



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

**CONSOLIDATED AND PARENT COMPANY'S ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018**

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

Riga, 2019

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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 2018 (end of the day)	SIA MACRO RĪGA (49.09%) Swedbank AS Swedbank AS customer accounts (14.76%) Limited partnership BaltCap Latvia Venture Capital Fund (9.95%) Limited partnership FlyCap Investment Fund I AIF (9.61%) IPAS CBL Asset Management (6.56%)
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 2018

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.

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
- Eurolcids, SIA – Board Member

Shares owned:

- Directly: 0
- Indirectly (through SIA, Macro Rīga): 898 065 shares

Participation in other companies:

- SIA Macro Rīga (100%)
- Lightspace Technologies, SIA (3.6%)

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
- Latvian Squash Federation – Chairman of the Board

Shares owned: 300

Share options owned: 300 (as at 15 April 2019)

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

Share options owned: 1400 (as at 15 April 2019)

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.

Changes in the Management Board of the Parent Company: On 19 January 2018, the Supervisory Board approved the changes in the Management Board. Alvis Vagulis, a Member of the Management Board, was dismissed and Māris Macijevskis, HansaMatrix CFO since 2017, a member of the Management Board, was appointed in his place.

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 898 065 shares

Positions held in other companies:

- LightSpace Technologies, SIA – Chairman of the Council
- EUROLCDs, SIA – Deputy Chairman of the Council
- HansaMatrix Innovation, SIA – Board member

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:

- DD Ventures SIA, Board Member
- Baltic Coffee Holding SIA, Council Member
- EVO grupa SIA, Chairman of the Council

- Vika Wood, SIA, Council Member
- BaltCap AIFP SIA, Chairman of the Board
- SOLVINA SIA, Board Member
- Latvian Capital Ventures SIA, Board Member

Shares owned: 0

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

Participation in other companies:

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

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

Ingrīda Blūma

Ingrīda Blūma is a member of the Supervisory Board of the Parent Company.

Appointment date: 13 June 2016

Term of office: 13 June 2021

Positions held in other companies:

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

Shares owned: 0

Ingrīda Blūma is an independent member of the Supervisory Board.

Participation in other companies:

- i-bloom, SIA (100%)

Ingrīda Blūma holds a MSc. degree from Stockholm University. Her additional training includes INSEAD Advanced Management Program and Strategic Management and Leadership Training course at the EBRD.

Ingrīda Blūma's work experience is mainly related to the banking sector, where she has worked for almost 20 years. Her work as CEO of AS Swedbank (former AS Hansabanka) has equipped her with a unique blend of business experience in the banking industry and corporate business environment. Under her leadership AS Hansabanka grew to become the largest bank of Latvia. Ingrīda Blūma has also served in the capacity of a member of the Supervisory Board of SIA Primekss, SIA Pure Food and JSCA URSA Bank.

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 held: 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 Supervisory Board of the Parent Company: in response to the resignation of Jānis Skutelis, Chairman of the Supervisory Board, on 16 February 2018, the Management Board of AS HansaMatrix convened an extraordinary shareholder's meeting and took the decision to elect a new Supervisory Board: Andris Bērziņš, Krišs Osmanis, Dagnis Dreimanis, Ingrīda Blūma and Gundars Strautmanis.

Information on shares and dividends

Information on the shares of the Parent Company:

ISIN code	LV0000101590
Listed	Nasdaq Riga Baltic Main List
Exchange code	HMX1R
Type of shares	100% ordinary shares
Rights attached to the shares	Right to receive dividends and liquidation quotas and right to vote at the shareholders' meeting
Rights resulting from one share	One share has 1 vote.
Par value of a share	EUR 1
Total number of shares	1 829 381
Number of shareholders	137 (as at 31 December 2018)
Dividends per share	EUR 0.08 EUR (year ended 31 December 2017)
Dividends/ Normalized earnings	5.96% (year ended 31 December 2017)
P/E ratio	9.65 (as at 31 December 2018)

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

As at 31 December 2018 (end of the day), the following were the major shareholders of the Parent Company:

Major shareholders (above 5%)	Number of shares and votes	Equity interest
Shareholder		
SIA Macro Rīga	898 065	49.09%
Swedbank AS customer accounts	270 107	14.76%
Limited partnership BaltCap Latvia Venture Capital Fund	182 000	9.95%
Limited partnership FlyCap Investment Fund I AIF	175 738	9.61%
IPAS "CBL Asset Management"	120 000	6.56%
Other (below 5%)	183 471	10.03%
TOTAL:	1 829 381	100.00%

Management Report

Introduction

The joint stock company HansaMatrix (hereinafter – HansaMatrix or the Parent Company) is a leading Baltic electronic system product developer and manufacturer, listed on the Nasdaq Baltic Main List. The Parent Company actively operates in industrial systems, data network infrastructure, the Internet of Things, medical and several other B2B (business-to-business) market sectors. HansaMatrix has 17-years of experience and its business mission is to develop global technology products and to assist its customers be competitive on global markets.



Performance of the Group

The HansaMatrix Group closed the year 2018 with a net turnover of EUR 21.15 million, which by 7.63% exceeded the EUR 19.65 million turnover reported in the previous period and by 5.8% exceeded previously provided medium term guidance for Year 2018 results of EUR 20 million.

In the reporting period, the Group reported EBITDA of EUR 3.259 million, showing a 10.95% decrease in comparison with EUR 3.660 million in 2017; the net profit was EUR 0.781 million, showing a 36.35% decrease in comparison with the normalized earnings of EUR 1.227 million in 2017.

In 2018, the R&D turnover reached EUR 1.546 million which exceeded the turnover of 2017 by EUR 0.751 million or by 106%. In 2018, the R&D turnover represented 7.3% of the total consolidated sales. The considerable growth in the R&D sales in 2018 resulted from the increase in the manufacturing volume of high-tech optics and photonics products and represent strategic development of business model in direction of knowledge intensive manufacturing.

Lower EBITDA and net profit for the year 2018 in comparison to 2017 does not demonstrate a long-term trend or market weakness, it is rather related to the decrease in the share of added value products in the total sales volumes in Q3 and Q4 2018. The profitability was also affected by the fire event reported previously in the financial statements for Q2 2018; it broke out in one of AS HansaMatrix client's warehouses and was expected to have a negative impact on the sales of the HansaMatrix data network products in Q3 and Q4 2018 due to the

time required for new component supplies for electronic manufacturing. This fire accident is not expected to affect the sales volume of the data network product sector in the longer term.

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

Performance of the Parent Company

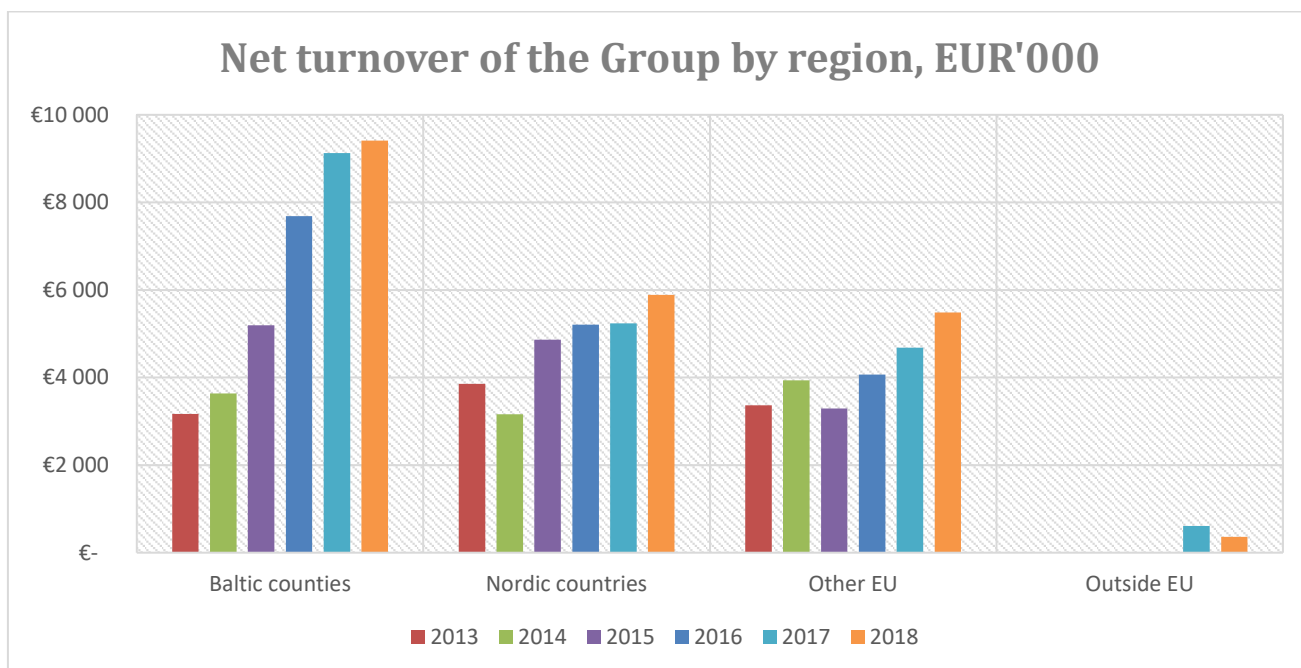
The Parent Company closed the year 2018 with a net turnover of EUR 20.53 million, which by 5.4% exceeded the EUR 19.48 million reported in the previous period. During the reporting period, the Parent Company reported EBITDA of EUR 1.743 million, compared to EUR 2.444 million in 2017; the net profit was EUR 0.660 million, compared to EUR 0.913 million in 2017.



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 of turnover was in other EU and Nordic countries.

