee of the Parent Company to the Supervisory Board, the supervisory body of the Parent Company. Until the above date, the composition of the Supervisory Board was as follows: Jānis Skutelis, Chairman of the Supervisory Board; Krišs Osmanis, Deputy Chairman of the Supervisory Board; Andris Bērziņš, a member

of the Supervisory Board; Ingrīda Blūma, a member of the Supervisory Board; and Māris Rambaks, a member of the Supervisory Board.

In the period from 27 April 2017 to 18 February 2018, the shareholders of the Parent Company, in line with the decision of the shareholders' meeting, had transferred the responsibilities of the Audit Committee of the Parent Company to the Supervisory Board, the supervisory body of the Parent Company- Jānis Skutelis, Chairman of the Supervisory Board; Krišs Osmanis, Deputy Chairman of the Supervisory Board; Andris Bērziņš, a member of the Supervisory Board; Ingrīda Blūma, a member of the Supervisory Board; and Gundars Strautmanis, a member of the Supervisory Board.

On 18 January 2018, Jānis Skutelis left office of the Chairman of the Supervisory Board of the Parent Company and from this date up to 16 February 2018 the Audit Committee consisted of 4 members: Krišs Osmanis, Deputy Chairman of the Supervisory Board; Andris Bērziņš, a member of the Supervisory Board; Ingrīda Blūma, a member of the Supervisory Board; and Gundars Strautmanis, a member of the Supervisory Board.

Major shareholders

As at 31 December 2017 (end of the day), the major shareholders of the Parent Company were as follows:

Major shareholders (above 5%)	Number of shares and votes	Equity interest
Shareholder		
SIA MACRO RĪGA	1 104 729	60.39%
Limited partnership FlyCap Investment Fund I AIF	403 933	22.08%
Swedbank AS customer accounts	189 904	10.38%
Other (below 5%)	130 815	7.15%
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 with 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 segments. HansaMatrix has 16-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 reporting period 2017 with a net turnover of EUR 19.65 million, which by 15.8% exceeds the EUR 16.96 million reported in the previous period. During the reporting period, the Group reported EBITDA of EUR 3.660 million, compared to EUR 2.215 million in 2016; the net profit was EUR 1.678 million, compared to EUR 0.551 million in 2016, a 205% increase.

Ratios are explained under definitions of alternative performance ratios in the section “Other notes to the financial statements”.

Performance of the Parent Company

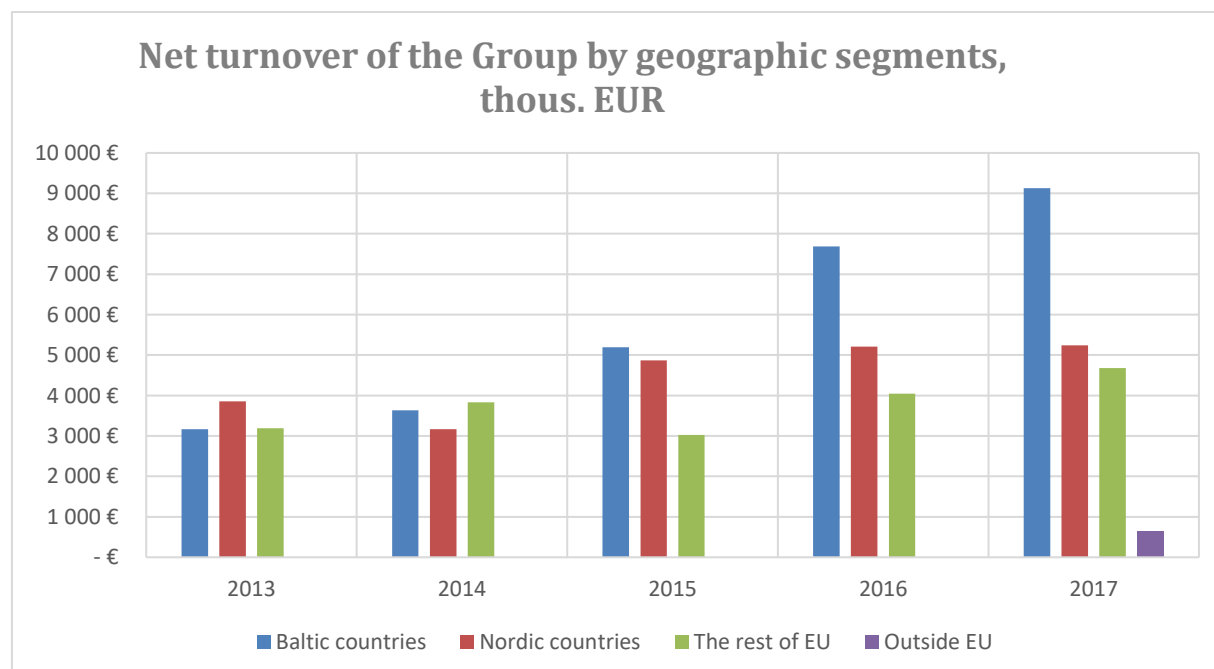
The Parent Company closed the reporting period 2017 with a net turnover of EUR 19.48 million, which by 14% exceeds the EUR 17.08 million reported in the previous period. During the reporting period, the Parent Company reported EBITDA of EUR 2.444 million, compared to EUR 1.700 million in 2016; the net profit was EUR 1.226 million, compared to EUR 0.542 million in 2016.



Sales Analysis of the Group for the Reporting Period

The majority of HansaMatrix business clients are in the Baltic and Nordic countries. The highest increase was in the Baltic region and other European Union countries.

Net turnover of the Group, thousand EUR	2013	2014	2015	2016	2017
Baltic region	3 169	3 633	5 359	7 689	9 125
Nordic countries	3 854	3 164	4 920	5 206	5 238
Other EU countries	3 189	3 830	3 054	4 044	4 679
Third countries					608



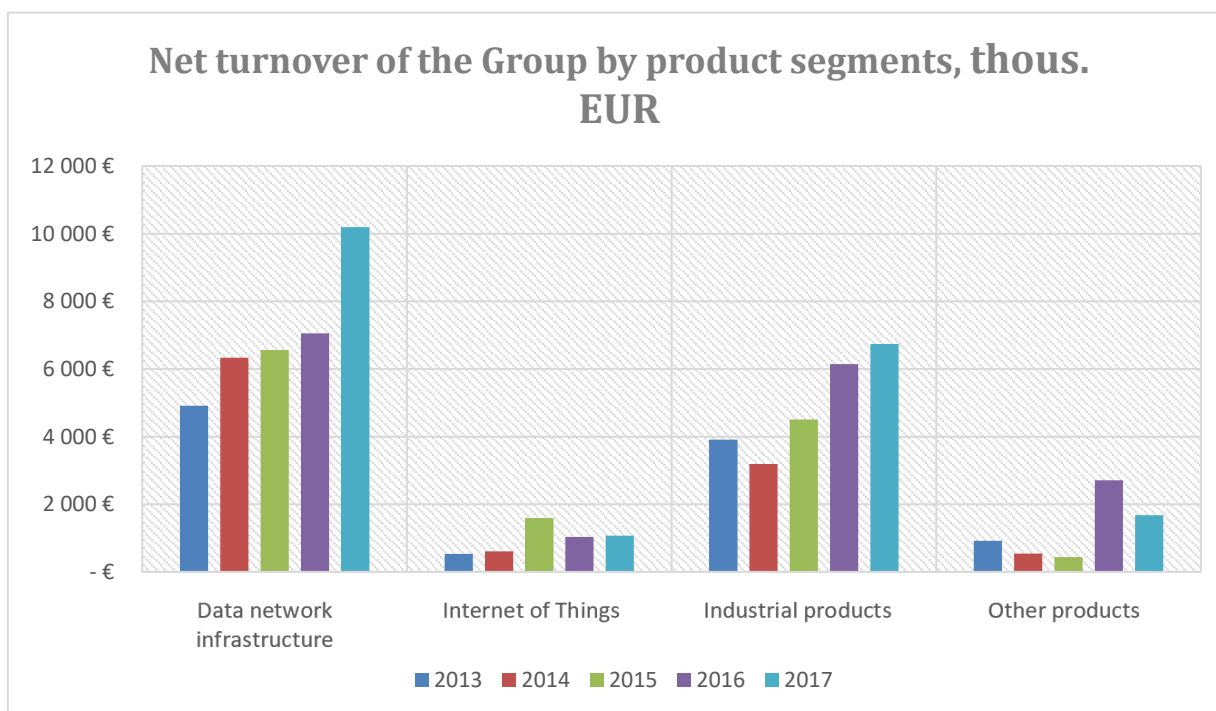
In 2017, the net turnover in the Baltic region grew by 19% in comparison to 2016. This is due to the growing demand from data network infrastructure and other market niche clients in the Baltic region. In other EU countries, a 16% growth reflects the growing demand for data network infrastructure and industrial products. In the Nordic region, the business grew by 1%. In 2017, the Group's sales in third countries totaled EUR 608 thousand.

The HansaMatrix sales focus on four major market segments: data network infrastructure products, the Internet of Things, industrial products, and other.



The largest market share in 2017 was data network infrastructure accounting for 52% of sales, up by 45% compared to the previous year. The second largest segment is that of industrial products with a 34% share of sales, where the growth was more moderate - up by 10% compared to the previous period. The third largest segment in terms of volume represents all other products with a 9% of the market share and a 38% sales decrease and the Internet of Things with a 6% share, up by 4% compared to 2016.

Net turnover of the Group, thousand EUR	2013	2014	2015	2016	2017
Data network infrastructure	4 914	6 329	6 651	7 055	10 191
Internet of Things	533	603	1 608	1 031	1 075
Industrial products	3 908	3 193	4 562	6 141	6 737
Other products	919	538	508	2 713	1 647



Investments

During the 12-months of 2017, the Parent Company invested approximately EUR 2 million in increasing production capacity, research instruments, test systems and development of new products. In addition, the Parent Company financed the construction project for a new annex to the production facility of Pärögre manufacturing plant EUR (135 thousand).

On 18 April 2017, AS HansaMatrix signed an agreement with the Central Finance and Contracting Agency regarding the implementation of Europe Union funded project No 1.2.1.4./16/A/021 "Experimental production set up for fabrication of volumetric three dimensional image display hardware and components to them". The total investment in the Project is EUR 2.899 million, of which the EU and Latvia government grant amount to EUR 1.015 million. The rest of the project will be financed from the Parent Company's own funds and bank loans. The project will be implemented in stages over a three-year period from 2017 to 2019.

In April 2017, the shareholder SIA Macro Riga started the repayment of the shareholder loan by making the first installment of EUR 100 thousand.

In 2017, the Parent Company issued an additional loan of EUR 159 000 to SIA Zinātnes parks for real estate development and operating expense coverage in accordance with the investment agreement between AS HansaMatrix and SIA Zinātnes parks, dated 18 January 2016.

On 31 August 2017, AS HansaMatrix Group signed an agreement with AS Swedbank on granting EUR 0.703 million for financing the lease of industrial equipment. A credit guarantee of EUR 562 thousand for financing the lease of industrial equipment was provided by the development finance institution ALTUM.

On 22 December 2017, AS HansaMatrix and AS SEB banka signed a loan agreement for EUR 4.9 million and an overdraft agreement for EUR 0.6 million to refinance all the existing loans from AS Citadele banka and all the leases with SIA Citadele lizings un faktoringu and SIA Swedbank lizings. Moreover, AS SEB banka has approved a new loan facility of EUR 1.5 million for new industrial leases and a loan of EUR 1.0 million for the construction of a new annex to the production facility of Pārogre manufacturing plant. The new funding will be available in 2018 and 2019.

Investments in Associates

On 10 January 2017, the investment loan to SIA Lightspace Technologies of EUR 200 thousand was converted into equity shares. After the conversion, the HansaMatrix held 17.21% of the shares in 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 and increasing the shareholding to 33.07%. In this investment round, AS HansaMatrix planned to invest EUR 649 635. During the 12-months of 2017, the Parent Company made all the planned investments in SIA Lightspace Technologies amounting to EUR 649 635. In addition, in the 4th quarter of 2017, AS HansaMatrix issued a convertible loan to SIA Lightspace Technologies amounting to EUR 222 207 which is considered to be a non-current investment loan.

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.

In accordance with International Financial reporting Standards (IFRS) and in line with the AS HansaMatrix accounting policy, after the increase in the shareholding SIA Lightspace Technologies has the status of an associate and its results for the reporting year will be presented in the HansaMatrix consolidated financial statements in proportion to the shareholding.

Research and Development

Starting from the 1st quarter of 2017, the HansaMatrix Group concentrated all new product and technology development activities and assets in HansaMatrix Innovation SIA, a 100% subsidiary.

During the last two years, the R&D engineer and researcher teams of HansaMatrix Innovation (a 100% subsidiary of AS HansaMatrix) 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. The R&D team currently consists of 22 engineers and researchers; 6 of them hold a Dr.Sci.Eng. degree either in optics or physics or electronics.

During the 12-month period, the R&D turnover reached EUR 0.912 million or 4.6% of the total consolidated sales. The prior year R&D turnover was not accounted for separately and, accordingly, is not available for comparison. The R&D grant income is not included in the R&D sales figures.

On 1 September 2017, the subsidiary SIA HansaMatrix Innovation entered into a new lease agreement for research and office premises at Ziedleju iela 1, Mārupe, LV2167, Latvia. The new premises will allow for facilitating new product and R&D business development as well as hosting the HansaMatrix headquarters.



Stock and Securities Market

On 4 January 2017, the shareholder SIA Macro Rīga sold 56 100 shares in AS HansaMatrix (HMX1R) at a price of EUR 6.85 per share. As a result of the transaction, the free float of AS HansaMatrix increased by 3.07%.

On 29 March 2017, the shareholder SIA Macro Rīga sold, by way of public bid, 24 971 shares in AS HansaMatrix (HMX1R) at a price of EUR 6.90 per share. As a result of the transaction, the free float of AS HansaMatrix increased by 1.36%.

Starting from July 2017, a strong upward trend in the share price has been observed reaching EUR 8.83 per share, which at the end of the year returned at the level of EUR 8.00 per share. See the following trading chart for the year 2017:



The securities trading history is summarized in the following table:

Price	2016	2017
First	6.950	7.950
Max	8.150	8.830
Min	6.950	6.900
Most recent transaction	7.950	8.140
Number	19 574	72 941
Turnover (millions)	EUR 0.15	EUR 0.51
Capitalization (millions)	EUR 14.54	EUR 14.89

Risk Exposure

The Group and the Parent Company, operating in a highly competitive market, are subject to **market risk**. The Parent Company manages risk with its business development strategy, which foresees the development of a highly automated and technologically developed manufacturing process, operating in diversified market segments with a growth tendency. Continued efforts are made for attracting new clients. As at 31 December 2017, the Parent Company had 26 regular clients, of which 15 account for at least 1% 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 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 37 to the financial statements, as at 31 December 2017, 73% 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 others 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 Parent Company. 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.

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 insignificant; for example, a 1% increase in the EURIBOR rate leads to a decrease in the net profit by less than 3%.

Subsequent events

On 4 January 2018, the shareholder limited partnership FLYCAP INVESTMENT FUND IAIF sold 120 000 shares (6.56% of shareholding) in AS HansaMatrix (HMX1R) at a price of EUR 6.55 per share. As a result of the transaction, the free float of AS HansaMatrix increased by 6.56%. The market was informed accordingly.

On 19 January 2018, the shareholder limited partnership FLYCAP INVESTMENT FUND I AIF sold 71 417 shares (3.90% of shareholding) in AS HansaMatrix (HMX1R) at a price of EUR 6.75 per share. As a result of the transaction, the free float of AS HansaMatrix increased by 3.90%. The market was informed accordingly.

On 26 January 2018, the shareholder SIA Macro Rīga sold 24 664 shares (1.35% of shareholding) in AS HansaMatrix (HMX1R) at a price of EUR 7.50 per share. As a result of the transaction, the free float of AS HansaMatrix increased by 1.35%. The market was informed accordingly.

As a result of the above, the free float of AS HansaMatrix increased and, according to the Parent Company, today it accounts for 29.34% of the shares.

On 19 January 2018, the Supervisory Board of AS HansaMatrix made changes within the Management Board. Alvis Vagulis resigned and Māris Macijevskis, who has worked as CFO of the Parent Company since 2017, was appointed.