Net turnover of the Group, EUR'000	2013	2014	2015	2016	2017	2018
Baltic region	3 169	3 633	5 359	7 689	9 125	9 302
Nordic countries	3 854	3 164	4 920	5 206	5 238	5 896
Other EU countries	3 368	3 940	3 292	4 066	4 679	5 539
Outside EU					608	417



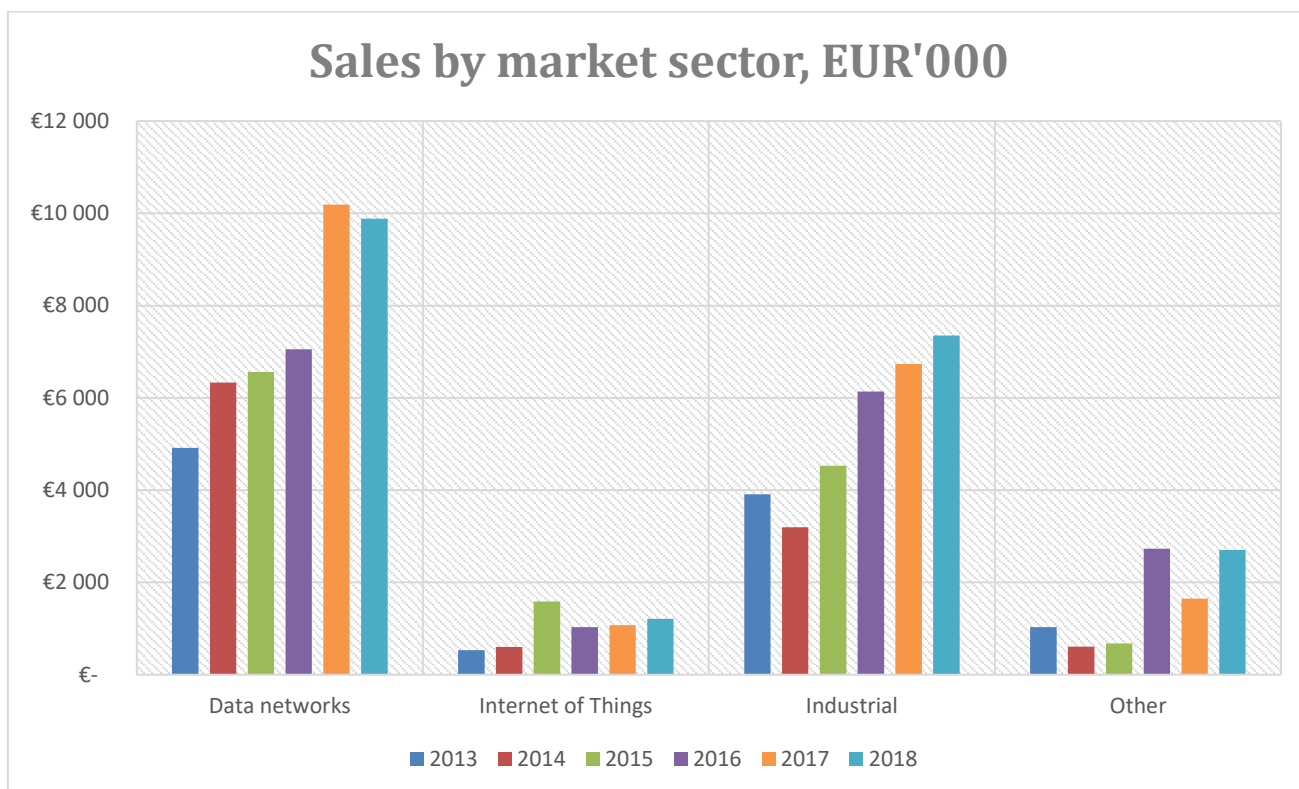
In 2018, the net turnover in other EU countries grew by 18% in comparison to 2017. This is due to the growing demand from a number of existing clients in the industrial market sector and starting cooperation with new clients in the industrial and other product market sector. In the Nordic countries, a 13% growth reflected the growing demand for industrial products. In the Baltic countries, the business grew by 2%. In 2018, the Group's sales outside EU totaled EUR 364 thousand.

The HansaMatrix sales is focused in four major market sectors: data network infrastructure products, the Internet of Things, industrial products and other.



The largest market sector in 2018 was constituted by the data network infrastructure clients accounting for 47% of sales, down by 3% compared to the previous year. The decrease in the data network market share was due to the fire event reported previously in the financial statements for Q2 2018; it broke out in one of AS HansaMatrix client's warehouses and was expected to have a negative impact on the sales of the HansaMatrix data network products in Q3 and Q4 2018 due to the time required for new component supplies for electronic manufacturing. This fire accident is not expected to affect the sales volume of the data network product sector in the longer term. The second largest sector was that of industrial products with a 35% share of sales, an 9% increase over the year. The third largest sector in terms of volume represents all other products with a 13% of the market share and a 64% sales increase which can be explained by the increasing development of optics and photonics and growing volumes of product manufacturing. The share of the Internet of Things showed a 6% increase, up by 9% compared to 2017.

Net turnover of the Group, EUR'000	2013	2014	2015	2016	2017	2018
Data network infrastructure	4 914	6 329	6 563	7 055	10 191	9 884
Internet of Things	533	603	1 587	1 031	1 075	1 212
Industrial products	3 908	3 195	4 525	6 141	6 737	7 355
Other products	1 035	610	677	2 735	1 647	2 703



Investments

During the 12-months of 2018, the Parent Company invested approximately EUR 2.5 million in increasing the production capacity, research instruments, testing systems and development of new products.

In 2018, HansaMatrix invested in the technological equipment and started the implementation of project No 1.2.1.4/16/A/021 “Development of Experimental Production of 3D Volumetric Imaging Equipment and its Components” under activity 1.2.1.4 “Support in introduction of new products into production” of specific objective 1.2.1 “To increase investments of private sector in R&D” of the operational program “Growth and Employment”. The total eligible costs of the project and ERDF funding amount to EUR 2.9 million, with the planned ERDF funding of EUR 1 million or 35% of the total eligible costs.

In 2018, the Parent Company issued an additional loan of EUR 0.363 million 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 3 December HansaMatrix signed a EUR 10 million financing agreement with European Investment Bank (EIB) to expand its manufacturing capacity and build a more all-round business model. The facility is made possible by the European Fund for Strategic Investments (EFSI), the core of the Investment Plan for Europe.

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

In December 2018, HansaMatrix signed new factoring agreements with SEB lizings for one year for the aggregate amount of EUR 2.76 million to be used for financing of working capital and operations, including export transactions. In addition, SEB bank has approved an additional EUR 2.5 million long-term financing for HansaMatrix, planned to be used for investments in 2019. Agreements with SEB banka on extending the maturities of the credit line, reverse factoring and guarantee line agreements totaling EUR 1.9 million were also

signed. The above funding was granted for financing the working capital. The maturities of the said agreements were extended for a year.

Investments in Associates

SIA LightSpace Technologies is a Deep Tech product development company, the world leader in developing optically deep volumetric 3D image display technology with main uses in medicine, scientific visualization, defense and AR/MR applications.

For the last four years SIA LightSpace Technologies (hereinafter - LightSpace) has been working on developing world leading multi-plane (volumetric) 3D image display technology with main uses in medicine, scientific visualization and AR/MR applications. It holds patents in the world's major markets.

In December 2018, Lightspace Technologies announced new revolutionary multi plane S3D technology for head mount displays – development of new near eye display and VR AR head mount display.

On 8 May 2018, SIA Lightspace Technologies increased its share capital by issuing 7 186 new shares. After the share capital increase, the company's share capital is EUR 13 871 and consists of 13 871 shares. The share capital was increased as follows: KS BaltCap Latvia Venture Capital Fund acquired 4 300 new shares of SIA Lightspace Technologies via a contribution in kind, i.e. contributing 1117 shares or 34.33% of equity interest in SIA EUROLCDs worth of EUR 892 501.48; HansaMatrix acquired 2 386 new shares of SIA Lightspace Technologies via a contribution in kind, i.e. contributing 360 shares or 11.06% of equity interest in SIA EUROLCDs worth of EUR 287 646.06, and via cash contribution of EUR 483 000 from the AS HansaMatrix' operating cash flow; and Ilmārs Osmanis, Chairman of the Board of HansaMatrix, acquired 500 new shares of SIA Lightspace Technologies via a cash contribution of EUR 500 EUR.

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

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

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

In 2018, the Parent Company's investments in SIA Lightspace Technologies totaled EUR 2 714 916 (incl. EUR 483 000 as a payment for earlier subscribed share capital and EUR 2 231 916 as a convertible loan). At the end of the reporting year, the total HansaMatrix' investments in SIA Lightspace Technologies in the form of the convertible loan amounted to EUR 2 454 123.

In 2018, the investments made by SIA Lightspace Technologies in SIA EUROLCDs totaled EUR 1 153 600 (incl. EUR 1 058 400 as a payment for earlier subscribed share capital and EUR 95 200 as a convertible loan). At the end of the reporting year, the total investments made by SIA Lightspace Technologies in SIA EUROLCDs in the form of the convertible loan amounted to EUR 180 200.

In the 12 months of 2018, the Parent Company invested EUR 363 000 in SIA Zinātnes parks. At the end of the reporting year, the total amount of the investments reached EUR 1 208 700.

Research and Development

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

Over the past few years, the engineer and research teams of SIA HansaMatrix Innovation R&D have developed a world class competence in several fields of electro-optics areas, such as AR/VR (augmented and virtual reality) hardware; heads up display optical systems, fast structured light projection systems or 3D robotic vision systems. Development of medical devices complies with the requirements of ISO 13485 Quality Management System and EN60601-1 safety standard. Experience has been gained in several new technical areas including high-precision current monitoring as well as in plastic-molding technology. The R&D team currently consists of 28 engineers and researchers; seven of them hold a Dr. Sci. Eng. degree either in optics or physics or electronics.

In 2018, the R&D turnover reached EUR 1.546 million which exceeded the turnover of 2017 by EUR 0.751 million or by 106%. In 2018, the R&D turnover represented 7.3% of the total consolidated sales. The considerable growth in the R&D sales in 2018 can be explained by the increase in the manufacturing volume of high-tech optics and photonics products.



Key Growth and Financial Ratios

As at 31 December 2018, the Company's compound annual growth rate (CAGR) for the last five years was 15%, while EBITDA over the same period also has demonstrated a compound annual growth of 15%.

Ratio, EUR'000	2014	2015	2016	2017	2018	CAGR
Net turnover	10 737	13 466	16 961	19 649	21 154	15%
EBIT (operating profit)	971	1 471	783	1 877	1 395	8%
EBIT (operating profit) margin	9.04%	10.92%	4.62%	9.55%	7.08%	
EBITDA	1 641	2 232	2 215	3 660	3 359	15%
EBITDA margin	15.29%	16.58%	13.06%	18.63%	15.95%	
Normalized earnings	623	1 054	551	1 228	781	5%
Net profit margin	5.80%	7.83%	3.25%	6.25%	4.12%	
ROA	6.03%	7.80%	3.49%	6.58%	3.08%	
ROE	38.16%	32.08%	10.06%	15.09%	8.91%	
Liquidity ratio	1.60	1.41	0.91	0.69	1.02	
Return on Capital Employed (ROCE)	8.35%	11.40%	5.16%	10.20%	4.3%	

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

Stock and Securities Market

On 4 January 2018, the shareholder KS FLYCAP INVESTMENT FUND I AIF sold 120 100 (6.56%) shares 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%.

On 19 January 2018, the shareholder KS FLYCAP INVESTMENT FUND I AIF sold 71 417 (3.90%) shares 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%.

On 26 January 2018, the shareholder SIA Macro Rīga sold 24 664 (1.35%) shares 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%.

On 20 April 2018, KS Flycap investment fund I AIF reduced its shareholding in HansaMatrix to 175 808 shares or 9.61%.

On 20 July 2018, the fund KS BaltCap Latvia Venture Capital Fund managed by SIA BaltCap AIFP acquired 182 000 shares in HansaMatrix (HMX1R) obtaining 9.95% of voting rights in the company. As a result of the transaction, the shareholding of SIA MACRO RĪGA in HansaMatrix decreased to 898 065 shares or 49.09%.

On 30 October 2018, Swedbank Pension Fund K3 and Swedbank Pension Fund K4 managed by the investment management company Swedbank Investeerimisfondid AS obtained a significant shareholding in AS HansaMatrix (HMX1R). As a result, the Funds own 95 799 shares or 5.24%.

In 2018, the HansaMatrix share price showed a downward trend and in October 2018 reached the lowest point after which an upward trend was observed again. See the following trading chart for the year 2018:



The securities trading history is summarized in the following table:

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

Exposure to Risks

The Group and the Parent Company, operating in a highly competitive market, are subject to **market risk**. The Parent Company manages risk according to its business development strategy, which foresees the development of a highly automated and technologically developed manufacturing process, operating in diversified market sectors with a growth tendency. Continued efforts are made for attracting new clients. As at 31 December 2018, the Parent Company had 30 regular clients, of which 17 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 40 to the financial statements, as at 31 December 2018, 63% of all trade receivables were insured. Clients, whose trade credits for any reason are not or cannot be insured, are subject to shortened payment schedules, advance payments, credit limits and other risk hedging conditions. The credit history of customers is also assessed on an ongoing basis and credit limits and terms are changed on an individual basis as applicable.

The Group and the Parent Company are subject to **liquidity and cash flow risks**. Liquidity is affected by inventories and the volume of work in progress, the amount of trade credits granted to clients, amount of prepayments received, suppliers' terms of payment and the working capital available to the 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 comparably insignificant; for example, a 1% increase in the EURIBOR rate leads to a decrease in the net profit by less than 8%.

Subsequent events

On 1 February 2019, AS HansaMatrix registered with Nasdaq CSD SE 205 298 warrants that are owned by the European Investment Bank (EIB) and were issued according to the EUR 10 million financing agreement signed between AS HansaMatrix and EIB.

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

Further Development

In 2019, 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 Board
15 April 2019

Statement of Management's Responsibility

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

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

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

For the Management Board of AS HansaMatrix:



Ilmārs Osmanis
Chairman of the Board
15 April 2019

Financial statements

Statement of comprehensive income

	Notes	Group		Parent Company	
		2018 EUR	2017 EUR	2018 EUR	2017 EUR
Net turnover	3	-	19 649 402	-	19 475 270
Revenue from contracts with customers	3	21 153 730	-	20 534 852	-
Cost of sales	4	(17 552 479)	(15 923 235)	(18 993 598)	(17 379 517)
Gross profit		3 601 251	3 726 167	1 541 254	2 095 753
Distribution costs	5	(918 396)	(782 658)	(226 395)	(171 465)
Administrative expense	6	(1 734 790)	(1 473 242)	(736 569)	(691 200)
Other operating income	7	565 246	456 020	261 773	221 835
Other operating expense	8	(118 673)	(48 797)	(61 754)	(22 095)
Operating profit		1 394 638	1 877 490	778 309	1 432 828
Loss from investments in associates	15	(483 143)	(107 712)	-	-
Finance income	35	46 783	93 591	46 783	93 591
Finance costs	9	(177 260)	(415 616)	(165 591)	(393 378)
Profit before tax		781 018	1 447 753	659 501	1 133 041
Corporate income tax	10	-	(219 814)	-	(219 814)
Deferred corporate income tax	10	-	451 051	-	312 709
Net profit for the reporting period		781 018	1 678 990	659 501	1 225 936

Other comprehensive income that will not be reclassified to profit or loss in subsequent periods (net of tax):

Non-current asset revaluation reserve	-	686 344	-	686 344
Total comprehensive income for the year, net of tax	781 018	2 365 334	659 501	1 912 280
Profit attributable to:				
Equity holders of the Parent Company	781 018	1 678 990	659 501	1 225 036
Non-controlling interests	-	-	-	-
	781 018	1 678 990	659 501	1 225 936
Comprehensive income attributable to:				
Equity holders of the Parent Company	781 018	2 365 334	659 501	1 912 280
Non-controlling interests	-	-	-	-
	781 018	2 365 334	659 501	1 912 280

Basic and diluted earnings per share, EUR 12 0.43 0.92

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



Ilmārs Osmanis
Chairman of the Management Board
15 April 2019



Vineta Grecka
Chief Accountant
15 April 2019

Statement of financial position

ASSETS			Group		Parent Company	
	Notes	31.12.2018	31.12.2017	31.12.2018	31.12.2017	
		EUR	EUR	EUR	EUR	
NON-CURRENT ASSETS						
Intangible assets						
ODM assets		16 113	21 002	-	-	
Other intangible assets		179 814	190 502	100 144	111 119	
Total intangible assets	13	195 927	211 504	100 144	111 119	
Property, plant and equipment						
Land and buildings		3 560 905	3 753 000	3 560 905	3 753 000	
Equipment and machinery		5 310 730	4 603 940	2 552 305	2 138 878	
Other fixtures and fittings, tools and equipment		649 194	604 064	68 356	123 315	
Leasehold improvements		44 539	37 856	448	12 508	
Construction in progress		284 160	214 460	279 160	214 460	
Total property, plant and equipment	14	9 849 528	9 213 320	6 461 174	6 242 161	
Non-current financial assets						
Investments in subsidiaries	15	-	-	729 662	449 662	
Investments in associates	15	1 675 977	1 006 921	2 209 349	1 080 946	
Investments in other companies	16	20 333	662 818	20 048	662 533	
Other investment loans	17	3 588 703	1 017 583	3 662 823	1 067 907	
Loan to shareholder	37	2 502 240	1 912 227	2 502 240	1 912 227	
Other financial assets	18	123 987	-	123 987	-	
Other non-current receivables		52 566	52 956	16 042	16 019	
Total non-current financial assets		7 963 806	4 652 505	9 264 151	5 189 294	
TOTAL NON-CURRENT ASSETS		18 009 261	14 077 329	15 825 469	11 542 574	
CURRENT ASSETS						
Inventories						
Raw materials and consumables		2 496 197	1 848 213	2 182 388	1 584 554	
Work in progress		1 083 825	835 349	481 232	585 478	
Finished goods		185 187	-	185 187	-	
Total inventories	19	3 765 209	2 683 562	2 848 807	2 170 032	
Receivables and prepayments						
Trade receivables	20	-	911 892	-	558 135	
Trade receivables from contracts with customers	20	857 198	-	346 161	-	
Receivables from related companies	21	-	-	-	625 188	
Receivables from related companies from contracts with customers	21	-	-	33 380	-	
Prepayments for goods	22	33 676	41 828	10 223	35 328	
Prepayments to related companies	22	-	-	835 248	-	
Loan to shareholder	37	-	550 000	-	550 000	
Prepaid expense		50 848	42 125	14 119	14 321	
Corporate income tax	34	-	1 000	-	-	
Other receivables	23	257 008	95 216	220 713	2 988	
Total receivables and prepayments		1 198 730	1 642 061	1 459 844	1 785 960	
Cash and cash equivalents	24	2 376 781	259 185	2 369 105	254 337	
TOTAL CURRENT ASSETS		7 340 720	4 584 808	6 677 756	4 210 329	
TOTAL ASSETS		25 349 981	18 662 137	22 503 225	15 752 903	

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


Ilmars Osmanis
Chairman of the Management Board
15 April 2019


Vineta Grecka
Chief Accountant
15 April 2019

Statement of financial position

EQUITY AND LIABILITIES

	Notes	Group		Parent Company	
		31.12.2018	31.12.2017	31.12.2018	31.12.2017
EQUITY		EUR	EUR	EUR	EUR
Share capital	25	1 829 381	1 829 381	1 829 381	1 829 381
Share premium	25	2 435 579	2 435 579	2 435 579	2 435 579
Reserves	25	1 324	313	1 324	313
Non-current asset revaluation reserve	26	2 162 339	2 286 031	2 162 339	2 286 031
Retained earnings/ (accumulated loss):					
a) brought forward		1 560 850	(95 482)	1 048 695	(154 583)
b) for the period		781 018	1 678 990	659 501	1 225 936
TOTAL EQUITY		8 770 491	8 134 812	8 136 819	7 622 657
LIABILITIES					
Non-current liabilities					
Loans from credit institutions	27	6 503 051	2 715 009	6 503 051	2 715 009
Finance lease liabilities	28	662 796	618 154	133 871	273 099
Other financial liabilities	18	1 345 930	-	1 345 930	-
Prepayments received from customers	31	463 638	-	463 638	-
Deferred income	30	403 130	572 707	226 067	345 054
Total non-current liabilities		9 378 545	3 905 870	8 672 557	3 333 162
Current liabilities					
Loans from credit institutions	27	2 037 520	1 529 016	2 037 520	1 529 016
Finance lease liabilities	28	193 046	437 872	49 647	98 782
Prepayments received from customers	31	-	517 148	-	429 735
Prepayments received under contracts with customers	31	689 486	-	638 388	-
Trade payables	32	3 090 852	2 772 580	2 146 919	2 016 377
Payables to related companies	37	-	-	621 360	232 366
Taxes payable	33	564 012	491 521	13 533	48 046
Corporate income tax	34	-	177 702	-	177 702
Other liabilities	35	206 362	207 072	17 294	22 818
Deferred income	30	169 577	169 577	118 987	118 987
Accrued liabilities	36	250 090	318 967	50 201	123 255
Total current liabilities		7 200 945	6 621 455	5 693 849	4 797 084
TOTAL LIABILITIES		16 579 490	10 527 325	14 366 406	8 130 246
TOTAL EQUITY AND LIABILITIES		25 349 981	18 662 137	22 503 225	15 752 903