With regard the resignation of Jānis Skutelis, Chairman of the Supervisory Board, the Management Board of AS HansaMatrix convened an extraordinary shareholders' meeting on 16 February 2018. The meeting made the following decisions:

- A new Supervisory Board was elected: Andris Bērziņš, Krišs Osmanis, Dagnis Dreimanis, Ingrīda Blūma, Gundars Strautmanis;
- The employee stock option plan was approved as well as the conditional increase in the share capital by issuing net 18 294 new shares (1% of the existing shares) with a par value of EUR 6.53 each.

Subsequent to the reporting period, on 13 February 2018, the shareholders of SIA EUROLCDs made a decision on increasing the share capital and approved the terms of share capital increase by issuing 1 019 new shares of SIA EUROLCDs. After the increase, the share capital of SIA EUROLCDs consists of 3 254 shares. The par value of each share is EUR 14. The total par value is EUR 45 556. On 13 February 2018, 1000 of the new shares of SIA EUROLCDs were obtained by SIA Lightspace technologies for EUR 1 400 000. The said amount will be repaid using a deferred payment scheme. As a result, SIA Lightspace technologies owns 1 000 shares or 30.73% of equity interest, AS HansaMatrix owns 360 shares or 11.06% of equity interest, Hornell Teknikinvest AB owns

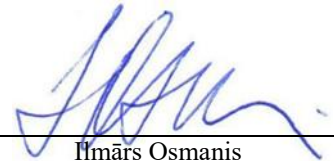
777 shares or 23.88% of equity interest and KS BaltCap Latvia Venture Capital Fund KOM owns 1 117 shares or 34.33% of equity interest in SIA EUROLCDs.

In the 1st quarter of 2018, the Parent Company pledged its real estate at Akmeņu iela 72, Ogre, its movable property and shares in subsidiaries and the subsidiaries pledged their movable property to AS SEB banka as security for the loan of EUR 4.9 million and the overdraft of EUR 0.6 million. The respective loan and overdraft agreements were signed on 22 December 2017 to refinance the Group's existing loans and finance leases.

In the 1st quarter of 2018, the Group refinanced all the loans from AS Citadele banka and the finance leases granted by SIA Citadele līzings un faktoring and SIA Swedbank līzings by using the above credit resources as well as cancelled all the pledges on the Group's movable and immovable property to AS Citadele banka.

Further development

In 2018, the Group and the Parent Company continue implementing their strategic development goals by raising the share of knowledge intensive product development and manufacturing and planning the sales growth in accordance with the announced sales projection until 2020.



Ilmārs Osmanis
Chairman of the management Board
9 April 2018

Statement of Management 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.

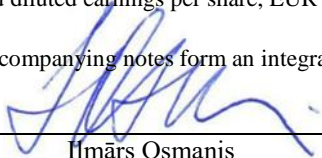
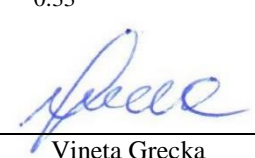
For the Management Board of AS HansaMatrix:



Ilmārs Osmanis
Chairman of the Management Board
9 April 2018

Financial statements

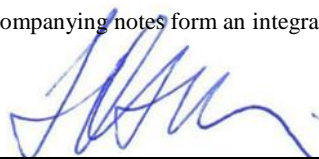
Statement of comprehensive income

	Notes	Group		Parent Company	
		2017 EUR	2016 EUR	2017 EUR	2016 EUR
Net turnover	3	19 649 402	16 961 077	19 475 270	17 077 584
Cost of sales	4	(15 923 235)	(14 690 351)	(17 379 517)	(15 226 228)
Gross profit		3 726 167	2 270 726	2 095 753	1 851 356
Distribution costs	5	(782 658)	(631 749)	(171 465)	(395 927)
Administrative expense	6	(1 473 242)	(1 318 232)	(691 200)	(1 009 174)
Other operating income	7	456 020	548 196	221 835	297 294
Other operating expense	8	(48 797)	(86 186)	(22 095)	(72 609)
Operating profit		1 877 490	782 755	1 432 828	670 940
Loss from investments in associates	15	(107 712)	(16 637)	-	-
Financial income		93 591	92 919	93 591	92 919
Financial expense	9	(415 616)	(286 057)	(393 378)	(284 587)
Profit before tax		1 447 753	572 980	1 133 041	479 272
Corporate income tax	10	(219 814)	(532)	(219 814)	-
Deferred corporate income tax	10	451 051	(21 251)	312 709	62 299
Net profit for the reporting period		1 678 990	551 197	1 225 936	541 571
<i>Other comprehensive income for the reporting year after tax:</i>					
Non-current asset revaluation reserve		686 344	-	686 344	-
Total comprehensive income for the reporting year after tax		2 365 334	551 197	1 912 280	541 571
Profit and comprehensive income attributable to:					
Equity holders of the Parent Company		1 678 990	551 197	1 225 936	541 571
Non-controlling interests		-	-	-	-
		1 678 990	551 197	1 225 936	541 571
Basic and diluted earnings per share, EUR	12	0.92	0.33		
The accompanying notes form an integral part of these financial statements.					
 Ilmārs Osmanis Chairman of the Management Board 9 April 2018		 Vineta Grecka Chief Accountant 9 April 2018			

Statement of financial position

ASSETS			Group		Parent Company	
	Notes	31.12.2017	31.12.2016	31.12.2017	31.12.2016	
NON-CURRENT ASSETS		EUR	EUR	EUR	EUR	
Intangible assets						
ODM assets		21 002	29 696	-	29 696	
Other intangible assets		190 502	225 674	111 119	175 644	
Total intangible assets	13	211 504	255 370	111 119	205 340	
Property, plant and equipment						
Land and buildings		3 753 000	3 106 074	3 753 000	3 106 074	
Equipment and machinery		4 603 940	3 908 704	2 138 878	2 497 784	
Other fixtures and fittings, tools and equipment		604 064	506 238	123 315	243 883	
Leasehold improvements		37 856	29 760	12 508	22 924	
Construction in progress		214 460	549 453	214 460	332 619	
Total property, plant and equipment	14	9 213 320	8 100 229	6 242 161	6 203 284	
Non-current financial assets						
Investments in subsidiaries	15	-	-	449 662	449 662	
Investments in associates	15	1 006 921	-	1 080 946	960	
Investments in other companies	16	662 818	661 779	662 533	661 494	
Other investment loans	17	1 017 583	871 023	1 067 907	886 700	
Loans to shareholders	34	1 912 227	1 234 318	1 912 227	1 234 318	
Other non-current receivables		52 956	15 800	16 019	15 800	
Total non-current financial assets		4 652 505	2 782 920	5 189 294	3 248 934	
TOTAL NON-CURRENT ASSETS		14 077 329	11 138 519	11 542 574	9 657 558	
CURRENT ASSETS						
Inventories						
Raw materials and consumables		1 848 213	1 101 060	1 584 554	1 067 915	
Work in progress		835 349	494 841	585 478	494 841	
Total inventories	18	2 683 562	1 595 901	2 170 032	1 562 756	
Receivables and prepayments						
Trade receivables	19	911 892	932 042	558 135	923 472	
Receivables from related companies	20	-	-	625 188	324 037	
Prepayments for goods		41 828	120 071	35 328	93 521	
Loans to shareholders	34	550 000	1 234 318	550 000	1 234 318	
Prepaid expense		42 125	34 036	14 321	26 387	
Corporate income tax	31	1 000	126 951	-	126 602	
Other receivables	21	95 216	216 293	2 988	38 964	
Total receivables and prepayments		1 642 061	2 663 711	1 785 960	2 767 301	
Cash and cash equivalents	22	259 185	381 891	254 337	380 598	
TOTAL CURRENT ASSETS		4 584 808	4 641 503	4 210 329	4 710 655	
TOTAL ASSETS		18 662 137	15 780 022	15 752 903	14 368 213	

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



Ilmārs Osmanis
Chairman of the Management Board
9 April 2018



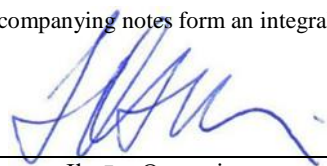
Vineta Grecka
Chief Accountant
9 April 2018

Statement of financial position


EQUITY AND LIABILITIES

	Notes	Group		Parent Company	
		31.12.2017	31.12.2016	31.12.2017	31.12.2016
EQUITY		EUR	EUR	EUR	EUR
Share capital	23	1 829 381	1 829 381	1 829 381	1 829 381
Share premium	23	2 435 579	2 435 579	2 435 579	2 435 579
Reserves	23	313	313	313	313
Non-current asset revaluation reserve	24	2 286 031	1 335 097	2 286 031	1 335 097
Retained earnings/ (accumulated loss):					
a) brought forward		(95 482)	(670 111)	(154 583)	(719 586)
b) for the period		1 678 990	551 197	1 225 936	541 571
TOTAL EQUITY		8 134 812	5 481 456	7 622 657	5 422 355
LIABILITIES					
Non-current liabilities					
Loans from credit institutions	25	2 715 009	3 624 391	2 715 009	3 624 391
Finance lease liabilities	26	618 154	142 299	273 099	113 256
Deferred income	27	572 707	742 282	345 054	464 041
Deferred income tax liabilities	10	-	686 656	-	548 314
Total non-current liabilities		3 905 870	5 195 628	3 333 162	4 750 002
Current liabilities					
Loans from credit institutions	25	1 529 016	1 636 007	1 529 016	1 636 007
Finance lease liabilities	26	437 872	56 915	98 782	42 196
Prepayments received from customers	28	517 148	440 531	429 735	440 531
Trade payables	29	2 772 580	2 035 078	2 016 377	1 525 306
Payables to related companies	34	-	-	232 366	103 676
Taxes payable	30	491 521	338 941	48 046	88 427
Corporate income tax	31	177 702	532	177 702	-
Other liabilities	32	207 072	226 829	22 818	125 235
Deferred income	27	169 577	169 578	118 987	118 987
Accrued liabilities	33	318 967	198 527	123 255	115 491
Total current liabilities		6 621 455	5 102 938	4 797 084	4 195 856
TOTAL LIABILITIES		10 527 325	10 298 566	8 130 246	8 945 858
TOTAL EQUITY AND LIABILITIES		18 662 137	15 780 022	15 752 903	14 368 213

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



Ilmārs Osmanis
Chairman of the Management Board
9 April 2018

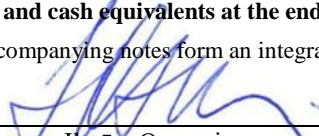


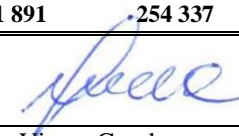
Vineta Grecka
Chief Accountant
9 April 2018

Statement of cash flows

		Group		Parent Company	
	Notes	2017	2016	2017	2016
		EUR	EUR	EUR	EUR
CASH FLOWS TO/ FROM OPERATING ACTIVITIES					
Profit before tax		1 447 753	572 980	1 133 041	479 272
Adjustments for:					
Depreciation and amortization	13.14	1 782 264	1 431 925	1 010 921	1 029 216
Depreciation included in the cost of work in progress		24 779	(5 594)	-	(5 594)
Interest expense	9	247 188	257 695	234 908	256 283
Interest income	34	(93 591)	(92 919)	(93 591)	(92 919)
Decrease in allowances for slow-moving items and receivables	18	(42 631)	(189 376)	(43 658)	(189 542)
Income from grant recognition	7	(169 575)	(169 578)	(118 987)	(118 988)
Gain on disposal of property, plant and equipment	7	(2 811)	(13 911)	(917)	(13 911)
Group's share of loss of an associate recognized in the statement of comprehensive income	15	107 712	16 637	-	-
Adjustments for:					
Decrease/ (increase)/ decrease in inventories		(1 045 030)	722 842	(563 618)	734 201
Decrease/ (increase)/ in receivables		274 198	(287 007)	172 770	(157 155)
Increase(decrease) in payables		1 123 456	(157 190)	512 882	(563 508)
Cash generated from operations, gross		3 653 712	2 086 504	2 850 387	2 243 751
Interest paid		(247 161)	(257 668)	(237 476)	(237 476)
Corporate income tax paid		83 307	(170 787)	84 490	84 490
Net cash flows to/ from operating activities		3 489 858	1 658 049	2 697 401	981 623
CASH FLOWS TO/ FROM INVESTING ACTIVITIES					
Purchase of intangible assets and property, plant and equipment	13.14	(2 114 036)	(1 606 196)	(768 569)	(768 569)
Proceeds from sale of property, plant and equipment		34 223	16 153	917	607 553
Investments in and loans to other companies	15,16	(1 262 232)	(1 024 200)	(1 162 232)	(1 162 232)
Net cash flows to/ from investing activities		(3 342 045)	(2 614 243)	(1 929 884)	(1 904 020)
CASH FLOWS TO/ FROM FINANCING ACTIVITIES					
Dividends paid		(54 881)	(29 720)	(54 881)	(54 881)
Increase in share capital		-	1 623 593	-	-
Loans received from credit institutions		181 474	546 462	181 474	181 474
Loans repaid to credit institutions		(1 253 924)	(1 191 043)	(1 253 924)	(1 253 924)
Loans from lease companies		1 002 443	335 717	300 946	300 946
Loans repaid to lease companies		(145 631)	(202 326)	(67 393)	(67 393)
Net cash flows to/ from financing activities		(270 519)	1 082 683	(893 778)	1 051 550
Change in cash and cash equivalents for the year		(122 706)	126 489	(126 261)	129 153
Cash and cash equivalents at the beginning of the year	22	381 891	255 402	380 598	251 445
Cash and cash equivalents at the end of the year	22	259 185	381 891	254 337	380 598

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


Ilmārs Osmanis
Chairman of the Management Board
9 April 2018

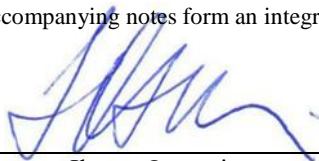

Vineta Grecka
Chief Accountant
9 April 2018

Statement of changes in equity


Group

	Share capital EUR	Share premium EUR	Reserves EUR	Non-current asset revaluation reserve EUR	Retained earnings/ (accumulated loss) EUR	Total EUR
Balance as at 31 December 2015	1 546 380	1 094 987	313	1 401 665	(706 959)	3 336 386
Profit for the reporting year	-	-	-	-	551 197	551 197
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	551 197	551 197
Share capital increase	283 001	1 564 996	-	-	-	1 847 997
Share issue costs	-	(224 404)	-	-	-	(224 404)
Depreciation of revalued items of property, plant and equipment	-	-	-	(78 315)	78 315	-
Deferred corporate income tax related to revalued items of property, plant and equipment	-	-	-	11 747	(11 747)	-
Dividends paid	-	-	-	-	(29 720)	(29 720)
Balance as at 31 December 2016	1 829 381	2 435 579	313	1 335 097	(118 914)	5 481 456
Profit for the reporting year	-	-	-	-	1 678 990	1 678 990
Other comprehensive income	-	-	-	686 344	-	686 344
Total comprehensive income	-	-	-	686 344	1 678 990	2 365 334
Depreciation of revalued items of property, plant and equipment	-	-	-	(78 315)	78 315	-
Reversal of deferred corporate income tax	-	-	-	342 905	(2)	342 903
Dividends paid	-	-	-	-	(54 881)	(54 881)
Balance as at 31 December 2017	1 829 381	2 435 579	313	2 286 031	1 583 508	8 134 812

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



Ilmārs Osmanis
Chairman of the Management Board
9 April 2018



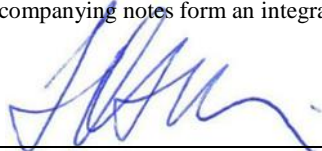
Vineta Grecka
Chief Accountant
9 April 2018


Statement of changes in equity (cont'd)

Parent Company

	Share capital EUR	Share premium EUR	Reserves EUR	Non-current asset revaluation reserve EUR	Retained earnings/ (accumulated loss) EUR	Total EUR
Balance as at 31 December 2015	1 546 380	1 094 987	313	1 401 665	(756 434)	3 286 911
Profit for the reporting year	-	-	-	-	541 571	541 571
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	541 571	541 571
Share capital increase	283 001	1 564 996	-	-	-	1 847 997
Share issue costs		(224 404)	-	-	-	(224 404)
Depreciation of revalued items of property, plant and equipment	-	-	-	(78 315)	78 315	-
Deferred corporate income tax related to revalued items of property, plant and equipment	-	-	-	11 747	(11 747)	-
Dividends paid	-	-	-	-	(29 720)	(29 720)
Balance as at 31 December 2016	1 829 381	2 435 579	313	1 335 097	(178 015)	5 422 355
Profit for the reporting year	-	-	-	-	1 225 936	1 225 936
Other comprehensive income	-	-	-	686 344	-	686 344
Total comprehensive income	-	-	-	686 344	1 225 936	1 912 280
Depreciation of revalued items of property, plant and equipment	-	-	-	(78 315)	78 315	-
Reversal of deferred corporate income tax	-	-	-	342 905	(2)	342 903
Dividends paid	-	-	-	-	(54 881)	(54 881)
Balance as at 31 December 2017	1 829 381	2 435 579	313	2 286 031	1 071 353	7 622 657

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


Ilmārs Osmanis
Chairman of the Management Board
9 April 2018


Vineta Grecka
Chief Accountant
9 April 2018

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 reorganization of the Parent Company was completed on 30 December 2015; as a result, the Parent Company's name and status have been changed from the limited liability company Hanzas Elektronika to the joint stock company HansaMatrix. 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 Note 15 and Note 34 on related parties disclosures.

The major shareholder of the Parent Company is SIA MACRO RĪGA which owns 60.39% (2016: 64.83%) of the Parent Company's shares. The sole shareholder of SIA MACRO RĪGA and owner of 60.39% (2016: 64.83%) of the parent Company's shares is Ilmārs Osmanis.

The financial statements for the year ended 31 December 2017 were approved by a decision of the Parent Company's Board on 10 April 2018.

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

2. Summary of significant accounting policies

2.1. Basis of preparation

The financial statements present the consolidated financial position of the HansaMatrix Group (i.e. AS HansaMatrix and its subsidiaries) and the financial position of the 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 consolidated financial statements are presented in euros (EUR). The consolidated financial statements cover the period 1 January 2017 through 31 December 2017.

2.2. Basis of consolidation (the Group)

The consolidated financial statements comprise the financial statements of AS HansaMatrix and entities controlled by the Parent Company (its subsidiaries) as at 31 December 2017. The financial statements of the subsidiaries are prepared for the same reporting period as for the Parent Company, using consistent accounting policies.

Control is achieved when the Parent Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

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.

2.3. Summary of significant accounting policies

Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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 principal or the most advantageous market must be accessible by the Group and the Parent Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

2.3. Summary of significant accounting policies (cont'd)

Fair value (cont'd)

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

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.

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 such several customers, after the expected economic result has been evaluated. This process is accurately managed, 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.

The use of ODM assets brings material benefits through their direct licensing, with the related license fee included in the selling price and the related amortization charge included in production costs, or their use in production process, thereby deriving indirect benefits, reduced production costs, etc.

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. Expected amortization period of ODM assets is 3 years. The selling price per unit of the ODM asset included in the price of delivery of the product may be higher than its amortization expense. ODM assets may be applied to a larger quantity of units, as may be necessary for amortization purposes.

2.3. Summary of significant accounting policies (cont'd)

ODM (Original Design Manufacturing) assets (cont'd)

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 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 its 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.

Research and development expenditure

Expenditure on research is recognized as an expense when it is incurred. Development expenditure incurred on an individual project is capitalized if an entity can demonstrate that there is the technical feasibility of completing the intangible asset arising from development so that it will be available for use or sale, there is the intention to complete the intangible asset and the ability to use or sell it, that the intangible asset will generate future economic benefits, adequate resources are available to complete the intangible asset and expenditure may be measured reliably during the development of the asset. 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.

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 stated at fair value. 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 8 years
Other property, plant and equipment	over 3 to 14 years

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.

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.

The Group revalue real estate – land and buildings.

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.

2.3. Summary of significant accounting policies (cont'd)

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 valuers.

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 Statement of 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.

Investments in subsidiaries and associates (Parent Company)

Investments in subsidiaries (i.e. where the Parent Company holds more than 50% interest of the share capital or otherwise controls the company) and associates (i.e. an entity over which the Parent Company has significant influence without control over the financial and operating policy decisions of the investee) are recognized at cost according to IAS 27. Following initial recognition, investments in subsidiaries and associates are carried at cost less any accumulated impairment losses. The carrying values of investments are reviewed for impairment at each statement of financial position date. The Parent Company calculates the amount of impairment as the difference between the recoverable amount of the subsidiary or associate and its carrying value, then, recognizes the loss in the statement of comprehensive income.

Dividends received from subsidiaries and associates are recognized in statement of comprehensive income when the Parent Company's right to receive the dividend is established.

The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries.

Investment in associates (Group)

The Group's investments in its associates are accounted for using equity method. Under the equity method, the investment 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. Group's share in the associates is recognized in the Statement of comprehensive income.

The Group's share of the results of operations of associate is reflected in the statement of comprehensive income. Unrealized gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. 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, then recognizes the loss as 'Loss from investment in an associate' in the statement of comprehensive income.

Financial assets

Investments in other entities where the Parent Company holds less than 20% of the share capital are classified as financial assets. After the initial recognition, the financial assets subsequently are measured at cost less any impairment loss, if the financial assets have no active market.

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. All financial assets are recognized initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group and the Parent Company determine the classification of its financial assets on initial recognition and, where allowed and appropriate, re-evaluates the designation at each financial year end.

2.3. Summary of significant accounting policies (cont'd)

Financial assets (cont'd)

All regular way purchases and sales of financial assets are recognized on the trade date, which is the date when the Group and the Parent Company commit to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

The carrying values of investments are reviewed for impairment at each financial year-end. The Group calculates the amount of impairment as the difference between the recoverable amount of the company and its carrying value, then, recognizes the loss in the statement of comprehensive income.

Loans and borrowings

Loans and borrowings are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and borrowings are initially recognized at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, loans and borrowings are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses are recognized in the statement of comprehensive income as financial income or financial expense.

Trade and other receivables

Trade and other receivables are recognized and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when recovery is deemed impossible.

Gains and losses are recognized in the statement of comprehensive income when the receivables are derecognized or impaired.

Factoring

Factoring is a financial transaction and a type of debtor finance in which a business sells its accounts receivable. Proceeds received in accordance with factoring agreements are recognized as prepayments from customers when the Group or the Parent Company remains exposed to the credit risk associated with the respective debtor. When the credit risk remains with the contracting party, the proceeds are directly netted against respective debtor balance.

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 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.

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;
- finished goods and work in progress – cost of direct materials and labor and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

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.

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.

2.3. Summary of significant accounting policies (cont'd)

Contingencies

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

Leases

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.

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.

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.

Revenue

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the Parent Company and the revenue can be reliably measured, less value added tax and sales-related discounts. The following specific recognition criteria must also be met before revenue is recognized:

Sale of goods

Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer.

Rendering of services

The Group and the Parent Company basically provides manufacturing services. Revenue is recognized in the period when the services are rendered.

Interest

For all financial instruments measured at amortized cost and interest bearing financial assets classified as available for sale, interest income or expense is recorded using the effective interest rate (EIR). Interest income is included in financial income in the statement of comprehensive income.

Segments

Reportable segments are operating segments or their aggregation which meet certain criteria. Operating segments are units of the Group, on which separate financial information is available, which is regularly assessed for the purpose of making decisions about resource allocation and performance assessment. The Group and the Parent Company focus on four major market segments: data network infrastructure products, the Internet of Things, industrial products, and other. The Group and the Parent Company have one business segment, which is manufacturing services.

2.3. Summary of significant accounting policies (cont'd)

Income taxes

Income taxes include current and deferred taxes. Current corporate income tax is applied at the statutory rate of 15%.

Legal entities will not be 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 will be 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 will be 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 statement of 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.

Deferred tax assets and liabilities

Until 31 December 2017, given that the Company is a group's parent company and prepares consolidated annual reports in accordance with International Accounting, the Company had chosen to apply Article 13(5)(2) of the Law on Annual Reports and Consolidated Annual Reports and recognized and measured deferred tax assets and deferred tax liabilities, as well as provided explanatory information under the captions "Deferred tax assets", "Deferred tax liabilities" and "Income or expense from changes in deferred tax assets or deferred tax liabilities" in accordance with IAS 12 "Income Taxes". Deferred tax was 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 were measured at the tax rates that were expected to apply to the period when the asset was realized or the liability was settled, based on tax rates that had been enacted or substantively enacted by the balance sheet date.

Deferred tax assets and liabilities are not recognized for the year 2017 in accordance with amendments to the legislation of the Republic of Latvia, which entered into force on 1 January 2018. Accordingly, deferred tax [liabilities](#) which were calculated and recognized in previous reporting periods have been reversed through the current statement of profit or loss or reserves, depending on whether deferred tax liabilities or assets were recognized initially in the statement of profit or loss or reserves, in the financial statements for the year ended 31 December 2017; according to the International Accounting Standard, changes in the tax legislation must be presented in financial statements in the period when they are adopted.

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.

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 does not include subsidiaries.

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 take into account the timing of the issue of new shares.

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.

2.4. 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. Judgments and estimates include depreciation, allowances for doubtful receivables and inventories, 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 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:

Carrying amounts of property, plant and equipment

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).

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 valuers 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 taking into account 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 24) and next revaluation is planned in 2022.

Recoverability of deferred tax asset

The Group assesses the extent of taxable profits during the period of utilization of tax losses. At each reporting date, the Group's management analyses the recoverability of deferred tax and reduces the deferred tax asset if it is no longer probable that during the period of utilization of tax losses future taxable profits will be available against which unused tax losses can be utilized. Pursuant to amendments made to the tax legislation of the Republic of Latvia, which entered into force on 1 January 2018, no tax assets or liabilities were recognized.

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 2017 (Note 18).

Allowances for doubtful and bad receivables

The Company's management evaluates the carrying amounts of receivables and assesses their recoverability, making an allowance for doubtful and bad receivables, if necessary. The Company's management has evaluated the receivables and considers that it is not necessary to make an additional significant allowance as at 31 December 2017 (Note 19).

Impairment of financial assets

The Group and the Parent Company assesses at each statement of financial position date whether a financial asset or group of financial assets is impaired. An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. Such reversal is recognized in statement of comprehensive income.

Impairment of non-financial assets

At the end of each reporting period the Group and the Parent Company assess whether there are any indicators of impairment for a non-financial asset or a group of non-financial assets (investments in subsidiaries and associates). The assessment is disclosed in Note 15.

2.4. Significant accounting judgments, estimates and assumptions

Segments

An operating segment is a component of an entity: a) that engages in business activities from which it may earn revenues and incur expenses; b) whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and c) for which discrete financial information is available. The Group and the Parent Company focus on four major market segments: data network infrastructure products, the Internet of Things, industrial products, and other, which actually is an informative breakdown of the entity's sales by customer industry, and the above segments do not meet paragraphs b) and c) of the segment definition. The Group and the Parent Company have one business segment, which is manufacturing services.

Capitalization of development costs

The Group and the Parent Company capitalize development costs according to the accounting policy. The management makes its estimates based on the facts and circumstances specific to each particular project. Initially, the costs are capitalized on the basis of the management judgment regarding the technological and economic feasibility of the respective project. Such judgment is considered the basis for the capitalization of costs which subsequently upon recognition and once a year is tested for impairment until the development stage is completed and the certificates required in the laws and regulations are obtained.

For financial assets carried at amortized cost, the Group and the Parent Company first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group and the Parent Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment. The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognized in statement of comprehensive income. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the statement of comprehensive income (Note 15 and Note 16).

2.5. Changes in accounting policies and disclosures

The accounting policies are consistent with those followed in the preparation of the Group's and the Parent Company's annual financial statement for the previous periods, except the following new and amended IFRSs and IFRICs which have been adopted by the Group and the Parent Company as at 1 January 2017:

IAS 12: Recognition of Deferred Tax Assets for Unrealized Losses (Amendments)

The objective of the Amendments is to clarify the requirements of deferred tax assets for unrealized losses in order to address diversity in practice in the application of IAS 12 Income Taxes. The specific issues where diversity in practice existed relate to the existence of a deductible temporary difference upon a decrease in fair value, to recovering an asset for more than its carrying amount, to probable future taxable profit and to combined versus separate assessment. The Amendments were not applicable for the Group and the Parent Company.

IAS 7: Disclosure Initiative (Amendments)

The objective of the Amendments is to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The Amendments specify that one way to fulfil the disclosure requirement is by providing a tabular reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities, including changes from financing cash flows, changes arising from obtaining or losing control of subsidiaries or other businesses, the effect of changes in foreign exchange rates, changes in fair values and other changes.

The management has assessed all changes arising from cash flows to/from financing activities.

The IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle, which is a collection of amendments to IFRSs. The following annual improvement has not yet been endorsed by the EU. This improvement did not have an effect on the Company's financial statements.

2.5. Changes in accounting policies and disclosures (cont'd)

Standards issued but not yet effective

IFRS 12 Disclosure of Interests in Other Entities: The amendments clarify that the disclosure requirements in IFRS 12, other than those of summarized financial information for subsidiaries, joint ventures and associates, apply to an entity's interest in a subsidiary, a joint venture or an associate that is classified as held for sale, as held for distribution, or as discontinued operations in accordance with IFRS 5.

The Group and the Parent Company has not applied the following IFRS and IFRIC interpretations that have been issued as of the date of authorization of these financial statements for issue, but which are not yet effective:

IFRS 9 Financial Instruments: Classification and Measurement

The standard is effective for annual periods beginning on or after 1 January 2018, with early application permitted. The final version of IFRS 9 Financial Instruments reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.

The management has assessed the initial evaluation of the effect of the accounts receivable portfolio on provisioning as at 31 December 2017 taking into consideration of the methodology laid down in IFRS 9. Had the Parent Company applied a procedure for establishing allowances for receivables in line with the above standard, allowances for expected credit losses of EUR 3 002 would have been established in addition to the already established allowances for accounts receivable portfolio in 2017, which is not material. Given the said assessment, the adoption of IFRS 9 from the year 2018 will not have a significant impact on the Group's and Parent Company's financial statement. The management does not expect any material changes in the classification of financial instruments. According to the above assessment, the adoption of IFRS 9, starting from 2018, will not have a significant impact on the Group's financial statements.

IFRS 15 Revenue from Contracts with Customers

The standard is effective for annual periods beginning on or after 1 January 2018. IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sales of some non-financial assets which are not an output of the entity's ordinary activities (e.g., sales of property and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates.

Based on the preliminary analyses performed, the Group and the Parent Company does not expect significant impacts on its financial statements as the Group and the Parent Company does not have long-term contracts with multi-element arrangements.

IFRS 15: Revenue from Contracts with Customers (Clarifications)

The Clarifications apply for annual periods beginning on or after 1 January 2018 with earlier application permitted. The objective of the Clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 *Revenue from Contracts with Customers*, particularly the accounting of identifying performance obligations amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The Clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach. Based on the preliminary analyses performed, the management does not expect significant impacts on the Group's and the Parent Company's financial statements

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. It is expected that the right of use of assets and lease liabilities will be recognized in the financial statements, significantly increasing the Parent Company's total assets. A detailed analysis on the implementation of IFRS 16 will be made in 2018.

2.5. Changes in accounting policies and disclosures (cont'd)

IFRS 17: Insurance Contracts

The standard is effective for annual periods beginning on or after 1 January 2021 with earlier application permitted if both IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have also been applied. IFRS 17 Insurance Contracts establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of an entity. The standard has not been yet endorsed by the EU. These amendments will not have an impact on the Group or the Parent Company.

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. These amendments will not have an impact on the Group or the Parent Company.

IFRS 2: Classification and Measurement of Share based Payment Transactions (Amendments)

The Amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. These amendments will not have an impact on the Group or the Parent Company.

IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments)

The Amendments are effective for annual periods beginning on or after 1 January 2018. The amendments address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing the new insurance contracts standard that the Board is developing to replace IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach, which would permit entities that issue contracts within the scope of IFRS 4 to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets. These amendments will not have an impact on the Group or the Parent Company.

IAS 40: Transfers to Investment Property (Amendments)

The Amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The Amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. These amendments will not have an impact on the Group or the Parent Company.

IFRS 9: Prepayment features with negative compensation (Amendment)

The Amendment is effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. 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. These Amendments have not yet been endorsed by the EU. These amendments will not have an impact on the Group and the Parent Company.

2.5. Changes in accounting policies and disclosures (cont'd)

IAS 28: Long-term Interests in Associates and Joint Ventures (Amendments)

The Amendments are effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. 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. These Amendments have not yet been endorsed by the EU. These amendments will not have an impact on the Group and the Parent Company.

IFRIC INTERPRETATION 22: Foreign Currency Transactions and Advance Consideration

The Interpretation is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. This Interpretation has not yet been endorsed by the EU. These amendments will not have an impact on the Group and the Parent Company.