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



Ilmārs Osmanis
Chairman of the Management Board
15 April 2019



Vineta Grecka
Chief Accountant
15 April 2019

Statement of cash flows

		Group		Parent Company	
	Notes	2018 EUR	2017 EUR	2018 EUR	2017 EUR
CASH FLOWS TO/ FROM OPERATING ACTIVITIES					
Profit before tax		781 018	1 447 753	659 501	1 133 041
Adjustments for:					
Depreciation and amortization	13.14	1 864 349	1 782 264	866 478	1 010 921
Depreciation included in the cost of work in progress		38 211	24 779	-	
Interest expense	9	158 355	247 188	149 121	234 908
Interest income	37	(46 783)	(93 591)	(46 783)	(93 591)
Decrease in allowances for slow-moving items and receivables	19	(55 286)	(42 631)	(55 478)	(43 658)
Income from grant recognition	7	(169 577)	(169 575)	(118 987)	(118 987)
Gain on disposal of property, plant and equipment	7	(6 677)	(2 811)	(5 000)	(917)
Group's share of loss of an associate recognized in the statement of comprehensive income	15	483 143	107 712	-	-
Adjustments for:					
(Increase)/ decrease in inventories		(1 018 267)	(1 045 030)	(616 527)	(563 618)
(Increase)/ decrease in receivables		(231 579)	274 198	(353 831)	172 770
Increase/ (decrease) in payables		876 925	1 123 456	1 002 473	512 882
Cash generated from operations, gross		2 673 832	3 653 712	1 480 967	2 243 751
Interest paid		(151 406)	(247 161)	(142 172)	(237 476)
Corporate income tax paid		(176 702)	83 307	(177 659)	84 490
Net cash flows to/ from operating activities		2 345 724	3 489 858	1 161 136	2 090 765
CASH FLOWS TO/ FROM INVESTING ACTIVITIES					
Purchase of intangible assets and property, plant and equipment	13.14	(2 530 042)	(2 114 036)	(1 074 835)	(768 569)
Proceeds from sale of property, plant and equipment		13 527	34 223	5 319	607 553
Investments in subsidiaries		-	-	(280 000)	-
Investments in and loans to other companies		(3 080 834)	(1 262 232)	(3 080 834)	(1 162 232)
Net cash flows to/ from investing activities		(5 597 349)	(3 342 045)	(4 430 350)	(1 323 248)
CASH FLOWS TO/ FROM FINANCING ACTIVITIES					
Dividends paid		(146 350)	(54 881)	(146 350)	(54 881)
Loans received from credit institutions		10 888 595	181 474	10 888 595	181 474
Loans repaid to credit institutions		(5 155 665)	(1 253 924)	(5 155 665)	(1 253 924)
Loans from lease companies		939 457	1 002 443	210 740	300 946
Loans repaid to lease companies		(1 156 816)	(145 631)	(413 338)	(67 393)
Net cash flows to/ from financing activities		5 369 221	(270 519)	5 383 982	(893 778)
Change in cash and cash equivalents for the year		2 117 596	(122 706)	2 114 768	(126 261)
Cash and cash equivalents at the beginning of the year	24	259 185	381 891	254 337	380 598
Cash and cash equivalents at the end of the year	24	2 376 781	259 185	2 369 105	254 337

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


Ilmars Osmanis
Chairman of the Management Board
15 April 2019


Vineta Grecka
Chief Accountant
15 April 2019

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 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
Profit for the reporting year	-	-	-	-	781 018	781 018
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	781 018	781 018
Depreciation of revalued items of property, plant and equipment	-	-	-	(123 692)	123 692	-
Share option reserves	-	-	1 011	-	-	1 011
Dividends paid	-	-	-	-	(146 350)	(146 350)
Balance as at 31 December 2018	1 829 381	2 435 579	1 324	2 162 339	2 341 868	8 770 491

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



Ilmārs Osmanis
Chairman of the Management Board
15 April 2019



Vineta Grecka
Chief Accountant
15 April 2019

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 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
Profit for the reporting year	-	-	-	-	659 501	659 501
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	659 501	659 501
Depreciation of revalued items of property, plant and equipment	-	-	-	(123 692)	123 692	-
Share option reserves	-	-	1 011	-	-	1 011
Dividends paid	-	-	-	-	(146 350)	(146 350)
Balance as at 31 December 2018	1 829 381	2 435 579	1 324	2 162 339	1 708 196	8 136 819

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



Ilmārs Osmanis
Chairman of the Management Board
15 April 2019



Vineta Grecka
Chief Accountant
15 April 2019

Notes to the financial statements

1. Corporate information

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

The HansaMatrix Group (hereinafter – the Group) is a leading Baltic electronic system product developer and manufacturer. Information on the Group's structure and other related party relationships of the Group and the Parent Company is provided in Notes 15 and Note 37.

The financial statements for the year ended 31 December 2018 were approved by a decision of the Parent Company's Board on 15 April 2019.

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

2. Significant accounting principles

2.1. Basis of preparation

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

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

The monetary unit used in the financial statements is the euro (EUR). The consolidated financial statements cover the period 1 January 2018 through 31 December 2018.

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 2018. 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

a) Investments in associates

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

Under the equity method, the investment in an associate is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment separately. The statement of profit or loss reflects the Group's share of the results of operations of the associate. Unrealized gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

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

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

a) Investments in associates (cont'd)

If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognizes the loss within 'Share of profit of an associate' in the statement of profit or loss.

Upon loss of significant influence over the associate, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

The above accounting policy was effective until 31 December 2017. The new accounting policy is described in Note 2.5 to the financial statements.

b) Investments in subsidiaries and associates (the 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 are recognized in statement of comprehensive income when the Parent Company's right to receive the dividend is established.

c) Current versus non-current classification

The Group presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle,
- Held primarily for the purpose of trading,
- Expected to be realized within twelve months after the reporting period,

or

- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle,
- It is held primarily for the purpose of trading,
- It is due to be settled within twelve months after the reporting period,

or

- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

d) Fair value measurement

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

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The 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)

d) Fair value measurement (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.

e) 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 finance 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, i.e. the manufacturing services.

f) Grants

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

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

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

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

g) Income taxes

Income taxes include current and deferred taxes. Until 31 December 2017, current corporate income tax had been applied at the statutory rate of 15%.

Legal entities have not been required to pay income tax on earned profits starting from 1 January 2018 in accordance with amendments made to the Corporate Income Tax Law of the Republic of Latvia. Corporate income tax is paid on distributed profits and deemed profit distributions. Consequently, current and deferred tax assets and liabilities are measured at the tax rate applicable to undistributed profits. Starting from 1 January 2018, both distributed profits and deemed profit distributions have been subject to the tax rate of 20 per cent of their gross amount, or 20/80 of net expense. Corporate income tax on dividends is recognized in the consolidated 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.

Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or other comprehensive income, in which case it is recognized in equity or other comprehensive income.

Deferred tax assets and liabilities

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

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

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

h) Value added tax

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

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

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

i) 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.

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

j) 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.

k) ODM (Original Design Manufacturing) assets

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

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

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

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

l) Research and development costs

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

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

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

m) 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.

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.

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

n) Leases

Group and Parent Company as a lessee

Finance leases which transfer to the Group and the Parent Company substantially all the risks and benefits incidental to ownership of the leased item are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the principal lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized directly in the statement of comprehensive income as interest expense.

If there is reasonable certainty that the lessee will obtain ownership by the end of the lease term, the period of expected use is the useful life of the asset; otherwise capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term on a straight-line basis.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the statement of comprehensive income on a straight-line basis over the lease term. The commitments undertaken by the Group and the Parent Company with respect to operating lease contracts are recorded as off-balance sheet liabilities.

Group and Parent Company as a lessor

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

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

o) Financial assets

Investments in other entities where the Parent Company holds less than 20% of the share capital are classified as financial assets under IAS 39 'Financial instruments'. 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 are classified as financial assets at fair value through other comprehensive income (OCI), 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.

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.

The above accounting policy was effective until 31 December 2017. The new accounting policy is described in Note 2.5 to the financial statements.

p) Financial liabilities

The Group's financial liabilities include trade and other payables, bank overdrafts, loans and borrowings, financial guarantees and derivative financial instruments.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction cost.

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

q) 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 finance income or finance costs.

The above accounting policy was effective until 31 December 2017. The new accounting policy is described in Note 2.5 to the financial statements.

r) 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 remain exposed to credit risk associated with the respective debtor. When credit risk remains with the contracting party, the proceeds are directly netted against the respective debtor balance.

The above accounting policy was effective until 31 December 2017. The new accounting policy is described in Note 2.5 to the financial statements.

s) 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.

t) 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.

u) Provisions

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

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

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

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

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

v) 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.

The above accounting policy was effective until 31 December 2017. The new accounting policy is described in Note 2.5 to the financial statements.

w) 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.

x) 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.

y) 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.

z) Share-Based payments

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

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

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

2.4. Significant accounting judgments, estimates and assumptions

a) 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.

b) 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:

Deferred tax assets and liabilities

The Group's management has decided not to distribute the subsidiaries' profit in dividends by 21 April 2022. The Group controls the timing of the reversal of the temporary differences and believes that they will not reverse in the foreseeable future. The deferred tax liability arising from profits of subsidiaries were not recognized in the Group's financial statements.

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 26) and next revaluation is planned in 2022.

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 2018 (Note 19).

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 2018 (Note 20).

The above accounting policy was effective until 31 December 2017. The new accounting policy is described in Note 2.5 to the financial statements.

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.

The above accounting policy was effective until 31 December 2017. The new accounting policy is described in Note 2.5 to the financial statements.

2.4. Significant accounting judgments, estimates and assumptions (cont'd)

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.

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 (Notes 15 and 16).

Segment reporting

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

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

Convertible loans

The Group and Parent Company's assets include convertible loans to associates. The Group and the Parent Company have assessed the impact of these convertible loans for determining whether the Group and the Parent Company have a decisive control over the associates. It was concluded that the convertible loans do not affect the control degree of the Group and the Parent Company over the associates as, in accordance with Chapter 2, Article 196 of the Commercial Law of the Republic of Latvia, a share capital of any entity be increased or reduced only on the basis of a decision of a shareholders' meeting in which the regulations for the increase or reduction of the share capital have been specified; and a decision on changes in the share capital is regarded as taken, if not less than two-thirds of votes of the shareholders present vote for it, unless a greater number of votes is specified in the Articles of Association

The accounting policies and key accounting assumptions regarding warrants, investment loans and other financial assets are disclosed in Note 2.5 to the financial statements.