The **IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2018 for IFRS 1 First-time Adoption of International Financial Reporting Standards and for IAS 28 Investments in Associates and Joint Ventures. Earlier application is permitted for IAS 28 Investments in Associates and Joint Ventures. These annual improvements have not yet been endorsed by the EU. These amendments will not have an impact on the Group and the Parent Company.

IFRS 1 First-time Adoption of International Financial Reporting Standards: This improvement deletes the short-term exemptions regarding disclosures about financial instruments, employee benefits and investment entities, applicable for first time adopters.

IAS 28 Investments in Associates and Joint Ventures: The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

IFRIC INTERPRETATION 23: Uncertainty over Income Tax Treatments

The Interpretation is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. 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. This Interpretation has not yet been endorsed by the EU. These amendments will not have an impact on the Group and the Parent Company.

The **IASB has issued the Annual Improvements to IFRSs 2015 – 2017 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. These annual improvements have not yet been endorsed by the EU. These amendments will not have an impact on the Group or the Parent Company.

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 re-measures 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 re-measure 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.

3. Net turnover

Business customers of AS HansaMatrix are chiefly concentrated in the Baltic and Nordic countries. Net turnover by geographical area in accordance with management accounting is as follows:

	Group		Parent Company	
	2017 EUR	2016 EUR	2017 EUR	2016 EUR
Latvia	7 746 011	6 222 829	7 544 084	6 222 829
Nordic countries	5 238 481	5 206 160	5 238 481	5 206 160
Baltic states	1 378 508	1 466 592	1 378 508	1 466 592
Other EU Member States	4 678 795	4 043 807	4 678 795	4 043 807
Other	607 607	21 689	635 402	138 196
TOTAL:	19 649 402	16 961 077	19 475 270	17 077 584

Sales efforts of AS HansaMatrix are focused on the following four main product types: data network infrastructure, Internet of Things, industrial products and other. Net turnover by product types in accordance with management accounting is as follows:

	Group		Parent Company	
	2017 EUR	2016 EUR	2017 EUR	2016 EUR
Data network infrastructure	10 190 879	7 054 521	9 988 952	7 054 521
Internet of Thing	1 074 849	1 031 146	1 074 849	1 031 146
Industrial products	6 737 121	6 140 715	6 737 121	6 140 715
Other products	1 646 553	2 713 006	1 674 348	2 713 006
Other sales	-	21 689	-	138 196
TOTAL:	19 649 402	16 961 077	19 475 270	17 077 584

4. Cost of sales

	Group		Parent Company	
	2017 EUR	2016 EUR	2017 EUR	2016 EUR
Costs of raw materials	8 576 229	8 812 181	8 814 359	9 046 664
Production process management costs*	2 057 955	1 501 490	7 301 918	3 804 455
Staff costs**	2 037 134	1 778 650	8 879	946 818
Depreciation and amortization (Notes 13 and 14)	1 412 344	1 090 555	820 087	798 596
Research costs***	734 543	597 682	10 464	248 185
<i>including staff costs</i>	532 294	544 073	-	230 881
<i>including amortization and depreciation (Notes 13 and 14)</i>	54 511	25 154	2 371	7 417
Production facilities, land lease and utilities	689 075	677 299	121 316	188 480
Transport expense	191 945	174 961	165 771	161 389
Lease of equipment and premises	110 847	121 448	111 139	120 816
Low-value items	90 530	84 990	39 323	60 945
Repair and maintenance expense	32 961	32 183	23 135	32 183
Real estate tax	6 114	5 994	5 732	5 604
Change in allowances for slow-moving items (Note 18)	(42 631)	(189 376)	(43 658)	(189 542)
Other production costs	26 189	2 294	1 052	1 635
TOTAL:	15 923 235	14 690 351	17 379 517	15 226 228

4. Cost of sales (cont'd)

* Due to the increased volume of orders, in 2016 and 2017 production services provided by SIA Quality Jobs were used. In 2017, the Parent Company transferred the production processes to its subsidiary SIA Campus Pārogre; as a result the production process management costs of the Parent Company sharply increased.

** Starting from 2017, as a result of separating the costs of Ogre manufacturing plant, part of the employees were transferred from the Parent Company to the subsidiary SIA Campus Pārogre.

*** In 2016, a quality-focused research project under the title "Dependence of soldering-related manufacturing defects on the quality of solder" was carried out. The project implementation period: 1 January 2016 through 30 November 2016; the eligible costs: EUR 165 836. In 2017 SIA HansaMatrix Innovation implemented a new technology and product development research project "Smart" pedestrian crossing mark. Detection of pedestrians and vehicles and collision prevention." The eligible costs of the research project were EUR 101 940.

5. Distribution costs

	Group		Parent Company	
	2017	2016	2017	2016
	EUR	EUR	EUR	EUR
Staff costs	661 033	536 277	105 598	324 151
Transport expense	51 645	46 033	18 268	27 745
Marketing expense	43 717	17 912	37 442	17 382
Business trips	16 219	22 860	7 455	20 534
Communications expense	10 044	8 667	2 702	6 115
TOTAL:	782 658	631 749	171 465	395 927

6. Administrative expense

	Group		Parent Company	
	2017	2016	2017	2016
	EUR	EUR	EUR	EUR
Staff costs	643 179	564 392	218 201	424 278
Amortization and depreciation (see Notes 13 and 14)	315 409	316 216	188 463	223 203
Staff recruitment and training	129 411	47 250	21 766	32 110
Bank charges	82 342	73 410	78 995	71 961
Provision of administrative functions *	47 927	81 990	44 935	81 990
Professional fees**	46 382	37 810	41 840	34 339
Transport expense	43 340	33 889	8 996	22 559
Non-operating expense	41 015	25 980	5 186	18 860
Office expense	37 934	25 212	10 112	15 538
Insurance	22 340	18 766	20 916	17 889
IT expense	20 411	16 459	12 243	12 899
Representation expense	10 478	8 298	2 625	5 437
Communications expense	10 041	9 408	3 465	4 734
Business trips	8 861	13 077	8 621	13 077
Allowances for doubtful receivables	3 564	-	3 564	-
Other administrative expense	10 608	46 075	21 272	30 300
TOTAL:	1 473 242	1 318 232	691 200	1 009 174

* Due to the increased volume of orders, in 2016 and 2017 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 20 567 (2016: EUR 12 409), as well as, after the end of the year, the company updates the transfer pricing policy documentation.

7. Other operating income

	Group		Parent Company	
	2017	2016	2017	2016
	EUR	EUR	EUR	EUR
Income from EU grant recognition (accrued)*	169 576	169 578	118 987	118 987
Currency exchange gain, net	68 012	-	60 370	-
Income from research grant recognition **	58 962	319 832	-	119 421
Income from EU grant recognition (one-off)	54 888	29 005	11 383	29 005
Income from organization of training	29 750	6 800	29 750	6 800
Gain on disposal of property, plant and equipment, net	2 811	13 911	917	13 911
Other income	72 021	9 070	428	9 170
TOTAL:	456 020	548 196	221 835	297 294

* 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.

8. Other operating expense

	Group		Parent Company	
	2017	2016	2017	2016
	EUR	EUR	EUR	EUR
Penalties	29 996	28 473	4 295	16 160
Donations	17 800	25 540	17 800	25 540
Currency exchange loss, net	1 001	32 173	-	30 909
TOTAL:	48 797	86 186	22 095	72 609

9. Financial expense

	Group		Parent Company	
	2017	2016	2017	2016
	EUR	EUR	EUR	EUR
Interest expense	247 188	257 695	234 908	256 283
Directly attributable transaction costs	168 428	28 362	158 470	28 304
TOTAL:	415 616	286 057	393 378	284 587

Financial expense relates to the loans received from credit institutions and finance lease (see Notes 25 and 26).

10. Current and deferred corporate income tax

	Group		Parent Company	
	2017	2016	2017	2016
	EUR	EUR	EUR	EUR
Current corporate income tax charge for the reporting year	219 814	532	219 814	-
Deferred corporate income tax due to changes in temporary differences	255 946	21 251	(8 798)	(62 299)
Reversal of deferred tax	(706 997)	-	(303 911)	-
Total corporate income tax:	(231 237)	21 783	(92 895)	(62 299)

10. Current and deferred corporate income tax (cont'd)

Deferred corporate income tax

Group

	Statement of financial position		Statement of profit or loss	
	31.12.2017	31.12.2016	2017	2016
Deferred corporate income tax liabilities				
Accelerated depreciation for tax purposes	(649 402)	(508 670)	140 733	(1 891)
Revaluation of non-current assets	(342 905)	(235 605)	-	-
Gross deferred corporate income tax liabilities	(992 307)	(744 275)	140 733	(1 891)
Deferred corporate income tax assets				
Tax loss carried forward	123 386	232 691	109 305	(49 811)
Other	(180 981)	(175 072)	5 908	72 953
Gross deferred corporate income tax assets	(57 595)	57 619	115 213	23 142
Net deferred corporate income tax (liabilities)/ assets prior to the reversal of deferred tax	(1 049 902)	(686 656)		21 251
Net deferred corporate income tax expense/ (benefit) prior to the reversal of deferred tax			255 946	-
Reversal of deferred tax:*				
In the statement of profit or loss	706 997	-	(706 997)	-
In reserves	342 905	-	-	-
Net deferred corporate income tax (liabilities)/ assets	-	(686 656)	-	-
Net deferred corporate income tax expense/ (benefit)	-	-	(451 051)	21 251

Parent Company

	Statement of financial position		Statement of profit or loss	
	31.12.2017	31.12.2016	2017	2016
Deferred corporate income tax liabilities				
Accelerated depreciation for tax purposes	(343 078)	(370 236)	(27 157)	(15 952)
Revaluation of non-current assets	(342 905)	(235 605)	-	-
Gross deferred corporate income tax liabilities	(685 983)	(605 841)	(27 157)	(15 952)
Deferred corporate income tax assets				
Tax loss carried forward	-	11 810	11 810	(11 810)
Valuation allowance for deferred tax assets	39 167	45 717	6 549	(34 537)
Gross deferred corporate income tax assets	39 167	57 527	18 359	(46 347)
Net deferred corporate income tax (liabilities)/ assets prior to the reversal of deferred tax	(646 816)	(548 314)		(62 299)
Net deferred corporate income tax expense/ (benefit) prior to the reversal of deferred tax			(8 798)	-
Reversal of deferred tax*:				
In the statement of profit or loss	303 911	-	(303 911)	-
In reserves	342 905	-	-	-
Net deferred corporate income tax (liabilities)/ assets	-	(548 314)	-	-
Net deferred corporate income tax expense/ (benefit)	-	-	(312 709)	(62 299)

10. Current and deferred corporate income tax (cont'd)

* In 2017, deferred tax assets (liabilities) have been reversed in the statement of profit or loss and reserves, as they were initially recorded in reserves, pursuant to amendments made to the tax legislation of the Republic of Latvia, which entered into force on 1 January 2018.

In accordance with the Corporate Income Tax Law, a taxable person which has reported a loss as at 31 December 2017 in their corporate income tax return may decrease corporate income tax charged for dividends in the reporting year by the amount equal to 15 per cent of the total uncovered loss. If this amount is not used or is used only partially in the reporting year, the balance (tax on uncovered loss) may be attributed to corporate income tax which will be charged on dividends in the subsequent four reporting years by decreasing the balance (tax on uncovered loss) to the extent of the discount used each year accordingly.

Tax loss carried forward may be utilized as follows:

	Tax loss (Group)	Tax loss (Parent Company)	Expiry term
Tax loss for 2008	447 155	-	indefinite
Tax loss for 2009	281 270	-	indefinite
Tax loss for 2014	47 727	-	indefinite
Tax loss for 2015	443 049	-	indefinite
Tax loss for 2016	253 338	-	indefinite
Tax loss for 2017	241 288	-	indefinite
TOTAL:	1 713 827	-	

Actual corporate income tax charge for the reporting year, if compared with theoretical calculations:

	Group		Parent Company	
	2017	2016	2017	2016
	EUR	EUR	EUR	EUR
Profit / (loss) before tax	1 447 753	572 980	1 133 041	479 272
Tax at the applicable tax rate of 15%	217 163	85 947	169 956	71 891
Permanent differences:				
Non-operating expense	7 731	10 494	3 904	8 331
Other	250 866	(74 658)	37 156	(142 521)
Actual income tax for the reporting year:	475 760	21 783	211 016	(62 299)
Reversal of deferred tax	(706 997)	-	(303 911)	-
Corporate income tax charged to the statement of profit or loss	(231 237)	21 783	(92 895)	(62 299)

11. Staff costs and number of employees

	Group		Parent Company	
	2017	2016	2017	2016
	EUR	EUR	EUR	EUR
Wages and salaries *	3 244 199	2 748 088	269 324	1 550 598
Statutory social insurance contributions	760 076	639 834	61 154	358 130
Employee health insurance	35 962	34 752	2 120	16 990
Other staff costs	2251	718	80	410
TOTAL:	4 042 488	3 423 392	332 678	1 926 128

*In 2016, part of the employees were transferred to SIA Quality Jobs, from which the Group buys production services.

In 2017, as a result of separating the costs of Ogre manufacturing plant, part of the employees were transferred from the Parent Company to the subsidiary SIA Campus Pārogre.

Including key management personnel compensation

	Group		Parent Company	
	2017	2016	2017	2016
	EUR	EUR	EUR	EUR
<u>Management Board</u>				
Wages and salaries	95 087	229 096	95 087	229 096
Statutory social insurance contributions	20 732	51 213	20 732	51 213
Other staff costs	186	536	186	536
<u>Supervisory Board</u>				
Wages and salaries	31 837	18 681	31 837	18 681
Statutory social insurance contributions	7 338	4 407	7 338	4 407
Other staff costs	13	9	13	9
TOTAL:	155 193	303 942	155 193	303 942

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

	Group		Parent Company	
	2017	2016	2017	2016
	EUR	EUR	EUR	EUR
Cost of sales (Note 4)	2 037 134	1 778 650	8 879	946 818
Cost of sales – under research costs (Note 4)	532 294	544 073	-	230 881
Distribution costs (Note 5)	661 033	536 277	105 598	324 151
Administrative expense (Note 6)	643 179	564 392	218 201	424 278
Wages and salaries – under work in progress	168 848	-	-	-
TOTAL:	4 042 488	3 423 392	332 678	1 926 128

	Group		Parent Company	
	2017	2016	2017	2016
Average number of employees during the reporting year	222	207	8	94

12. Basic and diluted 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:

	2017 EUR	2016 EUR
Net profit attributable to shareholders	1 678 990	551 197
Weighted average number of shares	1 829 381	1 687 881
Earnings per share (EUR):	0.92	0.33

In determining the weighted average number of shares, the Group does not take into account the changes in par value of the shares that do not give rise to additional inflow of resources. As a result, the number of the shares after the changes in their par value equal the number of shares at the end of 2015.

2016		Actual number of shares after transaction	Number of shares used in calculating earnings per share
	Change		
Number of shares at the beginning of the year	-	773 190	1 546 380
Change in par value *	773 190	1 546 380	1 546 380
Share issue **	1 829 381	3 375 761	3 375 761
Number of shares at the beginning of the year	-	3 375 761	3 375 761
Weighted average number of shares:			1 687 881
2017			
Number of shares at the beginning of the ye	-	1 829 381	1 829 381
Number of shares at the beginning of the year	-	1 829 381	1 829 381
Weighted average number of shares:			1 829 381

* In April 2016, the par value was changed from EUR 2 to EUR 1 per share. The share capital consists of 1 546 380 shares EUR 1. The par value of each share is EUR 1.

** In June 2016, 1 829 381 shares were issued. The par value of each share is EUR 1.

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 year, the total amount of the dividends calculated and paid for the year 2016 was EUR 54 881.