Share-Based payments

The key accounting assumptions are disclosed in Note 2.3(z).

2.5. Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Group and the Parent Company as of 1 January 2018:

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a five-step model that applies 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 also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles).

For the first time the Group and the Parent Company applied IFRS 15 to the financial statements for the year ended 31 December 2018 with an initial application date of 1 January 2018 and have elected to adopt IFRS 15 retrospectively using the cumulative effect method. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group elected to apply the standard to all contracts that are not completed at 1 January 2018.

The adoption of this standard does not have a significant impact on the Group and the Parent Company's financial statements as the Group and the Parent Company do not have any significant long-term agreements that would include multiple deliverable arrangements and that would be recognized according to IFRS 15; accordingly, the effect of the adoption of this standard on the total revenue of the Group and the Parent Company manifests as reclassification of revenue.

The adoption of IFRS 15 as of 1 January 2018, does not have any impact on the Group and the Parent Company's balances.

Set out below, are the amounts by which each financial statement line item is affected as at and for the year ended 31 December 2018 as a result of the adoption of IFRS 15. The adoption of IFRS 15 did not have a material impact on OCI or the Group's operating, investing and financing cash flows. The first column shows amounts prepared under IFRS 15 and the second column shows what the amounts would have been had IFRS 15 not been adopted:

Revenue recognition (as of 1 January 2018)

Group	Amounts as at 31 December 2018 according to		
	IFRS 15	Previous IAS, IFRS	Increase/(decrease)
	EUR	EUR	EUR
Statement of comprehensive income			
Revenue from contracts with customers	21 153 730	-	21 153 730
Net turnover	-	21 153 730	(21 153 730)
Statement of financial position			
Trade receivables from contracts with customers	857 198	-	857 198
Trade receivables	-	857 198	(857 198)
Prepayments received under contracts with customers	1 153 124	-	1 153 124
Prepayments received from customers	-	1 153 124	(1 153 124)
Parent Company	Amounts as at 31 December 2018 according to		
	IFRS 15	Previous IAS, IFRS	Increase/(decrease)
	EUR	EUR	EUR
Statement of comprehensive income			
Revenue from contracts with customers	20 534 852	-	20 534 852
Net turnover	-	20 534 852	(20 534 852)
Statement of financial position			
Trade receivables under contracts with customers	346 161	-	346 161
Trade receivables	-	346 161	(346 161)
Receivables from related companies from contracts with customers	33 380	-	33 380
Receivables from related companies	-	33 380	(33 380)
Prepayments received under contracts with customers	1 102 026	-	1 102 026
Prepayments received from customers	-	1 102 026	(1 102 026)

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

Revenue from contracts with customers

AS HansaMatrix is in the business of developing and manufacturing electronic systems. Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group and the parent Company expect to be entitled in exchange for those goods or services. The Group and the Parent Company have concluded that the control of distinct goods or services (performance obligation) is exercised at a certain point in time.

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.

a) Sale of goods and services

Revenue from sale of goods and services is recognized at the point in time when control of the asset is transferred to the customer. Revenue is recognized upon actual transfer of control that is justified by a signature of the representative of the customer or carrier confirming the receipt. Trade receivables are generally due in 30 - 90 days after delivery.

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

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

b) Volume rebates

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

c) Significant financing component

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

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

d) Principle versus agent Consideration

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

Contract assets (as at 31 December 2018, the Group and the Parent Company have no such assets)

Contract asset is an entity's right to consideration in exchange for goods or services that the entity has transferred to a customer. Where the Group and the Parent Company transfer goods or services to a customer before the customer pays the consideration or the payment is made, contract assets are recognized to the extent of the consideration earned.

Receivables (Trade receivables from contracts with customers; Receivables from related companies from contracts with customers)

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

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

Contract liabilities (prepayments received under contracts with customers)

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

Income from investments

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

IFRS 9 Financial instruments

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 Group applied IFRS 9 prospectively, with an initial application date of 1 January 2018. The Group has not restated the comparative information, which continues to be reported under IAS 39. Differences arising from the adoption of IFRS 9 have been recognized directly in retained earnings and other components of equity.

a) Classification and measurement

The Group classifies financial assets into: a) financial assets at amortized cost, b) equity investments at fair value through other comprehensive income (FVTOCI), c) financial assets at fair value through profit or loss (FVTPL), and d) debt investments at fair value through other comprehensive income (FVTOCI).

The Group classifies financial liabilities into the following categories: a) financial liabilities measured at amortized cost, and b) financial liabilities measured at fair value through profit or loss (FVTPL).

b) Financial assets at amortized cost

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

c) Equity investments at FVTOCI

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

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

d) Financial assets at FVTPL

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

e) Debt investments at FVTOCI

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

f) Financial liabilities measured at amortized cost

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

g) Financial liabilities measured at FVTPL

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

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

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

The assessment of the Group's business model was made as of the date of initial application, 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

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

In summary, upon the adoption of IFRS 9, the Group had the following required or elected reclassifications as at 1 January 2018.

Group	IFRS 9 measurement category		
	At fair value through profit or loss EUR	At amortized cost EUR	At fair value through OCI EUR
IAS 39 measurement category			
Loans and receivables	911 892	-	-
Prepayments for goods	41 828	-	-
Loans to shareholders	2 462 227	-	-
Investments in other companies	662 818	-	662 818
Other non-current receivables	52 956	-	-
Other investment loans	1 017 583	-	-
TOTAL:	1 017 583	3 468 903	662 818

Parent Company	IFRS 9 measurement category		
	At fair value through profit or loss EUR	At amortized cost EUR	At fair value through OCI EUR
IAS 39 measurement category			
Loans and receivables	558 135	-	-
Prepayments for goods	35 328	-	-
Loans to shareholders	2 462 227	-	-
Investments in other companies	662 533	-	662 533
Other non-current receivables	16 019	-	-
Other investment loans	1 067 907	-	-
TOTAL:	1 067 907	3 071 709	662 533

h) Practical application to key financial asset groups

Loans to shareholders

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

Other investment loans

The Group and the Parent Company hold these financial assets to collect contractual cash flows representing solely payments of principal. However, considering that the Group and the Parent Company have an option of conversion of these loans into the borrower's equity shares, these financial instruments, according to IFRS 9, are measured at fair value through profit or loss. No less frequently than once a year, the Group and the Parent Company determine the fair value of these financial instruments. If the fair value obtained after the application of the valuation technique differs from the net current amount, the Group and the Parent Company recognize the respective change through profit or loss. The fair value measurement policy is disclosed in the section "Fair value measurement" of Note 2.5 to the financial statements.

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

Investments in other companies

Equity investments in non-listed companies classified as AFS financial assets as at 31 December 2018 are classified and measured as Equity instruments designated at fair value through OCI beginning 1 January 2018. The Group elected to classify irrevocably its non-listed equity investments under this category at the date of initial application as it intends to hold these investments for the foreseeable future. There were no impairment losses recognized in profit or loss for these investments in prior periods. The fair value measurement policy is disclosed in the section "Fair value measurement" of Note 2.5 to the financial statements.

Factoring

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

- Trade receivables from contracts with customers within a business model with the objective to hold financial assets in order to collect contractual cash flows are accounted at amortized cost and reviewed for impairment as disclosed in Note 2.5 (j).
- Trade receivables from contracts with customers held with the only objective of selling the financial assets are accounted for at FVTPL.

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

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

Other bank loans

There are no changes in the classification and measurement of the Group's financial liabilities.

Trade receivables from contracts with customers

Trade receivables are measured at the transaction price determined under IFRS 15.

Other financial liabilities

Loan contracts with embedded derivative contain an optional obligation for an entity to purchase its own equity. As financial instrument contains a cash settlement option, during the initial recognition financial derivative (warrant put option) is separated from the host loan contract and accounted as separate instrument. Group measures such embedded derivatives at fair value with changes in fair value recognized in profit or loss. The fair value of derivative was determined using Black-Scholes model.

i) Fair value measurement

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

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

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

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

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

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

i) Fair value measurement (cont'd)

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows: Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities, Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices), Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

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

j) Impairment

The adoption of IFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets, measured at amortized cost by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

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

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

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. A loss allowance is established equal to the amount of credit losses expected over the remaining life of the asset (lifetime ECLs). For receivables, the Group and the Parent Company measure the ECLs based on the historical data for the last 3 years, and where the historical data are not available, make assumptions using the following matrix:

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

For individually assessed financial assets that are measured at amortized cost (Loan to shareholder) the IFRS 9 general approach is used, applying the Expected Credit Losses Model, which foresees calculating the financial asset value adjustments as the product of three variables: Exposure at Default (EAD), Loss Given Default (LGD) and the Probability of Default (PD). The last 2 variables are estimated based on the publicly available relevant industry data.

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

Impairment effect resulting upon the adoption of IFRS 9 as at 1 January 2018 is not material.

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

Standards issued but not yet effective and not early adopted

Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU. The management has assessed the impact of this standard and considers that the changes will not have a significant effect on the financial statements of the Group and 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. The management has assessed the impact of this standard and considers that the changes will not have a significant effect on the financial statements of the Group and the Parent Company.

IFRS 16: Leases

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

AS HansaMatrix plans to adopt IFRS 16 Leases for annual periods beginning on or after 1 January 2019. IFRS 16 will be adopted applying the modified retrospective approach. Under this approach, the cumulative effect of initially applying IFRS 16 is recognized as an adjustment to equity at the date of initial application. (The standard also requires to revise the leases signed before 1 January 2019, only allowing for not reassessing the compliance of the contract with the lease definition and not applying the standard to the leases expiring in 2019.)

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

First, a lease liability is measured at the present value of all contractual future lease payments discounted using the interest rate implicit in the lease (or similar borrowing rate). Lease liabilities are recognized as any other liabilities. A right to use asset is recognized under property, plant and equipment or as a separate item under non-current assets. When discounting is used, interest expense on the lease liability is recognized.

As a result of the adoption of IFRS as of 1 January 2019, the asset amount has increased by EUR 1 752 601, current liabilities – by EUR 551 863 EUR and non-current liabilities – by EUR 1 200 738.

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. The amendments have not yet been endorsed by the EU. The management has assessed the impact of this standard and considers that the changes will not have a significant effect on the financial statements of the Group and the Parent Company.

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

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. The management has assessed the impact of this interpretation and considers that the changes will not have a significant effect on the financial statements of the Group and the Parent Company.

IAS 19: Plan Amendment, Curtailment or Settlement (Amendments)

The amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements. These amendments have not yet been endorsed by the EU. The management has assessed the impact of this standard and considers that the changes will not have a significant effect on the financial statements of the Group and the Parent Company.

Conceptual Framework in IFRS standards

IASB issued the revised Conceptual Framework for Financial Reporting on 29 March 2018. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. IASB also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. Its objective is to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020.

IFRS 3: Business Combinations (Amendments)

The IASB issued amendments in Definition of a Business (amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The amendments are effective for business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, with earlier application permitted. These amendments have not yet been endorsed by the EU. The management has assessed the impact of this standard and considers that the changes will not have a significant effect on the financial statements of the Group and the Parent Company.

IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of 'material' (Amendments)

The amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The amendments clarify the definition of material and how it should be applied. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'. In addition, the explanations accompanying the definition have been improved. The amendments also ensure that the definition of material is consistent across all IFRS Standards. These amendments have not yet been endorsed by the EU. The management has assessed the impact of this standard and considers that the changes will not have a significant effect on the financial statements of the Group and the Parent Company.

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

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

3. Revenue from contracts with customers/ Net turnover

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

	Group		Parent Company	
	2018 EUR	2017 EUR	2018 EUR	2017 EUR
Baltic countries	9 301 850	9 124 519	8 118 548	8 922 592
Nordic countries	5 896 183	5 238 481	5 617 213	5 238 481
Other EU Member States	5 538 708	4 678 795	5 458 997	4 678 795
Other	416 989	607 607	1 340 094	635 402
TOTAL:	21 153 730	19 649 402	20 534 852	19 475 270

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

	Group		Parent Company	
	2018 EUR	2017 EUR	2018 EUR	2017 EUR
Data network infrastructure	9 884 151	10 190 879	9 884 151	9 988 952
Industrial products	7 355 120	6 737 121	7 355 120	6 737 121
Internet of Things	1 211 837	1 074 849	1 211 837	1 074 849
Other products	1 153 500	1 646 553	1 153 500	1 674 348
Other sales	1 549 122	-	930 244	-
TOTAL:	21 153 730	19 649 402	20 534 852	19 475 270

All revenue constitutes one operating segment. Revenue from contracts with customers is also disclosed in Note 7 (Revenue from contracts with customers - organization of training).

Remaining performance obligations (to be performed in the future):

	Group		Parent Company	
	31.12.2018 EUR	31.12.2017 EUR	31.12.2018 EUR	31.12.2017 EUR
Within one year	3 674 938	3 691 257	3 523 242	3 791 857
More than one year	2 318 191	-	2 318 191	-
TOTAL:	5 993 129	3 691 257	5 841 433	3 791 857

4. Cost of sales

	Group		Parent Company	
	2018	2017	2018	2017
	EUR	EUR	EUR	EUR
Costs of raw materials	9 295 452	8 576 229	9 336 108	8 814 359
Production process management costs*	2 276 071	2 057 955	8 585 569	7 301 918
Staff costs	2 266 443	2 037 134	58 938	8 879
Depreciation and amortization (Notes 13 and 14)	1 470 406	1 412 344	732 033	820 087
Research costs	1 043 734	734 543	12 108	10 464
<i>including staff costs</i>	668 734	532 294	-	-
<i>including amortization and depreciation</i>	120 921	54 511	12 108	2 371
(Notes 13 and 14)				
Production facilities, land lease and utilities	709 265	689 075	23 710	121 316
Transport expense	208 812	191 945	185 304	165 771
Low-value items	153 056	90 530	7 710	39 323
Lease of equipment and premises	99 640	110 847	103 953	111 139
Repair and maintenance expense	45 339	32 961	4 311	23 135
Real estate tax	6 092	6 114	5 732	5 732
Change in allowances for slow-moving items (Note 19)	(61 116)	(42 631)	(62 248)	(43 658)
Other production costs	39 285	26 189	370	1 052
TOTAL:	17 552 479	15 923 235	18 993 598	17 379 517

* Due to the increased volume of orders, in 2017 and 2018 production services provided by SIA Quality Jobs were used. In 2017, the Parent Company transferred the production processes to its subsidiary SIA Campus Pärõgre; as a result the production process management costs of the Parent Company sharply increased.

5. Distribution costs

	Group		Parent Company	
	2018	2017	2018	2017
	EUR	EUR	EUR	EUR
Staff costs	647 247	661 033	60 439	105 598
Marketing expense	162 300	43 717	145 382	37 442
Transport expense	52 494	51 645	12 028	18 268
Business trips	32 610	16 219	8 332	7 455
Communications expense	8 185	10 044	214	2 702
Other sales-related costs	15 560	-	-	-
TOTAL:	918 396	782 658	226 395	171 465

6. Administrative expense

	Group		Parent Company	
	2018	2017	2018	2017
	EUR	EUR	EUR	EUR
Staff costs	834 281	643 179	341 008	218 201
Amortization and depreciation (Notes 13 and 14)	285 130	315 409	134 445	188 463
Staff training	164 738	129 411	8 709	21 766
Bank charges	67 799	82 342	63 356	78 995
Provision of administrative functions *	64 942	47 927	52 172	44 935
Professional fees**	57 323	46 382	45 357	41 840
Office expense	49 724	37 934	735	10 112
Transport expense	44 122	43 340	11 930	8 996
Non-operating expense	35 875	41 015	2 942	5 186
Insurance	24 998	22 340	22 014	20 916
Representation expense	22 951	10 478	140	2 625
IT expense	18 080	20 411	13 593	12 243
Business trips	9 568	8 861	8 038	8 621
Communications expense	8 931	10 041	2 692	3 465
Allowances for doubtful receivables	8 094	3 564	6 535	3 564
Other administrative expense	38 234	10 608	22 903	21 272
TOTAL:	1 734 790	1 473 242	736 569	691 200

* Due to the increased volume of orders, in 2017 and 2018 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 31 661 (2017: EUR 20 567).

7. Other operating income

	Group		Parent Company	
	2018	2017	2018	2017
	EUR	EUR	EUR	EUR
Income from research grant recognition	218 283	58 962	-	-
Income from EU grant recognition (accrued)*	169 577	169 576	118 987	118 987
Income from EU grant recognition (one-off)	77 842	54 888	25 134	11 383
Revenue from contracts with customers - organization of training	45 050	29 750	45 050	29 750
Currency exchange gain, net	15 362	68 012	-	60 370
Gain on disposal of property, plant and equipment, net	6 677	2 811	5 000	917
Lease of premises	1 818	-	57 778	-
Other income	30 637	72 021	9 824	428
TOTAL:	565 246	456 020	261 773	221 835

* 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	
	2018	2017	2018	2017
	EUR	EUR	EUR	EUR
Currency exchange loss, net	52 061	1 001	51 736	-
Penalties	45 782	29 996	7 051	4 295
Donations	8 300	17 800	2 000	17 800
Loss on disposal of property, plant and equipment, net	8 122	-	-	-
CIT on non-operating expense	4 408	-	967	-
TOTAL:	118 673	48 797	61 754	22 095

9. Finance costs

	Group		Parent Company	
	2018	2017	2018	2017
	EUR	EUR	EUR	EUR
Interest expense	158 355	247 188	149 121	234 908
Directly attributable transaction costs	18 905	168 428	16 470	158 470
TOTAL:	177 260	415 616	165 591	393 378

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

10. Current and deferred corporate income tax

	Group		Parent Company	
	2018	2017	2018	2017
	EUR	EUR	EUR	EUR
Current corporate income tax charge for the reporting year	-	219 814	-	219 814
Deferred corporate income tax due to changes in temporary differences	-	363 246	-	98 502
Reversal of deferred tax	-	(814 297)	-	(411 211)
Total corporate income tax:	-	(231 237)	-	(92 895)

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

Deferred corporate income tax Group

	Statement of financial position		Statement of profit or loss	
	31.12.2018	31.12.2017	2018	2017
Deferred corporate income tax liabilities				
Accelerated depreciation for tax purposes	-	(649 402)	-	140 733
Revaluation of non-current assets	-	(342 905)	-	-
Gross deferred corporate income tax liabilities	-	(992 307)	-	140 733
Deferred corporate income tax assets				
Tax loss carried forward	-	123 386	-	109 305
Other	-	(180 981)	-	5 908
Gross deferred corporate income tax assets	-	(57 595)	-	115 213
Net deferred corporate income tax liabilities/ (assets)	-	(1 049 902)	-	
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	-	-	-	-
Net deferred corporate income tax expense/ (benefit)	-	-	-	(451 051)

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

Deferred corporate income tax

Parent Company

	Statement of financial position		Statement of profit or loss	
	31.12.2018	31.12.2017	2018	2017
Deferred corporate income tax liabilities				
Accelerated depreciation for tax purposes	-	(343 078)	-	(27 157)
Revaluation of non-current assets	-	(342 905)	-	-
Gross deferred corporate income tax liabilities	-	(685 983)	-	(27 157)
Deferred corporate income tax assets				
Tax loss carried forward	-	-	-	11 810
Valuation allowance for deferred tax assets	-	39 167	-	6 549
Gross deferred corporate income tax assets	-	39 167	-	18 359
Net deferred corporate income tax liabilities/ (assets)	-	(646 816)	-	-
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	-	-	-	-
Net deferred corporate income tax expense/ (benefit)	-	-	-	(312 709)

* In 2017, deferred tax liabilities were 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.