13. Intangible assets

Group	ODM assets EUR	Other intangible assets EUR	TOTAL EUR
COST			
As at 31 December 2015	161 935	755 014	916 949
Additions	369 277	55 506	424 783
Reclassification*	(235 732)	-	(235 732)
Reclassification **	(264 587)	-	(264 587)
As at 31 December 2016	30 893	810 520	841 413
Additions	12 023	125 094	137 117
Disposals	(19 895)	(5 875)	(25 770)
As at 31 December 2017	23 021	929 739	952 760
ACCUMULATED AMORTIZATION			
As at 31 December 2015	3 348	428 447	431 795
Charge for the year	32 553	156 399	188 952
Reclassification*	(34 704)	-	(34 704)
As at 31 December 2016	1 197	584 846	586 043
Charge for the year	822	154 391	155 213
As at 31 December 2017	2 019	739 237	741 256
NET CARRYING AMOUNT			
As at 31 December 2016	29 696	225 674	255 370
As at 31 December 2017	21 002	190 502	211 504
Parent Company			
	ODM assets EUR	Other intangible assets EUR	TOTAL EUR
COST			
As at 31 December 2015	161 935	722 162	884 097
Additions	369 277	8 667	377 944
Disposals	(235 732)	-	(235 732)
Reclassification *	(264 587)	-	(264 587)
As at 31 December 2016	30 893	730 829	761 722
Additions	-	67 557	67 557
Disposals	(30 893)	(11 090)	(41 983)
As at 31 December 2017	-	787 296	787 296
ACCUMULATED AMORTIZATION			
As at 31 December 2015	3 348	411 546	414 894
Charge for the year	32 553	143 639	176 192
Disposals	(34 704)	-	(34 704)
As at 31 December 2016	1 197	555 185	556 382
Charge for the year	-	123 382	123 382
Disposals	(1 197)	(2 390)	(3 587)
As at 31 December 2017	-	676 177	676 177
NET CARRYING AMOUNT			
As at 31 December 2016	29 696	175 644	205 340
As at 31 December 2017	-	111 119	111 119

13. Intangible assets (cont'd)

* In 2016 the Parent Company sold ODM asset to SIA HansaMatrix Ventspils, where it was transformed and classified as property, plant and equipment.

** In 2016, an ODM asset was created. The development of the respective asset is continuing. During the development process, it was identified that the costs of materials would prevail; therefore the asset was reclassified as property, plant and equipment and presented in the statement of financial position under construction in progress.

14. Property, plant and equipment

Group

	Land and buildings EUR	Equipment and machinery EUR	Other fixtures and fittings, tools and equipment EUR	Leasehold improvements EUR	Construction in progress EUR	Total EUR
COST/ REVALUED AMOUNT						
As at 31 December 2015	4 370 857	10 025 293	1 417 049	80 792	7 543	15 901 534
Additions	280 309	404 217	218 705	859	277 323	1 194 225
Disposals	-	(404 996)	(39 621)	-	-	(457 429)
Reclassification*	-	201 028	-	-	264 587	465 615
As at 31 December 2016	4 651 166	10 225 542	1 596 133	81 651	549 453	17 103 945
Additions	-	1 423 375	376 810	30 306	146 428	1 976 919
Revaluation**	793 644	-	-	-	-	793 644
Disposals	-	(3 302)	(12 539)	-	-	(15 841)
Reclassification*	-	481 421	-	-	(481 421)	-
As at 31 December 2017	5 444 810	12 127 036	1 960 404	111 957	214 460	19 858 667
ACCUMULATED DEPRECIATION						
As at 31 December 2015	1 398 426	5 887 760	890 009	32 517	-	8 208 712
Charge for the year	146 666	834 074	237 265	19 374	-	1 237 379
Disposals	-	(404 996)	(37 379)	-	-	(442 375)
As at 31 December 2016	1 545 092	6 316 838	1 089 895	51 891	-	9 003 716
Charge for the year	146 718	1 207 175	275 727	22 210	-	1 651 830
Disposals	-	(917)	(9 282)	-	-	(10 199)
As at 31 December 2017	1 691 810	7 523 096	1 356 340	74 101	-	10 645 347
NET CARRYING AMOUNT						
As at 31 December 2016	3 106 074	3 908 704	506 238	29 760	549 453	8 100 229
As at 31 December 2017	3 753 000	4 603 940	604 064	37 856	214 460	9 213 320

* In 2016 the Parent Company sold an ODM asset (test assembly) to SIA HansaMatrix Ventspils, where it was transformed and classified as property, plant and equipment (residual amount of EUR 201 028).

**In 2017, the real property was revalued by a certified valuator agency (Note 24).

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

Parent Company						
	Land and buildings EUR	Equipment and machinery EUR	Other fixtures and fittings, tools and equipment EUR	Leasehold improvements EUR	Construction in progress EUR	Total EUR
COST/ REVALUED AMOUNT						
As at 31 December 2015	4 370 857	6 946 057	931 447	43 733	7 543	12 299 637
Additions	280 309	288 367	102 704	-	60 489	731 869
Disposals	-	(417 738)	(37 790)	-	-	(455 528)
Reclassification	-	-	-	-	264 587	264 587
As at 31 December 2016	4 651 166	6 816 686	996 361	43 733	332 619	12 840 565
Additions	-	458 865	88 573	7 146	146 428	701 012
Revaluation	793 644	-	-	-	-	793 644
Disposals	-	(3 704 579)	(756 464)	-	-	(4 461 043)
Reclassification	-	264 587	-	-	(264 587)	-
As at 31 December 2017	5 444 810	3 835 559	328 470	50 879	214 460	9 874 178
ACCUMULATED DEPRECIATION						
As at 31 December 2015	1 398 426	4 166 875	660 347	4 677	-	6 230 325
Charge for the year	146 666	557 023	127 609	16 132	-	847 430
Disposals	-	(404 996)	(35 478)	-	-	(440 474)
As at 31 December 2016	1 545 092	4 318 902	752 478	20 809	-	6 637 281
Charge for the year	146 718	619 824	103 435	17 562	-	887 539
Disposals	-	(3 242 045)	(650 758)	-	-	(3 892 803)
As at 31 December 2017	1 691 810	1 696 681	205 155	38 371	-	3 632 017
NET CARRYING AMOUNT						
As at 31 December 2016	3 106 074	2 497 784	243 883	22 924	332 619	6 203 284
As at 31 December 2017	3 753 000	2 138 878	123 315	12 508	214 460	6 242 161

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	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
	EUR	EUR	EUR	EUR
Cost of depreciated assets	4 839 456	4 282 374	673 112	3 774 538

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

The Group and the Parent Company have acquired cars under finance lease arrangements and equipment and machinery under sale and leaseback arrangements. The net carrying value of these assets are as follows:

	Group		Parent Company	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
	EUR	EUR	EUR	EUR
Equipment and machinery	156 740	222 358	504 959	182 604
Cars	59 473	46 916	52 367	40 150

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 Citadele Banka (see Note 25).

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

	Group		Parent Company	
	2017	2016	2017	2016
	EUR	EUR	EUR	EUR
Cost of sales (Note 4)	1 412 344	1 090 555	820 087	798 596
Costs of research and product development (Note 4)	54 511	25 154	2 371	7 417
Administrative expense (Note 6)	315 409	316 216	188 463	223 203
SUBTOTAL:	1 782 264	1 431 925	1 010 921	1 029 216
Depreciation change included in work in progress *	24 779	(5 594)	-	(5 594)
TOTAL:	1 807 043	1 426 331	1 010 921	1 023 622

* Changes in depreciation result from the allocation of indirect costs of production to work in progress.

15. Investments in subsidiaries and associates

Company	Type of business	%	Parent Company's investment		Financial data of investee			
			31.12.2017	31.12.2016	2017	31.12.2017	2016	31.12.2016
			EUR	EUR	Comprehensive income statement EUR	Equity EUR	Comprehensive income statement EUR	Equity EUR
Subsidiaries								
SIA HansaMatrix Ventpils (Latvia)	Integrated production at Ventpils manufacturing plant	100%	426 862	426 862	131 417	717 331	112 401	585 914
SIA HansaMatrix Innovation (Latvia)	New product development; creation and licensing of intellectual property; prototype production	100%	20 000	20 000	137 116	209 942	49 990	72 825
SIA Campus Pārogre (Latvia)	Integrated production at Pārogre manufacturing plant	100%	2 800	2 800	153 891	158 894	2 214	5 003
Total subsidiaries			449 662	449 662	422 424	1 086 167	164 605	663 742

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

Associates

SIA Zinātnes parks (Latvia)	Development of infrastructure of high-tech industrial park in the territory of Riga airport	24%	960	960	(148 854)	636 005	(64 829)	625 859
SIA Lightspace Technologies (Latvia)	Development and commercialization of 3D display technologies	47.28% from 24.05.2017 (31.12.2016: 16.11%; 21.04.-24.05.2017: 33.07%)	1 079 986	-	(220 771)	1 568 593	(145 100)	767 792
Total associates			1 080 946	960	(369 625)	2 204 598	(209 929)	1 393 651

Investments in subsidiaries (Parent Company)

SIA HansaMatrix Ventpils (hereinafter – the Company) is a subsidiary, established on 1 November 2005 (until 26 April 2016 named SIA Ventpils 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, Ventpils manufacturing plant ensures integrated production services mostly for clients who require box build processes. The business model is to sell production 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.

As at 31 December 2017, SIA HansaMatrix Ventpils share capital was EUR 717 331 and the profit for 2017 amounted to EUR 131 417. The Parent Company intends to increase its orders to the subsidiary, and to continue increasing its contracting to the subsidiary. The Company's equity exceeds the net carrying amount of the investment in the Parent Company's balance sheet, which is EUR 426 862 as at 31 December 2017. The Parent Company has no reservations about the investment recoverability.

SIA HansaMatrix Innovation (hereinafter– the Company) 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. Currently, a number of engineering groups have been established in the subsidiary, which are working on developing new electronics, optics, precision mechanics and robotics products.

The subsidiary has a business model of selling hourly engineering labor costs to the parent company, which in turn manages the client orders.

SIA HansaMatrix Innovation share capital was EUR 209 942 as at 31 December 2017, and the profit for 2017 was EUR 209 942. The Parent Company intends to expand development of new products and technologies, and increase the volume of cooperation with the subsidiary. The company's equity exceeds the net carrying amount of the investment the Parent Company's balance sheet, which was EUR 20 000 as at 31 December 2017. The Parent Company has no reservations about the investment recoverability.

SIA Campus Pārogre was established 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.

Pārogre manufacturing plant 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.

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

SIA Campus Pārogre share capital was EUR 158 894 as at 31 December 2017, and the profit for 2017 was EUR 2153 891. The Parent Company intends to expand orders to the subsidiary in the future, and make greater use of its capacities. SIA Campus Pārogre equity exceeds the net carrying amount of the investment in the parent company's balance sheet, which was EUR 2 800 as at 31 December 2017. The Parent Company has no reservations about the investment recoverability.

Income from investments in subsidiaries

In 2016 and 2017, the Parent Company did not receive any dividends from its subsidiaries.

Investments in associates (the Group)

The Group's investments in associates as at 31 December 2017 includes an investment in SIA Zinātnes parks. The company was established on 21 May 2015 by four founders. AS HansaMatrix owns 24 of 100 shares in this company, and it exercises a significant influence.

SIA Zinātnes 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. As a result, AS HansaMatrix intends to set up a research and development laboratory, and to house in this industrial park its new product development subsidiary SIA HansaMatrix Innovation, as well as to establish a third manufacturing plant specializing in prototype manufacturing and rapid piloting of new products.

Investments in associates are disclosed in the consolidated financial statements according to the equity method. The following table reflects consolidated financial information about the Group's investments in SIA Zinātnes parks.

Investments in SIA Zinātnes parks

	2017 EUR	2016 EUR
Current assets	35 606	230 520
Non-current assets	1 599 496	1 396 373
Current liabilities	244 929	53 367
Non-current liabilities	754 168	947 667
Equity	636 005	625 859
Group's share	24%	24%
Investment amount	-	960
Investment loan amount	830 023	686 700
Loss for the year	(148 854)	(64 829)
Group's share of loss of an associate recognized in the statement of comprehensive income	(34 647)	(16 637)
Attributed to investment	-	(960)
Attributed to investment loan	(34 647)	(15 677)
Recognized investment amount	-	-
Investment loan amount	795 376	671 023

SIA 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 2017, 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%.

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

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.

Investments in SIA Lightspace Technologies

	2 017 EUR	2 016 EUR
Current assets	1 812 281	1 084 839
Non-current assets	85 000	-
Current liabilities	328 688	317 047
Non-current liabilities	-	-
Equity	1 568 593	767 792
Group's share	47%	16%
Investment amount	1 079 986	451
Loss for the year	(220 771)	(145 100)
Group's share of loss of an associate recognized in the statement of comprehensive income (21.04.2017 – 31.12.2017)	(73 065)	-
Attributed to investment	(73 065)	-
Recognized investment amount	1 006 921	-

Investment loans to associates

	Group		Parent Company	
	2017 EUR	2016 EUR	2017 EUR	2016 EUR
Investment loan to SIA Zinātnes parks	795 376	671 023	845 700	686 700
Investment loan to SIA Lightspace Technologies	222 207	200 000	222 207	200 000
TOTAL	1 017 583	871 023	1 067 907	886 700

A convertible zero-interest investment loan of EUR 845 700 issued to **SIA Zinātnes Parks** was used for taking over a lease on a land plot of 4.51 ha, the purchase of a partially constructed building and design works in the Riga International Airport territory. 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.

In 2017, the Parent Company issued an additional loan of EUR 159 000 to SIA Zinātnes parks for real estate development and operating expense coverage in accordance with the investment agreement between AS HansaMatrix and SIA Zinātnes parks, dated 18 January 2016.

After completing the infrastructure for the hi-tech industrial park at Riga Airport, AS HansaMatrix intends to sell to real estate investors its investments – both as shares and by refinancing the investment loan. Preliminary consultations with potential investors demonstrated serious interest on the part of at least two reputable real estate investors.

According to the latest version of the SIA Zinātnes Parks business plan, given that the weighted average cost of capital (WACC) is 10%, the present value of the project's discounted cash flows is EUR 3.09 million; the project's IRR is 14.25%. The business plan has been submitted to the bank and accepted as credible and potentially feasible.

In the 4th quarter of 2017, a convertible interest-free investment loan of EUR 222 207 was issued to **SIA Lightspace Technologies** for financing the development of 3D imaging technologies.

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

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 SIA HansaMatrix Innovation engineering and knowledge resources, and which can lead to new, high value-added product manufacturing within 3 to 5 years.

Risks related to investments in associates are similar to those described in Note 37.

16. Investments in other companies

		Group		Parent Company	
		31.12.2017	31.12.2016	31.12.2017	31.12.2016
	%	EUR	EUR	EUR	EUR
Investments					
SIA EUROLCDs (Latvia)	16.11	645 403	645 403	645 403	645 403
SIA LEO PĒTĪJUMU CENTRS (Latvia)	10	-	-	711	711
SIA LEO PĒTĪJUMU CENTRS (Latvia)	14	996	996	-	-
SIA LEITC (Latvia)	4.25/3.95	16 419	14 929	16 419	14 929
SIA Lightspace Technologies 12.02.2014-21.04.2017	16.11	-	451	-	451
TOTAL:		662 818	661 779	662 533	661 494

Strategic investments in new product development companies:

		Group		Parent Company	
		31.12.2017	31.12.2016	31.12.2017	31.12.2016
	%	EUR	EUR	EUR	EUR
Investments					
SIA EUROLCDs (Latvia)	16.11	645 403	645 403	645 403	645 403
TOTAL:		645 403	645 403	645 403	645 403

SIA EUROLCDs was established on 10 March 2011. In 2015, AS HansaMatrix acquired from SIA MACRO RĪGA 305 (three hundred and five) of the 2 235 shares in SIA EUROLCDs. In 2016, additional 55 shares were acquired from Hornell Teknikinvest AB. As at 31 December 2017, AS HansaMatrix owned 360 of 2 235 shares or 16.11% of the SIA EUROLCDs share capital.

The purpose of the investment in SIA EUROLCDs is to participate in the development of liquid crystal panels and nanotechnologies, in the establishment of a high tech production facility, and in manufacturing smart glass and liquid crystal optics products. The main asset of SIA EUROLCDs is a high technology manufacturing facility, which was created by purchasing manufacturing technology from the Japanese company Optrex, located in the Babenhausen production facility in Germany, relocating it to a new facility in Ventspils and supplementing it with a number of vacuum and nanotechnology processes. Additionally, SIA EUROLCDs develops globally innovative technologies, for example, smart glass products in cooperation with AS HansaMatrix, Dow Corning, Jeld Wen, as well as an electrically induced transient scattering optical shutter, in cooperation with Intel Corporation and SIA Lightspace Technologies. This is a unique facility, the only technological industrialization facility of its kind in Europe.

AS HansaMatrix sees synergy in additional financial investments enabling participation in globally innovative product development during the development phase and in the supply chains of the production phase.

16. Investments in other companies (cont'd)

Subsequent to the reporting period, on 13 February 2018, the shareholders of SIA EUROLCDs made a decision on increasing the share capital and approved the terms of share capital increase by issuing 1 019 new shares of SIA EUROLCDs. After the increase, the share capital of SIA EUROLCDs consists of 3 254 shares. The par value of each share is EUR 14. The total par value is EUR 45 556. On 13 February 2018, 1 000 of the new shares of SIA EUROLCDs were obtained by SIA Lightspace technologies for EUR 1 400 000. The said amount will be repaid using a deferred payment scheme. As a result, SIA Lightspace technologies owns 1000 shares or 30.73% of equity interest, AS HansaMatrix owns 360 shares or 11.06% of equity interest, Hornell Teknikinvest AB owns 777 shares or 23.88% of equity interest and KS BaltCap Latvia Venture Capital Fund KOM owns 1 117 shares or 34.33% of equity interest in SIA EUROLCDs.

Evaluation of the recoverability of investment in SIA EUROLCDs and SIA Lightspace Technologies:

AS HansaMatrix makes a consolidated assessment of the investment recoverability in both new product companies SIA EUROLCDs and SIA Lightspace Technologies because SIA EUROLCDs serves as the industrial manufacturing facility for products developed by SIA Lightspace Technologies, and it is expected that both companies will operate as parts of serve as segments in one supply chain.

According to the preliminary data, SIA EUROLCDs equity at the end of the reporting period was EUR 2 264 660. The company closed the reporting period with a loss of EUR 1 167 524. AS HansaMatrix's share in the SIA EUROLCDs equity was EUR 364 837, but the carrying amount of the investment was EUR 645 403.

According to the preliminary data, SIA Lightspace Technologies' equity at the end of the reporting was EUR 1 568 593. The company closed the period with a loss of EUR 220 771. AS HansaMatrix's investment in the equity of SIA Lightspace Technologies was EUR 741 631, the carrying amount of the investment was EUR 1 079 986.

The following assumptions are used by AS HansaMatrix in assessing the recoverability of these investments: (1) both companies are in their start-up phase; (2) both companies have an increasing turnover; (3) SIA EUROLCDs will serve as the manufacturer of SIA Lightspace Technologies display products, i.e. will serve as part of the supply chain.

The business value of SIA Lightspace Technologies based on the business plan discounted cash flow estimates is EUR 9.5 million. The SIA Lightspace Technologies post money discounted weighted average cost of capital is EUR 4.9 million. The weighted average value is calculated under 3 methods: discounted cash flow method, equity risk method using a stock's market value to its book value (P/B) ratio of comparable entities and equity risk method using a price-to-earnings (P/E) ratio of comparable entities. Accordingly, given the weighted average value, 47.28% of the shares in SIA Lightspace Technologies are worth approximately EUR 2.32 million.

The business value of SIA EUROLCDs based on the business plan discounted cash flow estimates, with a weighted average cost of capital value (WACC) of 15%, is EUR 17.2 million. Accordingly, based on the average weighted value, 16.11% of the shares in SIA EUROLCDs are worth approximately EUR 2.78 million.

According to the preliminary data, the equity of both companies as at 31 December 2017 was EUR 1 106 468, which is slightly below the combined carrying amount of EUR 1 947 59. The present value of the Parent Company's shares in SIA EUROLCDs and SIA Lightspace Technologies, based on the business plan discounted cash flow estimates, is approximately EUR 5.1 million, which greatly exceeds the carrying amount of the combined investments in SIA EUROLCDs and SIA Lightspace Technologies.

As a result of this assessment, AS HansaMatrix considers that no impairment loss should be recognized in relation to the investments as at 31 December 2017, because there is no doubt about the investment recoverability at the net carrying amount, for both the investment value, and the value of the convertible loan.

16. Investments in other companies (cont'd)

Strategic investments in service organizations:

		Group		Parent Company	
		31.12.2017	31.12.2016	31.12.2017	31.12.2016
	%	EUR	EUR	EUR	EUR
Investments					
SIA LEO PĒTĪJUMU CENTRS (Latvia)	10.01	-	-	711	711
SIA LEO PĒTĪJUMU CENTRS (Latvia)	14.01	996	996	-	-
SIA LEITC" (Latvia)	4.25/3.95	16 419	14 929	16 419	14 929
TOTAL:		17 415	15 925	17 130	15 640

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 7102 shares, representing 10% of the total shares. SIA HansaMatrix Ventspils owns 284 of 7 102 shares, or 4%. Together investments by the Group in SIA "LEO PĒTĪJUMU CENTRS" total 995 shares, representing 14% of the total 7 102 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.

According to the preliminary data, the company's equity as at 31 December 2017 was EUR 318 467, 14.01% of which significantly exceeding the net carrying amount of the Group's investment of EUR 996. AS HansaMatrix has no reservations about the investment recoverability.

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 redominated 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 normatives during the development of new products.

According to the preliminary data, LEITC's equity as at 31 December 2017 was EUR 268 515; the profit for the reporting period amounted to EUR 12 731. AS HansaMatrix shareholding represents 3.95% of the total share capital, which is EUR 11 412, slightly less than the net carrying amount. However, LEITC has demonstrated an increasing turnover for the past two years, as well as an increase in its equity. It has also provided accessible services to AS HansaMatrix and other companies in the cluster, including AS HansaMatrix clients. AS HansaMatrix has no reservations about the recoverability of the investment at carrying amount of EUR 16 419.

17. Other investment loans

	Group		Parent Company	
	2017 EUR	2016 EUR	2017 EUR	2016 EUR
Convertible loan to SIA Lightspace Technologies	222 207	200 000	222 207	200 000
Convertible loan to SIA Zinātnes parks	845 700	686 700	845 700	686 700
Impairment recognized (SIA Zinātnes parks)	(50 324)	(15 677)	-	-
TOTAL:	1 017 583	871 023	1 067 907	886 700

In the 4th quarter of 2017 the convertible interest-free investment loan of EUR 222 207 was issued to **SIA Lightspace Technologies** for financing the development of 3D imaging technologies.

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.

A convertible zero-interest investment loan of EUR 845 700 issued to **SIA Zinātnes Parks** was used for taking over a lease on a land plot of 4.51 ha, the purchase of a partially constructed building and design works in the Riga International Airport territory. 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.

For the recoverability assessment see Note 16.

18. Inventories

	Group		Parent Company	
	31.12.2017 EUR	31.12.2016 EUR	31.12.2017 EUR	31.12.2016 EUR
Raw materials and consumables (at cost)	2 110 969	1 406 447	1 845 673	1 372 692
Work in progress (at cost of materials)	450 311	369 465	416 397	369 465
Work in progress (overheads)	385 038	125 376	169 081	125 376
TOTAL:	2 946 318	1 901 288	2 431 151	1 867 533
Allowances for raw materials and consumables	(262 756)	(305 387)	(261 119)	(304 777)
TOTAL:	(262 756)	(305 387)	(261 119)	(304 777)
TOTAL:	2 683 562	1 595 901	2 170 032	1 562 756

Movement in allowances for slow-moving items:

	Group		Parent Company	
	2017 EUR	2016 EUR	2017 EUR	2016 EUR
At the beginning of the year	(305 387)	(494 763)	(304 777)	(494 319)
Release of allowances	66 330	262 246	66 330	262 246
Allowances established in the reporting year	(23 699)	(72 870)	(22 672)	(72 704)
At the end of the year	(262 756)	(305 387)	(261 119)	(304 777)

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 Citadele Banka (see Note 26).

19. Trade receivables

	Group		Parent Company	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
	EUR	EUR	EUR	EUR
Trade receivables without factoring	595 432	671 737	241 675	663 167
Allowances for doubtful receivables	(3 564)	-	(3 564)	-
Other trade receivables with factoring	1 673 274	1 369 834	1 673 274	1 369 834
Advance factoring payment	(1 353 250)	(1 109 529)	(1 353 250)	(1 109 529)
TOTAL:	911 892	932 042	558 135	923 472

The Group has entered into a factoring agreement with SIA Swedbank Līzings. The factoring agreement expires on 25 June 2017. The seller's risk is 10%.

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

As at 31 December, 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
Group		EUR	EUR	EUR	EUR	EUR	EUR	EUR
2016	2 041 571	1 553 786	259 666	97 561	36 436	31 097	63 025	
2017	2 265 142	1 581 718	382 396	96 389	81 722	8 452	114 465	
Parent Company								
2016	2 033 001	1 545 216	259 666	97 561	36 436	31 097	63 025	
2017	1 911 385	1 432 617	303 953	64 787	784	1 071	108 173	

20. Receivables from related companies

	Group		Parent Company	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
	EUR	EUR	EUR	EUR
SIA HansaMatrix Innovation	-	-	625 188	156 521
SIA HansaMatrix Ventspils	-	-	-	167 516
TOTAL:	-	-	625 188	324 037

21. Other receivables

	Group		Parent Company	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
	EUR	EUR	EUR	EUR
Overpayment of VAT	89 308	255	-	-
Security deposit	3 279	7 200	2 988	2 988
Interim payment for a project	-	158 194	-	-
Accrued income	-	50 594	-	35 976
Other receivables	2 629	50	-	-
TOTAL:	95 216	216 293	2 988	38 964

22. Cash and cash equivalents

	Group		Parent Company	
	31.12.2017 EUR	31.12.2016 EUR	31.12.2017 EUR	31.12.2016 EUR
Cash at bank	259 185	381 891	254 337	380 598
TOTAL:	259 185	381 891	254 337	380 598

Cash and cash equivalents by currency profile:

	Group		Parent Company	
	31.12.2017 EUR	31.12.2016 EUR	31.12.2017 EUR	31.12.2016 EUR
USD	1 970	237 945	1 970	237 945
EUR	257 215	143 946	252 367	142 653
TOTAL:	259 185	381 891	254 337	380 598

23. Share capital

As at 31 December 2017, the share capital of the Parent Company was EUR1 829 381 (31.12.2016: 1 829 381 EUR). The par value of one share is 1 EUR (31.12.2016: 1 EUR). 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
01.01.2016.	773 190	2	1 546 380	1 094 987
14.04.2016 - change in par value	1 546 380	1	1 546 380	1 094 987
20.06.2016 - share capital increase	1 829 381	1	1 829 381	2 659 983
12.07.2016 – share issue	1 829 381	1	1 829 381	2 659 983
Share issue costs	-	-	-	(224 404)
31.12.2016.	1 829 381	1	1 829 381	2 435 579
31.12.2017	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 are as follows:

Major shareholders (over 5% of equity interest) Shareholder	31.12.2017		31.12.2016	
	Number of shares and votes	Equity interest	Number of shares	Equity interest
SIA MACRO RĪGA	1 104 729	60.39%	1 185 938	64.83%
Limited partnership FlyCap Investment Fund I AIF	403 933	22.08%	403 933	22.08%
Swedbank AS customer accounts	189 904	10.38%	140 616	7.69%
Other	130 815	7.44%	98 894	5.40%
TOTAL:	1 829 381	100%	1 829 381	100.00%

24. Non-current asset revaluation reserve

Real estate was revalued in 2007, 2012 and 2017 by certified valuers. 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	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
	EUR	EUR	EUR	EUR
Revaluation reserve (building)	2 022 593	1 355 571	2 022 593	1 355 571
Revaluation reserve (land)	263 438	215 131	263 438	215 131
Deferred tax related to non-current asset revaluation reserve	(342 905)	(235 605)	(342 905)	(235 605)
Reversal of deferred tax	342 905	-	342 905	-
TOTAL:	2 286 031	1 335 097	2 286 031	1 335 097

25. Loans from credit institutions

The Parent Company has received the following loans from AS Citadele Banka:

Non-current

Initial loan amount	Interest rate	Maturity	Group		Parent Company	
			31.12.2017	31.12.2016	31.12.2017	31.12.2016
			EUR	EUR	EUR	EUR
EUR 2 773 083	6m EURIBOR+3.5%	06.08.2019	1 013 833	1 367 226	1 013 833	1 367 226
EUR 2 214 362	6m EURIBOR+3.5%	06.08.2020	756 634	1 025 610	756 634	1 025 610
EUR 1 500 000	6m EURIBOR+5.0%	24.08.2019	491 613	674 528	491 613	674 528
EUR 980 000	6m EURIBOR+4.0%	29.04.2021	452 929	595 625	452 929	595 625
		Refinancing 22.12.2017*	(2 715 009)		(2715 009)	-
EUR 4 900 000	3m EURIBOR+1.9%	25.12.2022	2 715 009		2 715 009	-
Non-current loans from credit institutions:			2 715 009	3 662 989	2 715 009	3 662 989
Expense related to the conclusion of loan agreements – non-current portion			-	(38 598)	-	(38 598)
TOTAL:			2 715 009	3 624 391	2 715 009	3 624 391

Current

EUR 2 773 083	6m EURIBOR+3.5%	06.08.2019	353 452	401 005	353 452	401 005
EUR 2 214 362	6m EURIBOR+3.5%	06.08.2020	268 976	360 407	268 976	360 407
EUR 1 500 000	6m EURIBOR+5.0%	24.08.2019	182 979	329 012	182 979	329 012
EUR 980 000	6m EURIBOR+4.0%	29.04.2021	142 724	163 652	142 724	163 652
		Refinancing 22.12.2017*	(948 131)		(948 131)	-
EUR 4 900 000	3m EURIBOR+1.9%	25.12.2022	948 131		948 131	-
EUR 600 000	6m EURIBOR+4.0%	30.11.2018	573 936	392 462	573 936	392 462
Current loans from credit institutions:			1 522 067	1 646 538	1 522 067	1 646 538
Accrued interest (Citadele Banka)			6 949	9 517	6 949	9 517
Expense related to the conclusion of loan agreements – current portion			-	(20 048)	-	(20 048)
TOTAL:			1 529 016	1 636 007	1 529 016	1 636 007

* On 22 December 2017, a loan agreement for EUR 4 900 000 and a credit line agreement for EUR 600 000 were signed. Taking into account that agreement No 2017012423/SBV-1 of 28 December 2017 between AS HansaMatrix, AS Citadele banka, SIA Citadele līzings un faktoringa and SIA HansaMatrix Ventpils on refinancing the Group's liabilities, i.e. transferring them to AS SEB banka, provided an explicit refinancing procedure, the allocation of the loans from credit

25. Loans from credit institutions (cont'd)

institutions to current and non-current liabilities was already disclosed in the financial statements according to the loan agreements signed with AS SEB banka on 22 December 2017. The actual refinancing took place in January 2018 when all the previous loans and lease liabilities were settled.

The loan amount is reduced by expense related to crediting which is amortized over the loan term. Interest is calculated on a monthly basis. Loan principal amounts by their maturity dates can be specified as follows:

	Group		Parent Company	
	31.12.2017 EUR	31.12.2016 EUR	31.12.2017 EUR	31.12.2016 EUR
Payable:				
In less than one year	1 522 067	1 646 538	1 522 067	1 646 538
Between one and five years	2 715 009	3 662 989	2 715 009	3 662 989
In more than five years	-	-	-	-
TOTAL:	4 237 076	5 309 527	4 237 076	5 309 527

As at 31 December 2017, the unused credit line amount available to the Group and the Parent Company was EUR 26 064 (31 December 2016: EUR 207 538). As at 31 December 2017 and 2016, 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.

26. Finance lease liabilities

	Group				Parent Company			
	31.12.2017 EUR Current	31.12.2017 EUR Non-current	31.12.2016 EUR Current	31.12.2016 EUR Non-current	31.12.2017 EUR Current	31.12.2017 EUR Non-current	31.12.2016 EUR Current	31.12.2016 EUR Non-current
Lessor								
Luminor Līzings, SIA	26 525	31 180	17 405	30 276	19 774	29 225	13 274	26 474
Swedbank Līzings, SIA	114 126	418 463	-	-	20 011	73 373	-	-
Citadele līzings un faktoringi, SIA	302 576	184 145	39 714	112 582	63 240	184 145	29 126	87 341
	443 227	633 788	57 119	142 858	103 025	286 743	42 400	113 815
Costs relating to signing lease agreements	(5 355)	(15 634)	(204)	(559)	(4 243)	(13 644)	(204)	(559)
TOTAL:	437 872	618 154	56 915	142 299	98 782	273 099	42 196	113 256

Contractual interest rates range from 3m EURIBOR+2.5% to 3.5%. Interest is normally revised on a quarterly basis. The net carrying amount of the property, plant and equipment held under finance lease and sale and leaseback arrangements is disclosed in Note 14.