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

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

	Group		Parent Company	
	2018	2017	2018	2017
	EUR	EUR	EUR	EUR
Profit / (loss) before tax	-	1 447 753	-	1 133 041
Tax at the applicable tax rate of 15%	-	217 163	-	169 956
Permanent differences:				
Non-operating expense	-	7 731	-	3 904
Other	-	250 866	-	37 156
Actual income tax for the reporting year:	-	475 760	-	211 016
Reversal of deferred tax	-	(706 997)	-	(303 911)
Corporate income tax charged to the statement of profit or loss	-	(231 237)	-	(92 895)

11. Staff costs and number of employees

	Group		Parent Company	
	2018	2017	2018	2017
	EUR	EUR	EUR	EUR
Wages and salaries *	3 722 219	3 244 199	371 488	269 324
Statutory social insurance contributions	892 764	760 076	86 942	61 154
Employee health insurance	36 671	35 962	903	2 120
Other staff costs	3 222	2 251	1 052	80
TOTAL:	4 654 876	4 042 488	460 385	332 678

*In 2017, 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	
	2018	2017	2018	2017
	EUR	EUR	EUR	EUR
<u>Management Board</u>				
Wages and salaries	262 247	95 087	144 627	95 087
Statutory social insurance contributions	61 056	20 732	33 046	20 732
Other staff costs	2 399	186	1 184	186
<u>Supervisory Board</u>				
Wages and salaries	40 910	31 837	40 910	31 837
Statutory social insurance contributions	9 615	7 338	9 615	7 338
Other staff costs	13	13	13	13
TOTAL:	376 240	155 193	229 395	155 193

11. Staff costs and number of employees (cont'd)

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

	Group		Parent Company	
	2018	2017	2018	2017
	EUR	EUR	EUR	EUR
Cost of sales (Note 4)	2266 443	2037 134	58 938	8 879
Cost of sales – under research costs (Note 4)	668 734	532 294	-	-
Distribution costs (Note 5)	647 247	661 033	60 439	105 598
Administrative expense (Note 6)	834 281	643 179	341 008	218 201
Wages and salaries – under work in progress	238 171	168 848	-	-
TOTAL:	4654 876	4042 488	460 385	332 678

	Group		Parent Company	
	2018	2017	2018	2017
Average number of employees during the reporting year	224	222	10	8

12. 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:

	2018	2017
	EUR	EUR
Net profit attributable to shareholders	781 018	1 678 990
Weighted average number of shares	1 829 381	1 829 381
Earnings per share (EUR):	0.43	0.92

	Change	Actual number of shares after transaction	Number of shares used in calculating earnings per share
2017			
Number of shares at the beginning of the year	-	1 829 381	1 829 381
Number of shares at the end of the year	-	1 829 381	1 829 381
Weighted average number of shares:			1 829 381
2018			
Number of shares at the beginning of the year	-	1 829 381	1 829 381
Number of shares at the end of the year	-	1 829 381	1 829 381
Weighted average number of shares:			1 829 381

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 2017 was EUR 146 350. In 2017, 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 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
Additions	-	127 730	127 730
As at 31 December 2018	23 021	1057 469	1080 490
ACCUMULATED AMORTIZATION			
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
Charge for the year	4 889	138 418	143 307
As at 31 December 2018	6 908	877 655	884 563
NET CARRYING AMOUNT			
As at 31 December 2017	21 002	190 502	211 504
As at 31 December 2018	16 113	179 814	195 927

Parent Company	ODM assets EUR	Other intangible assets EUR	TOTAL EUR
COST			
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
Additions	-	76 527	76 527
As at 31 December 2018	-	863 823	863 823
ACCUMULATED AMORTIZATION			
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
Charge for the year	-	87 502	87 502
As at 31 December 2018	-	763 679	763 679
NET CARRYING AMOUNT			
As at 31 December 2017	-	111 119	111 119
As at 31 December 2018	-	100 144	100 144

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 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
Additions	-	1 936 805	363 865	31 942	69 700	2 402 312
Disposals	-	(14 447)	(8 696)	-	-	(23 143)
As at 31 December 2018	5 444 810	14 049 394	2 315 573	143 899	284 160	22 237 836
ACCUMULATED DEPRECIATION						
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
Charge for the year	192 095	1 224 013	316 575	25 259	-	1 757 942
Disposals	-	(8 445)	(6 536)	-	-	(14 981)
As at 31 December 2018	1 883 905	8 738 664	1 666 379	99 360	-	12 388 308
NET CARRYING AMOUNT						
As at 31 December 2017	3 753 000	4 603 940	604 064	37 856	214 460	9 213 320
As at 31 December 2018	3 560 905	5 310 730	649 194	44 539	284 160	9 849 528

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 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
Additions	-	931 937	1 671	-	64 700	998 308
Disposals	-	-	(4 728)	-	-	(4 728)
As at 31 December 2018	5 444 810	4 767 496	325 413	50 879	279 160	10 867 758
ACCUMULATED DEPRECIATION						
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
Charge for the year	192 095	518 510	56 311	12 060	-	778 976
Disposals	-	-	(4 409)	-	-	(4 409)
As at 31 December 2018	1 883 905	2 215 191	257 057	50 431	-	4 406 584
NET CARRYING AMOUNT						
As at 31 December 2017	3 753 000	2 138 878	123 315	12 508	214 460	6 242 161
As at 31 December 2018	3 560 905	2 552 305	68 356	448	279 160	6 461 174

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	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
	EUR	EUR	EUR	EUR
Cost of depreciated assets	5 673 845	4 839 456	1 117 583	673 112

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	
	31.12.2018 EUR	31.12.2017 EUR	31.12.2018 EUR	31.12.2017 EUR
Equipment and machinery	1 105 183	156 740	164 179	504 959
Cars	41 685	59 473	38 529	52 367
TOTAL:	1 146 868	216 213	202 708	557 326

Pledges and other restrictions on title

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

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

	Group		Parent Company	
	2018 EUR	2017 EUR	2018 EUR	2017 EUR
Cost of sales (Note 4)	1 470 406	1 412 344	732 033	820 087
Costs of research and product development (Note 4)	108 813	54 511	-	2 371
Administrative expense (Note 6)	285 130	315 409	134 445	188 463
SUBTOTAL:	1 864 349	1 782 264	866 478	1 010 921
Depreciation change included in work in progress *	38 211	24 779	-	-
TOTAL:	1 902 560	1 807 043	866 478	1 010 921

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

15. Investments in subsidiaries and associates

Investments in subsidiaries (Parent Company)

			Parent Company's investment		Financial data of investee			
			31.12.2018	31.12.2017	2018	31.12.2018	2017	31.12.2017
					Statement of comprehensive income	Equity	Statement of comprehensive income	Equity
Company	Type of business	%	EUR	EUR	EUR	EUR	EUR	EUR
Subsidiaries								
SIA HansaMatrix Ventpils (Latvia)	Integrated production at Ventpils manufacturing plant	100	426 862	426 862	216 899	934 231	131 417	717 331
SIA HansaMatrix Innovation (Latvia)	New product development; creation and licensing of intellectual property; prototype production	100	300 000	20 000	154 796	644 738	137 116	209 942
SIA Campus Pārogre (Latvia)	Integrated production at Pārogre manufacturing plant	100	2 800	2 800	234 524	393 418	153 891	158 894
Total subsidiaries			729 662	449 662	606 219	1 972 387	422 424	1 086 167

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

			Parent Company's investment		Financial data of investee			
			31.12.2018	31.12.2017	2018	31.12.2018	2017	31.12.2017
			Statement of comprehensive income			Equity	Statement of comprehensive income	Equity
Company	Type of business	%	EUR	EUR	EUR	EUR	EUR	EUR
Associates								
SIA Zinātnes parks (Latvia)	Development of infrastructure of high-tech industrial park in the territory of Riga airport	24	960	960	(99 151)	(308 846)	(148 854)	(209 695)
SIA Lightspace Technologies (Latvia)	Development and commercialization of 3D display technologies	39.99 % from 08.05.2018 (31.12.2017 47.29%)	2 208 389	1 079 986	(1 123 194)	2 796 267	(220 771)	1 568 593
Total associates			2 209 349	1 080 946	(1 222 345)	2 487 421	(369 625)	1 358 898

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

Currently, Ventspils 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 2018, the equity of SIA HansaMatrix Ventspils was EUR 934 thousand and the profit for 2018 amounted to EUR 217 thousand. The Parent Company intends to increase its orders to the subsidiary, and to continue increasing its contracting with the subsidiary. The Company's equity exceeds the investment's net carrying amount in the Parent Company's balance sheet, which is EUR 427 thousand as at 31 December 2018. 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.

On 19 June 2018, HansaMatrix increased the share capital of SIA HansaMatrix Innovation by issuing 2 800 new shares with a par value of EUR 100 each. After its increase, the share capital of SIA HansaMatrix Innovation is EUR 300 000 and consists of 3 000 shares. The par value of each share is EUR 100. The shares are owned by AS HansaMatrix (100%).

SIA HansaMatrix Innovation equity was EUR 645 thousand as at 31 December 2018, and the profit for 2018 was EUR 155 thousand. 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 300 thousand as at 31 December 2018. The Parent Company has no reservations about the investment recoverability.

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

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.

SIA Campus Pārogre equity was EUR 393 thousand as at 31 December 2018, and the profit for 2018 was EUR 235 thousand. 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 2018. The Parent Company has no reservations about the investment recoverability.

Income from investments in subsidiaries

In 2017 and 2018, 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 2018 included 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.

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.

Investments in SIA Zinātnes parks

	2018 EUR	2017 EUR
Current assets	10 014	35 606
Non-current assets	1 699 639	1 599 496
Current liabilities	211 833	244 929
Non-current liabilities	1 806 666	1 599 868
Equity	(308 846)	(209 695)
Group's share	24%	24%
Investment amount	960	960
Loss for the year	(99 151)	(148 854)
Group's share of loss of an associate recognized in the statement of comprehensive income	(23 796)	(34 647)
Attributed to investment	(960)	(960)
Attributed to investment loan	(74 120)	(50 324)
Recognized investment amount	-	-
Decrease in investment loan amount	(75 080)	(51 284)

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

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%.

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

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

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

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

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

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

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

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

Investments in SIA Lightspace Technologies

	2 018 EUR	2 017 EUR
Current assets	2 237 890	1 812 281
Non-current assets	4 112 309	85 000
Current liabilities	1 067 977	328 688
Non-current liabilities	29 057	-
Equity	5 253 165	1 568 593
Group's share	47% / 39.99%*	47%
Investment amount	2 208 389	1 079 986
Loss for the year	(1 123 194)	(220 771)
Group's share of loss of an associate recognized in the statement of comprehensive income	(459 347)	(73 065)
Attributed to investment	(532 412)	(73 065)
Recognized investment amount	1 675 977	1 006 921

* Until 8 May 2018, the Group's share in equity totaled 47.28%, afterwards - 39.99%.

Investment loans to associates

	Group		Company	
	2018 EUR	2017 EUR	2018 EUR	2017 EUR
Investment loan to SIA Zinātnes parks	2 454 123	222 207	2 454 123	222 207
Investment loan to SIA Lightspace Technologies	1 208 700	845 700	1 208 700	845 700
Decrease in investment loan amount (SIA Zinātnes parks)	(74 120)	(50 324)	-	-
TOTAL	3 588 703	1 017 583	3 662 823	1 067 907

A convertible zero-interest investment loan of EUR 1 209 thousand 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 designing on the Riga International Airport territory the construction of the high-tech park *RIX Hi Tech City* with a total area of 26 thousand m². The loan agreement provides that the loan can be either repaid or re-financed in the future. AS HansaMatrix additionally reserves the right to request a conversion of the loan into share capital at par value.