Future minimum lease payments under finance leases are as follows:

	Group				Parent Company			
	31.12.2017 EUR	31.12.2017 EUR	31.12.2016 EUR	31.12.2016 EUR	31.12.2017 EUR	31.12.2017 EUR	31.12.2016 EUR	31.12.2016 EUR
	Minimum payments	Present value of payments	Minimum payments	Present value of payments	Minimum payments	Present value of payments	Minimum payments	Present value of payments
Within one year	477 567	443 227	62 866	57 119	108 146	103 025	46 908	42 400
Between one and five years	676 045	633 788	149 579	142 858	308 655	286 743	119 431	113 815
Total minimum lease payments	1 153 612	1 077 015	212 445	199 977	416 801	389 768	166 339	156 215
Less finance charges	(76 597)	-	(12 468)	-	(27 033)	-	(10 124)	-
Present value of minimum lease payments	1 077 015	1 077 015	199 977	199 977	389 768	389 768	156 215	156 215

27. Deferred income

	Group		Parent Company	
	2017	2016	2017	2016
	EUR	EUR	EUR	EUR
Balance at the beginning of the year	911 860	1081 438	583 028	702 015
Grants received	-	-	-	-
Attributed to income (Note 7)	(169 576)	(169 578)	(118 987)	(118 987)
Balance at the end of the year	742 284	911 860	464 041	583 028

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

	Group		Parent Company	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
	EUR	EUR	EUR	EUR
Non-current	572 707	742 282	345 054	464 041
Current	169 577	169 578	118 987	118 987
TOTAL:	742 284	911 860	464 041	583 028

Participation of the Parent Company in EU projects

On 6 September 2011, the Parent Company entered into an agreement on the implementation of the project "Development of New Products and Technologies" 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 1 565 728). After assessing the implementation relating the conditions of project, on 9 November 2012 the Parent Company received a grant of EUR 548 005.

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.

Participation of SIA HansaMatrix Ventspils in EU projects

On 4 October 2006, the subsidiary SIA HansaMatrix Ventspils entered into a grant agreement 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. Under the project, the subsidiary set up a production facility and acquired production equipment for a total amount of EUR 1 635 105. After assessing the implementation relating the conditions of project, on 29 August 2007 the subsidiary received a grant of EUR 853 723. This amount had been recognized as income by 30 April 2015

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.

Surveillance period, during which the equipment (property, plant and equipment) purchased under the projects may not be disposed, is 3 years after receiving the grant.

28. Prepayments received from customers

In 2015, the Company started cooperation with a new customer. The cooperation continued also in 2016. The manufacturing of a new product is material intensive and requires specific materials, for which prepayments must be made. The customer has made a prepayment for the acquisition of materials. In 2017, after selling the product, all the prepayments received in 2015 were settled; the prepayments received in the current reporting period were also partly settled, which led to a reduction of the total prepayments received from customers. The balance of the prepayments at the end of the year will be settled within 6 months.

29. Trade payables

	Group		Parent Company	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
	EUR	EUR	EUR	EUR
Trade payables, EUR	2 262 350	1 667 373	1 515 290	1 161 123
Trade payables, USD	504 882	367 705	495 739	364 183
Trade payables, JPY	5 348	-	5348	-
TOTAL:	2 772 580	2 035 078	2 016 377	1 525 306

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

30. Taxes payable

The Group and Parent Company's taxes payable to the State budget as at 31 December 2017 and 2016 may be specified as follows:

	Group		Parent Company	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
	EUR	EUR	EUR	EUR
Statutory social insurance contributions	(189 331)	(118 897)	(16 014)	(36 810)
Personal income tax	(93 959)	(40 270)	(4 433)	(19 461)
Value added tax – payable	(207 271)	(179 167)	(27 496)	(31 856)
Value added tax – receivable	89 308	255	-	-
Natural resource tax	(869)	(522)	(90)	(263)
Real estate tax	(10)	(11)	(10)	(11)
Unemployment risk duty	(81)	(74)	(3)	(26)
TOTAL:	(402 213)	(338 686)	(48 046)	(88 427)
TOTAL PAYABLE:	(491 521)	(338 941)	(48 046)	(88 427)
TOTAL RECEIVABLE (Note 21):	89 308	255	-	-

31. Corporate income tax

	Group		Parent Company	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
	EUR	EUR	EUR	EUR
Corporate income tax -payable	(177 702)	(532)	(177 702)	-
Corporate income tax –receivable	1 000	126 951	-	126 602

Corporate income tax charge for the reporting year is disclosed in Note 10.

32. Other liabilities

	Group		Parent Company	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
	EUR	EUR	EUR	EUR
Salaries	199 261	179 055	17 664	77 838
Unpaid shares in SIA EUROLCDs	-	40 500	-	40 500
Balances due to employees	874	2 223	849	2 148
Credit cards	3 296	2 031	3 296	2 031
LMT agreements	3 379	2 718	1 009	2 718
Other liabilities	262	302	-	-
TOTAL:	207 072	226 829	22 818	125 235

33. Accrued liabilities

	Group		Parent Company	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
	EUR	EUR	EUR	EUR
Vacation pay reserve	170 874	145 334	31 422	87 146
Other accrued liabilities	148 093	53 193	91 833	28 345
TOTAL:	318 967	198 527	123 255	115 491

34. Related party disclosures

The major shareholder of the Parent Company is SIA MACRO RĪGA, which owns 60.39 % (2016: 64.83%) 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.

Related party	Type of services		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)	
			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 share: 24%)	Loan, contribution in share capital	31.12.2016	681 600	681 600	-	-	686 700	686 700	-	-
		31.12.2017	159 000	159 000	-	-	845 700	845 700	-	-
SIA Lightspace Technologies (AS HansaMatrix share: 47%)	Loan	31.12.2016	-	-	-	-	-	-	-	-
		31.12.2017	22 207	22 207	-	-	222 207	222 207	-	-
	Services, purchase of materials, sales	31.12.2016	351 212	351 212	-	-	265 777	265 777	-	-
		31.12.217	17 324	17 324	2 183	2 183	-	-	271	271
		TOTAL	31.12.2016	1 032 812	1 032 812	-	-	952 477	952 477	-
TOTAL	31.12.2017	198 531	198 531	2 183	2 183	1 067 907	1 067 907	271	271	
2. Entities with significant influence over the Parent Company										
SIA MACRO RĪGA (shareholder)	Loan	31.12.2016	92 892	92 892	-	-	2 468 636	2 468 636	-	-
		31.12.2017	93 591	93 591	-	-	2 462 227	2 462 227	-	-
	Purchase of services; sale of materials	31.12.2016	-	-	-	-	-	-	-	-
		31.12.2017	8 044	8 044	-	-	-	-	-	-
		TOTAL	31.12.2016	92 892	92 892	-	-	2 468 636	2 468 636	-
TOTAL	31.12.2017	101 635	101 635	-	-	2 462 227	2 462 227	-	-	

34.Related party disclosures (cont'd)

Related party	Type of services		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)	
			Group	Parent Company	Group	Parent Company	Group	Parent Company	Group	Parent Company
			EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
3. Subsidiaries										
SIA HansaMatrix Ventspils (AS HansaMatrix share: 100%)	Production services, material supplies	31.12.2016	-	12 167	-	2 834 003	-	167 516	-	-
		31.12.2017	-	210 129	-	4 552 176	-	-	-	193 816
SIA HansaMatrix Innovation (AS HansaMatrix share: 100%)	Production services, material supplies	31.12.2016	-	52 574	-	486 380	-	156 521	-	-
		31.12.2017	-	263 152	-	318 231	-	625 188	-	-
SIA Campus Pārogre (AS HansaMatrix share: 100%)	Production services, material supplies	31.12.2016	-	-	-	146 154	-	-	-	103 676
		31.12.2017	-	949 940	-	4 508 662	-	-	-	38 550
	TOTAL	31.12.2016	-	64 741	-	3 466 537	-	324 037	-	103 676
	TOTAL	31.12.2017	-	1 423 221	-	9 379 069	-	625 188	-	232 366
4. Other related companies										
	Loans issued	31.12.2016	188 500	188 500	-	-	-	-	-	-
		31.12.2017	-	-	-	-	-	-	-	-
	Services, purchase of materials, sales	31.12.2016	28 184	28 184	82 790	82 790	-	-	605	605
		31.12.2017	8 185	8 185	51 780	51 780	7 698	7 698	4 055	4 055
	TOTAL	31.12.2016	216 684	216 684	82 790	82 790	-	-	605	605
	TOTAL	31.12.2017	8 185	8 185	51 780	51 780	7 698	7 698	4 055	4 055

* Including the recognized impairment (Note 15).

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			
		2017	2016	31.12.2017		31.12.2016	
				EUR	EUR	EUR	EUR
Interest rate	Maturity			Non-current	Current	Non-current	Current
3.91	30.12.2019	93 591	92 892	1 912 227	550 000	1 234 318	1 234 318

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 addition, a leading Baltic investment bank provided a non-binding forecast of potential share sales transactions of AS HansaMatrix based on the market liquidity and potential demand.

34. Related party disclosures (cont'd)

Terms and conditions of transactions with related parties

Outstanding balances at the year-end are unsecured, interest-free (except for the loans issued). There have been no guarantees provided or received for any related parties receivables or payables. Loans comprise the loans issued and interest accrued thereon.

35. 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 2016, the total value of these materials was EUR 9 742 305 (31 December 2016: EUR 15 199 169).

On 22 December 2017, the Parent Company entered into a guarantee line agreement with AS SEB banka for the total amount of EUR 100 000 to receive guarantees for the participation in the EU grant programs administrated by Latvian authorities. The above guarantee agreement is expected to be secured by a commercial pledge on the aggregation of the Parent Company's property. As at 31 December 2017, no guarantees were used under the guarantee agreement.

As at 31 December 2017, the Parent Company had a valid guarantee issued by AS Citadele banka for the total amount of EUR 40 586, expiring on 1 March 2020 and secured by all the Parent Company's cash. The said guarantee is used to secure the loan agreement signed on 18 April 2017 between AS HansaMatrix with the Central Finance and Contracting Agency regarding the implementation of Europe Union funded project No 1.2.1.4./16/A/021 "Experimental production set up for fabrication of volumetric three dimensional image display hardware and components to them".

36. Commitments and contingencies

Pledges and other restrictions on title

The Parent Company has pledged its real estate at Akmeņu iela 72, Ogre, and movable property as security for all the loans granted by AS Citadele Banka (Note 25).

Sureties

In August 2014, the Group's subsidiary SIA HansaMatrix Ventspils entered into surety agreements with AS Citadele banka for the benefit of the Parent Company AS HansaMatrix. The agreements expire in August 2019, August 2020 and April 2021.

On 22 December 2017, the Parent Company entered into a surety 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 Campus Pārogre, SIA HansaMatrix Ventspils and SIA Hansamatrix Innovation entered into surety 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) and overdraft agreement No 2017012422 of 22 December 2017 (maturing on 22 December 2018) signed with AS SEB banka.

The surety agreements signed at the end of 2017 serve as security for the loans issued by AS SEB banka for refinancing the loans from AS Citadele banka and the lease liabilities to SIA Citadele līzings un faktoringi and SIA Swedbank līzings.

Commitments under operating leases

The Parent Company and a subsidiary have entered into several car lease agreements.

Lease commitments

AS HansaMatrix has entered into an agreement with SIA Amfort on the lease of production premises and land at Zemzaru iela 3, Mārupe. The production premises have been leased from 22 May 2015. The total amount of annual lease expenses amounted to EUR 114 708 (incl. 21% VAT) in 2017, and EUR 114 708 (incl. 21% VAT) in 2016.

The aggregate minimum lease payments in 2018 under the lease agreement due to SIA Amfort are EUR 114 708 (incl. 21% VAT). The lease expires on 22 May 2018; the Parent Company expects to extend the lease for three more years under the same terms.

36. Commitments and contingencies (cont'd)

Lease commitments (cont'd)

On 7 June 2017, SIA HansaMatrix Innovation entered into a real estate lease agreement with SIA Gorod on the lease of premises and related territory at Ziedleju iela 1, Mārupe, Mārupe municipality. The contractual monthly rent is EUR 15 730 (incl. 21% VAT). The total amount of annual lease expenses amounted to EUR 65 363 (incl. 21% VAT) in 2017.

In 2018 the aggregate minimum lease payments under the lease agreement due to SIA Gorod are EUR 188 760 (incl. 21% VAT). The real estate lease expires on 30 September 2022.

SIA HansaMatrix Ventspils has entered into an agreement with the foundation Ventspils Augsto tehnoloģiju parks (Ventspils High Technology Park) on the lease of production facilities and land at Ventspils Augsto Tehnoloģiju Parks - 1, Ventspils. The production facilities were commissioned on 1 December 2006. The total amount of annual lease expenses (including utilities) was EUR 288 770 (including VAT at 21%) in 2017 and EUR 274 282 (including VAT at 21%) in 2016.

In 2018 the aggregate minimum lease payments (excl. utilities) under the lease agreement due to the foundation Ventspils Augsto tehnoloģiju parks are EUR 143 113 (incl. 21% VAT). The lease expires on 30 April 2021.

In 2015, SIA HansaMatrix Ventspils entered into an agreement with Ventspils Freeport Authority on the lease of additional production facilities and land at Ventspils Augsto Tehnoloģiju Parks - 1, Ventspils. The production facilities were commissioned on 15 June 2015. The total amount of annual lease expenses (including utilities) was EUR 257 570 (including VAT at 21%) in 2017 and EUR 254 647 (including VAT at 21%) in 2016.

In 2018 the aggregate minimum lease payments (excl. utilities) under the lease agreement due to Ventspils Freeport Authority are EUR 198 150 (incl. 21% VAT). The lease expires on 1 August 2019.

The future aggregate minimum lease payments are as follows:

	Group		Parent Company	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
	EUR	EUR	EUR	EUR
Payable:				
In less than one year	667 471	365 298	126 072	23 257
Between one and five years	1 569 514	827 427	403 138	22 118
TOTAL:	2 236 985	1 192 725	529 210	45 375

37. Financial risk management

The Group and Parent Company's principal financial instruments comprise loans from credit institutions, finance 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 main financial risks arising from the Group and Parent Company's financial instruments are foreign currency risk, interest rate risk, liquidity risk, and credit risk.

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 Group's currency risk as at 31 December 2017 may be specified as follows:

37. Financial risk management (cont'd)

Foreign currency risk (cont'd)

Group		USD EUR	JPY EUR	EUR EUR	TOTAL EUR
Trade receivables	2017	212 522	-	741 198	953 720
	2016	269 105	-	783 008	1 052 113
Cash	2017	1 970	-	257 215	259 185
	2016	237 945	-	143 946	381 891
Total financial assets, EUR	2017	214 492	-	998 413	1 212 905
	2016	507 050	-	926 954	1 434 004
Trade payables and other liabilities	2017	638 675	5 348	2 645 705	3 289 728
	2016	744 504	-	1 731 105	2 475 609
Total financial liabilities, EUR	2017	638 675	5 348	2 645 705	3 289 728
	2016	744 504	-	1 731 105	2 475 609
Net assets / (liabilities), EUR	2017	(424 183)	(5 348)	(1 647 292)	(2 076 823)
	2016	(237 454)	-	(804 151)	(1 041 605)
Parent Company		USD EUR	JPY EUR	EUR EUR	TOTAL EUR
Trade receivables	2017	208 015	-	1 010 636	1 218 651
	2016	269 105	-	1 071 925	1 341 030
Cash	2017	1 970	-	252 367	254 337
	2016	237 945	-	142 653	380 598
Total financial assets, EUR	2017	209 985	-	1 263 003	1 472 988
	2016	507 050	-	1 214 578	1 721 628
Trade payables and other liabilities	2017	629 533	5 348	2 043 597	2 678 478
	2016	740 982	-	1 328 531	2 069 513
Total financial liabilities, EUR	2017	629 533	5 348	2 043 597	2 678 478
	2016	740 982	-	1 328 531	2 069 513
Net assets / (liabilities), EUR	2017	(419 548)	(5 348)	(780 594)	(1 205 490)
	2016	(233 932)	-	(113 953)	(347 885)

The Group has assessed the potential impact of USD and JPY currency exchange rate fluctuations on profit before tax as at 31 December 2017 in four different scenarios of potential USD fluctuations at the Group and the Parent Company level.

37. Financial risk management (cont'd)

Foreign currency risk (cont'd)

Group	Exchange rate change	Potential net effect from the changes in the USD exchange rate	Potential net effect from the changes in the JPY exchange rate	Total, EUR
		EUR	EUR	EUR
+10%	2017	38 562	486	39 048
	2016	21 587	-	21 587
+5%	2017	20 199	255	20 454
	2016	11 307	-	11 307
-5%	2017	(22 325)	(281)	(22 606)
	2016	(12 498)	-	(12 498)
-10%	2017	(47 131)	(594)	(47 725)
	2016	(26 384)	-	(26 384)

Parent Company	Exchange rate change	Potential net effect from the changes in the USD exchange rate	Potential net effect from the changes in the JPY exchange rate	Total, EUR
		EUR	EUR	EUR
+10%	2017	38 141	486	38 627
	2016	21 267	-	21 267
+5%	2017	19 978	255	20 233
	2016	11 140	-	11 140
-5%	2017	(22 081)	(281)	(22 362)
	2016	(12 312)	-	(12 312)
-10%	2017	(46 616)	(594)	(47 210)
	2016	(25 992)	-	(25 992)

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's exposure to the risk of changes in the market interest rates relates primarily to the Group's non-current borrowings with floating interest rates.

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 25.

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:

Year	EURIBOR	Effect on profit before tax
		EUR
2017	+0.5%	(21 218)
2016		(23 693)
2017	+1.0%	(42 436)
2016		(47 387)
2017	-0.5%	21 218
2016		23 693

37. Financial risk management (cont'd)

Liquidity risk

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 2016 based on contractual undiscounted payments.

Group		Less than 3 months	3 to 12 months	1 to 5 years	TOTAL
Interest bearing borrowings	2017	261 673	761 157	3 433 723	4 456 554
	2016	360 210	1 077 746	4 318 379	5 756 335
Other financial liabilities	2017	119 392	358 175	676 045	1 153 612
	2016	15 716	47 150	149 579	212 445
Trade payables and other liabilities	2017	2 772 580	517 148	-	3 289 728
	2016	2 035 078	440 531	-	2 475 609
TOTAL					
	2017	3 153 645	1 636 480	4 109 768	8 899 894
	2016	2 411 004	1 565 427	4 467 958	8 444 389

Parent Company		Less than 3 months	3 to 12 months	1 to 5 years	TOTAL
Interest bearing borrowings	2017	261 673	761 157	3 433 723	4 456 554
	2016	360 210	1 077 746	4 318 379	5 756 335
Other financial liabilities	2017	27 036	81 110	308 655	416 801
	2016	11 727	35 181	119 431	166 339
Trade payables and other liabilities	2017	2 248 743	429 735	-	2 678 478
	2016	1 628 982	440 531	-	2 069 513
TOTAL					
	2017	2 537 452	1 272 002	3 742 378	7 551 833
	2016	2 000 919	1 553 458	4 437 810	7 992 187

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

		Group		Parent Company	
		2017	2016	2017	2016
		EUR	EUR	EUR	EUR
EBITDA	EUR	3 659 755	2 214 680	2 443 750	1 700 156
EBITDA margin	%	19	13	13	10

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. Moreover, the Group enters into insured factoring contracts to minimize this risk. The Group's counterparties in money transactions are local financial institutions.

37. Financial risk management (cont'd)

Credit risk (cont'd)

Group	31.12.2017	31.12.2016
	EUR	EUR
Trade receivables – non-insured	633 696	791 808
Insured trade receivables (factoring)	1 673 274	1 369 734
TOTAL:	2 306 970	2 161 542
Factoring prepayment made	(1 353 250)	(1 109 529)
	953 720	1 052 013
Parent Company	31.12.2017	31.12.2016
	EUR	EUR
Trade receivables – non-insured	898 627	1 080 725
Insured trade receivables (factoring)	1 673 274	1 369 834
TOTAL:	2 571 901	2 450 559
Factoring prepayment made	(1 353 250)	(1 109 529)
	1 218 651	1 341 030

Capital management

The primary objective 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	31.12.2017	31.12.2016
	EUR	EUR
Equity	8 101 853	5 481 456
Total assets	18 632 077	15 780 022
equity-to-asset ratio	43%	35%
Parent Company	31.12.2017	31.12.2016
	EUR	EUR
Equity	7 619 758	5 422 355
Total assets	15 752 903	14 368 213
equity-to-asset ratio	48%	38%

During 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.

38. 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 31 December 2017.

Group	Assets and liabilities for which FV is disclosed	Total at carrying amount	Total at fair value	Fair value measurement using		
				quoted prices in active markets (level 1)	significant observable inputs (level 2)	significant unobservable inputs (level 3)
		EUR	EUR	EUR	EUR	EUR
	Loans to shareholders	2 462 227	2 462 227			2 462 227
	Finance lease liabilities	1 077 015	1 077 015		1 077 015	
	Borrowings with floating interest rate	4 237 076	4 237 076		4 237 076	
	Convertible loan to SIA Lightspace Technologies	222 207	222 207		222 207	
	Convertible loan to SIA Zinātnes parks	845 700	845 700		845 700	

Parent Company	Assets and liabilities for which FV is disclosed	Total at carrying amount	Total at fair value	Fair value measurement using		
				quoted prices in active markets (level 1)	significant observable inputs (level 2)	significant unobservable inputs (level 3)
		EUR	EUR	EUR	EUR	EUR
	Loans to shareholders	2 462 227	2 462 227			2 462 227
	Finance lease liabilities	389 768	389 768		389 768	
	Borrowings with floating interest rate	4 237 076	4 237 076		4 237 076	
	Convertible loan to SIA Lightspace Technologies	222 207	222 207		222 207	
	Convertible loan to SIA Zinātnes parks	845 700	845 700		845 700	

Assets measured at fair value are revalued property, plant and equipment (Note 14), which are revalued on non-recurring basis (once every five years) and would be classified under Level 3. In the reporting year, no assets or liabilities were transferred between the levels.

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.

39. Going concern

As at 31 December 2017, the Group's working capital (current assets) totaled EUR 4.584 million allowing the Group to ensure practically 4 working capital cycles in a 12-month period which guaranteed sufficient liquidity for meeting its current liabilities.

The Group's management has prepared the budget and cash flow projection for the year 2018 which ensures adequate resources for financing the Group's operating activities as well as the expected investment flow. The key assumptions used in the Group's cash flow and liquidity projection are as follows:

- No significant changes occur either in the business environment or the market both in the EU and Latvia;
- In 2018, the Group continues increasing its business volume in accordance with the Group's 3-year turnover and profitability projection published in the information exchange system of AS Nasdaq Riga on 31 August 2017;
- The Group continues investing in property, plant and equipment by increasing production capacity and process automation;
- In 2018, the working capital is increased from the Group's operating cash flow;
- The Group continues investing in strategic development projects and as the source of investment financing is used repayments of the loan issued to the shareholder or financial resources equivalent to own funds raised in the financial markets; at the level of individual strategic projects, funding is also obtained from strategic or financial investors;
- In 2017, the Group refinanced its current and non-current bank and lease liabilities (except for car leases and factoring) by signing a long-term loan agreement with AS SEB banka for EUR 4.9 million and a credit-line agreement for EUR 0.6 million; as a result, in 2018, the Group's cash flow will considerably improve due to more advantageous interest rates and more optimal repayment schedule (5 years) for the non-current loan;
- The Group continues attracting financing for investments from banks. In 2017, AS SEB banka approved a lease limit of EUR 1.5 million for investments in technological equipment in 2018 and a non-current loan limit of EUR 1 million for investments in the expansion of the Pārogre manufacturing plant in 2018 and 2019;
- As in previous years, the factoring agreement is extended for the current period of one year;
- The shareholder SIA MACRO RĪGA continues repaying the loan to the Parent Company (EUR 550 000 in 2018).

Future developments in the business environment may differ from the forecasts of the Group's management.

40. Subsequent events

On 4 January 2018, the shareholder limited partnership FLYCAP INVESTMENT FUND IAIF sold 120 000 shares (6.56% of shareholding) in AS HansaMatrix (HMX1R) at a price of EUR 6.55 per share. As a result of the transaction, the free float of AS HansaMatrix increased by 6.56%. The market was informed accordingly.

On 19 January 2018, the shareholder limited partnership FLYCAP INVESTMENT FUND I AIF sold 71 417 shares (3.90% of shareholding) in AS HansaMatrix (HMX1R) at a price of EUR 6.75 per share. As a result of the transaction, the free float of AS HansaMatrix increased by 3.90%. The market was informed accordingly.

On 26 January 2018, the shareholder SIA Macro Rīga sold 24 664 shares (1.35% of shareholding) in AS HansaMatrix (HMX1R) at a price of EUR 7.50 per share. As a result of the transaction, the free float of AS HansaMatrix increased by 1.35%. The market was informed accordingly.

As a result of the above, the free float of AS HansaMatrix increased and, according to the Parent Company, today it accounts for 29.34% of the shares.

On 19 January 2018, the Supervisory Board of AS HansaMatrix made changes within the Management Board. Alvis Vagulis resigned and Māris Macijevskis, who has worked as CFO of the Parent Company since 2017, was appointed.

With regard the resignation of Jānis Skutelis, Chairman of the Supervisory Board, the Management Board of AS HansaMatrix convened an extraordinary shareholders' meeting on 16 February 2018. The meeting made the following decisions:

- A new Supervisory Board was elected: Andris Bērziņš, Krišs Osmanis, Dagnis Dreimanis, Ingrīda Blūma, Gundars Strautmanis;
- The employee stock option plan was approved as well as the conditional increase in the share capital by issuing net 18 294 new shares (1% of the existing shares) with a par value of EUR 6.53 each.

40. Subsequent events (cont'd)

Subsequent to the reporting period, on 13 February 2018, the shareholders of SIA EUOLCDS made a decision on increasing the share capital and approved the terms of share capital increase by issuing 1 019 new shares of SIA EUOLCDS. After the increase, the share capital of SIA EUOLCDS consists of 3254 shares. The par value of each share is EUR 14. The total par value is EUR 45 556. On 13 February 2018, 1 000 of the new shares of SIA EUOLCDS were obtained by SIA Lightspace technologies for EUR 1 400 000. The said amount will be repaid using a deferred payment scheme. As a result, SIA Lightspace technologies owns 1 000 shares or 30.73% of equity interest, AS HansaMatrix owns 360 shares or 11.06% of equity interest, Hornell Teknikinvest AB owns 777 shares or 23.88% of equity interest and KS BaltCap Latvia Venture Capital Fund KOM owns 1117 shares or 34.33% of equity interest in SIA EUOLCDS.

In the 1st quarter of 2018, the Parent Company pledged its real estate at Akmeņu iela 72, Ogre, its movable property and shares in subsidiaries and the subsidiaries pledged their movable property to AS SEB banka as security for the loan of EUR 4.9 million and the overdraft of EUR 0.6 million. The respective loan and overdraft agreements were signed on 22 December 2017 to refinance the Group's existing loans and finance leases.

In the 1st quarter of 2018, the Group refinanced all the loans from AS Citadele banka and the finance leases granted by SIA Citadele līzings un faktoringu and SIA Swedbank līzings by using the above credit resources as well as cancelled all the pledges on the Group's movable and immovable property to AS Citadele banka.



Ilmārs Osmanis
Chairman of the Management Board
9 April 2018



Vineta Grecka
Chief Accountant
9 April 2018

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 19 to 72 of the accompanying Annual Report, which comprise the statements of financial position as at 31 December 2017 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 2017, and of their financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

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 Group and the Parent Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (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
Accounting of work in progress (the Group and the Parent Company) Work in progress of the Group and the Parent Company as at 31 December 2017 amounts to EUR 835 349 and EUR 585 478, respectively in Note 18. Work in progress amount is based on customer orders which are accounted through a series of customer order completion stages. Accounting of work in progress is relatively complex process due to specifics of contract manufacturing industry and requires	We performed the following procedures, among others: <ul style="list-style-type: none"> we gained an understanding of the manufacturing cycle and work in progress accounting process; we performed a test of controls for work in progress accounting process, including test of IT-dependent manual controls; we observed year-end stock count for work in progress, counted a sample of work in progress items and compared

continual operating effectiveness of controls involved in the process, including IT-dependent manual controls.

This matter is significant to our audit due to the relative complexity of work in progress accounting.

the counting results to the amounts recorded in the Group's accounting system;

- we tested a sample of work in progress items and checked that all work in progress items have appropriate manufacturing cycle status in the system;
- we assessed the principles of allocation of production overheads to work in progress as at year-end and compared the amounts allocated to the relevant expense accounts.

We also evaluated the adequacy of the disclosures included in *Note 2.3 subsection Inventories* and *Note 18*.

Impairment assessment of investments in other and associated companies and other loans (the Group and the Parent Company)

The Group's and the Parent Company's investments in other and associated companies as at 31 December 2017 amounts to EUR 1 669 739 and EUR 1 743 479, respectively. (*Note 15 and Note 16*). Furthermore, other loans in the statements of financial position of the Group and the Parent Company amount to EUR 1 017 583 and EUR 1 067 907 as at 31 December 2017 (*Note 17*). Investments in other companies and other loans are measured at amortized cost less impairment in the Group's and the Parent Company's financial statements.

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 impairment indications for these investments as disclosed in *Note 15, Note 16 and Note 17*.

Determining whether an impairment for any of these investments and loans should be recognized requires the Group's management to make significant assumptions and judgements. As a result of Group's management's impairment assessment, no impairment charge has been recognized in year 2017.

Due to the above circumstances, we considered impairment assessment of these investments and loans to be significant to our audit.

We obtained impairment assessment 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.

We discussed with the Group's management the development status of each start-up company and assessed the information and data used in the impairment review. We considered the development plans of each company. In doing so, among other procedures, we reviewed whether the activities performed by companies' management are consistent with the milestones of investment programs and budgets of the companies. We also considered the investment size of unrelated parties in these 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 15, Note 16 and Note 17*).

Recoverability of the loan to the shareholder (the Group and the Parent Company)

As disclosed in *Note 34*, the Parent Company has issued a loan to the shareholder amounting to EUR 2 462 227, out of which EUR 550 000 is shown under current assets in the Group's and the Parent Company's statements of financial position as at 31 December 2017. Loan to the shareholder corresponds to 13% and 15,6% of the Group's and the Parent Company's assets, respectively.

The Group's and the Parent Company's ability to collect the shareholder loan, especially in the short term, depends on the majority shareholder's ability to obtain sufficient funds for its settlement. As disclosed in *Note 34*, short term portion of the loan to the shareholder is expected to be recovered from the proceeds generated by the majority shareholder via the sale of their shares in the Parent Company through public offering within year 2018.

We assessed the management's assumptions used in the recoverability of the loan to the shareholder and discussed with the majority shareholder's management the feasibility of planned share sales, particularly in year 2018, in light of historical transactions, obtaining supporting evidence where appropriate. Furthermore, we obtained a non-binding share sales plan provided to us by the majority shareholder's banker.

We also evaluated the results of the majority shareholder's share sales subsequent to the year end, as disclosed in *Note 40*. We considered the impact of these subsequent events in the recoverability of the loan to the shareholder as at 31 December 2017.

Long term portion of the loan is expected to be settled via further sales of these shares in the Parent Company.

This matter is significant to our audit due to its materiality to the financial statements and the fact that the recoverability of the loan to the shareholder depends on the majority shareholder's ability to obtain sufficient funds to settle this obligation towards the Group and the Parent Company.

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

As explained in *Note 39* as at 31 December 2017 the Group's and the Parent Company's current liabilities exceed its current assets by EUR 586 755 and EUR 2 036 647, respectively.

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 19*) 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 39*. 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 2018, and proceeds to be obtained from the repayment of the loan issued to the shareholder (*Note 34*).

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.

Reporting on other information

Management is responsible for the other information. Other information consists of:

- the Management Report as set out on pages 10 to 17 of the accompanying Annual Report;
- the Statement on Management Responsibility, as set out on page 18 of the accompanying Annual Report;
- the Statement of Corporate Governance for the year 2017, 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. We have nothing to report in this regard.

Finally, we assessed whether the main assumptions and related uncertainties are appropriately reflected in the *Note 34*.

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 and shareholder's repayment of the loan issued. We evaluated the significant assumptions made by the Group's management in the context of liquidity forecasts. 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 2018 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 39*.

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:

- 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 56¹, paragraph one, clauses 3, 4, 6, 8 and 9 and Article 56², paragraph two, clause 5 of the Financial Instruments Market Law and if it includes the information stipulated in Article 56², 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 56¹, paragraph one, clauses 3, 4, 6, 8 and 9 and Article 56², paragraph two, clause 5 of the Financial Instruments Market Law and it includes the information stipulated in Article 56², 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.

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 auditor's 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 chairman of the board. Our appointment has been renewed annually by SIA Macro Rīga resolution representing a total period of uninterrupted engagement appointment of 4 years.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Parent Company;
- as stipulated in paragraph 37⁶ 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.

SIA Ernst & Young Baltic
Licence No. 17



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

Rīga, 9 April 2018

Other notes to the financial statements

Definitions of alternative performance ratios

EBITDA: Operating profit + depreciation and amortization
EBITDA margin: EBITDA/ net turnover

In calculating EBITDA, the Group monitors liquidity and assesses the Group's profitability.