After completing the infrastructure for the hi-tech industrial park *RIX Hi Tech City* at Riga Airport, AS HansaMatrix intends to sell to real estate investors its investments – both as shares and by refinancing the investment loan.

The fair value of an investment loan is determined on the basis of the cash flow projections for 7 years assuming that the sales growth will be in line with the business development strategy. The estimate depends, inter alia, on the assumptions regarding the discount rate. In 2018, a discount rate of 9.37 % was applied (2017: 7.03%).

The convertible interest-free investment loan **SIA Lightspace Technologies** for financing the development of 3D imaging technologies was issued in 2017 and 2018 and as at 31 December 2018 totaled EUR 2.5 million.

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

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

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.

The fair value of an investment loan is determined on the basis of the cash flow projections for 6 years assuming that the sales growth will be in line with the business development strategy. The estimate depends, inter alia, on the assumptions regarding the discount rate. In 2018, a discount rate of 15 % was applied (2017: 15 %).

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

16. Investments in other companies

Strategic investments in new product development companies:

		Group		Parent Company	
		31.12.2018	31.12.2017	31.12.2018	31.12.2017
	%	EUR	EUR	EUR	EUR
Investments					
SIA EUROLCDs (Latvia)	16,11	-	645 403	-	645 403
TOTAL:		-	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.

On 13 February 2018, SIA EUROLCDs increased the share capital by issuing 1 019 new shares. Lightspace Technologies subscribed to 1 000 shares committing to invest EUR 1 400 000 in the company. The investments are expected to be paid by a series of instalments. As a result, SIA Lightspace technologies owns 30.73%, AS HansaMatrix - 11.06%, Hornell Teknikinvest AB - 23.88% and KS BaltCap Latvia Venture Capital Fund KOM - 34.33% of equity interest in SIA EUROLCDs.

On 8 May 2018, SIA Lightspace Technologies, an associate of AS HansaMatrix, increased its share capital by issuing 7 186 new shares. The share capital was increased, inter alia, by AS HansaMatrix acquiring 2 386 new shares in Lightspace Technologies via a contribution in kind, i.e. contributing 360 shares or 11.06% of equity interest in SIA EUROLCDs worth of EUR 287 646.06, and making a cash contribution of EUR 483 000 from the AS HansaMatrix' operating cash flow; accordingly, at the end of the reporting year, AS HansaMatrix did not own any shares in SIA EUROLCDs any more.

16. Investments in other companies (cont'd)

Strategic investments in service organizations:

		Group		Company	
		31.12.2018	31.12.2017	31.12.2018	31.12.2017
	%	EUR	EUR	EUR	EUR
Investments					
SIA LEO PĒTĪJUMU CENTRS (Latvia)	10	-	-	711	711
SIA LEO PĒTĪJUMU CENTRS (Latvia)	14	996	996	-	-
Buildit Latvia Seed Fund (Latvia)	6.67	2 918	-	2 918	-
SIA LEITC (Latvia)	4.25	16 419	16 419	16 419	16 419
TOTAL:		20 333	17 415	20 048	17 130

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.

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 standards during the development of new products.

The fair value of the investment of AS HansaMatrix in SIA LEITC is based on the company's expected discounted cash flow for the next 5 years assuming that its amount will remain at least at the 2018-year's level. The assessment showed that as at 31 December 2018 the carrying amount of the investment of AS HansaMatrix in SIA LEITC corresponded to the fair value of this financial instrument.

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

As at 31 December 2018 SIA AIFP Buildit Latvia had not made any investment yet.

17. Other investment loans

Other investment loans are disclosed in Note 15.

18. Other financial assets and liabilities

Other financial assets

	Group		Parent Company	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
%	EUR	EUR	EUR	EUR
<i>Right to obtain equity</i>				
Airdog Inc (USA)	1.45	123 987	-	123 987
TOTAL:	123 987	-	123 987	-

On 8 October 2018, AS HansaMatrix entered into a warrant agreement with SIA Airdog and Airdog Inc (incorporated in Delaware, USA). The agreement grants AS HansaMatrix a right to acquire 365 235 preferred shares (Series A) in Airdog Inc Series for 0.001 USD per share until 9 October 2028. The value of the potentially obtainable shares amount to USD 246,460.84 as a compensation for the outstanding receivable amounts and other balances due from SIA Airdog to AS HansaMatrix.

The fair value of an investment loan is determined on the basis of the cash flow projections for 4 years assuming that the sales growth will be in line with the business development strategy of Airdog Inc (USA) management. The estimate depends, inter alia, on the assumptions regarding the discount rate. In 2018, a discount rate of 15 % was applied.

Other financial liabilities

	Group		Parent Company	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
%	EUR	EUR	EUR	EUR
EIB warrants	10	1 200 000	-	1 200 000
TOTAL:	1 200 000	-	1 200 000	-

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

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

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

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

The fair value of a warrant is determined under the Black-Scholes model. The estimate depends, inter alia, on the share market price at the reporting date, option purchase price (1 EUR per share), capital fluctuation rate – 25.2%, contract term and other factors.

19. Inventories

	Group		Parent Company	
	31.12.2018 EUR	31.12.2017 EUR	31.12.2018 EUR	31.12.2017 EUR
Raw materials and consumables (at cost)	2 695 573	2 110 969	2 381 259	1 845 673
Work in progress (at cost of materials)	413 775	450 311	340 011	416 397
Work in progress (overheads)	670 050	385 038	141 221	169 081
Finished goods (at cost of materials)	111 254	-	111 254	-
Finished goods (overheads)	73 933	-	73 933	-
TOTAL:	3 964 585	2 946 318	3 047 678	2 431 151
Allowances for raw materials and consumables	(199 376)	(262 756)	(198 871)	(261 119)
TOTAL:	(199 376)	(262 756)	(198 871)	(261 119)
TOTAL:	3 765 209	2 683 562	2 848 807	2 170 032

Movement in allowances for slow-moving items:

	Group		Parent Company	
	2018 EUR	2017 EUR	2018 EUR	2017 EUR
At the beginning of the year	(262 756)	(305 387)	(261 119)	(304 777)
Release of allowances	86 290	66 330	86 290	66 330
Established in the reporting year	(22 910)	(23 699)	(24 042)	(22 672)
At the end of the year	(199 376)	(262 756)	(198 871)	(261 119)

Changes in allowances are recognized under cost of sales (Note 4).

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

20. Trade receivables from contracts with customers

	Group		Parent Company	
	31.12.2018 EUR	31.12.2017 EUR	31.12.2018 EUR	31.12.2017 EUR
Other trade receivables without factoring	678 704	595 432	169 434	241 675
Allowances for expected credit loss / doubtful receivables	(4 888)	(3 564)	(3 181)	(3 564)
SUBTOTAL:	673 816	591 868	166 253	238 111
Other trade receivables with factoring	1 205 340	1 673 274	1 170 600	1 673 274
	(1 021 958)	(1 353 250)	(990 692)	(1 353 250)
TOTAL:	857 198	911 892	346 161	558 135

The Group has entered into a factoring agreement with SIA Swedbank Līzings. The factoring agreement expires on 25 June 2019.

On 11 December 2018, HansaMatrix signed new factoring agreements with SEB līzings for the total amount of EUR 2.76 million to be used for financing of working capital and operations, including export transactions. The agreements expire on 9 December 2019.

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

20. Trade receivables from contracts with customers (cont'd)

As at 31 December 2017, the ageing analysis of the receivables may be specified as follows:

	Total	Neither past due nor impaired	Past due but not impaired				
			<30	30-60	60-90	90-120	>120
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Group							
2017	595 432	289 849	85 063	33 297	80 938	8 445	97 840
Parent Company							
2017	241 675	140 748	6 620	1 695	-	1 064	91 548

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

	Total	Neither past due nor impaired	Past due but not impaired				
			<30	30-60	60-90	90-120	>120
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Applied ECL %		0.30%	1%	5%	10%	15%	40%
Group							
Other trade receivables, gross	678 704	590 812	73 560	3 047	2 477	2 811	5 997
Allowances for expected credit loss	(4 888)	(1 370)	(532)	-	(165)	(422)	(2 399)
2018	673 816	589 442	73 028	3 047	2 312	2 389	3 598
Parent company							
Other trade receivables, gross	169 434	108 436	53 750	-	1 251	-	5 997
Allowances for expected credit loss	(3 181)	(120)	(538)	-	(125)	-	(2 398)
2018	166 253	108 316	53 212	-	1 126	-	3 599

21. Receivables from related companies from contracts with customers

	Group		Parent Company	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
	EUR	EUR	EUR	EUR
SIA Campus Pārogre	-	-	26 767	-
SIA HansaMatrix Innovation	-	-	6 761	625 188
Allowances for expected credit loss	-	-	(148)	-
TOTAL:	-	-	33 380	625 188

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

	Total	Not past due	Past due		
			<30	30-60	>60
	EUR	EUR	EUR	EUR	EUR
Applied ECL %		0.30%	1%	5%	10%
Parent Company					
SIA HansaMatrix Innovation	6 761	-	6 761	-	-
SIA Campus Pārogre	26 767	26 767	-	-	-
Allowances for expected credit loss	(148)	(80)	(68)	-	-
2018	33 380	26 687	6 693	-	-
Parent Company					
SIA HansaMatrix Innovation	625 188	586 548	26 092	12 548	-
SIA HansaMatrix Ventspils	-	-	-	-	-
2017	625 188	586 548	26 092	12 548	-

22. Prepayments for goods

	Group		Parent Company	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
	EUR	EUR	EUR	EUR
Prepayments for goods to suppliers	33 676	41 828	10 223	35 328
Prepayment to SIA "HansaMatrix Innovation"	-	-	835 248	-
KOPĀ:	33 676	41 828	845 471	35 328

23. Other receivables

	Group		Parent Company	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
	EUR	EUR	EUR	EUR
Overpayment of VAT	217 683	89 308	217 683	-
Accrued income	31 673	-	-	-
Security deposit	3 294	3 279	2 988	2 988
Overpayment of corporate income tax	1 347	-	-	-
Other receivables	3 011	2 629	42	-
TOTAL:	257 008	95 216	220 713	2 988

24. Cash and cash equivalents

	Group		Parent Company	
	31.12.2018 EUR	31.12.2017 EUR	31.12.2018 EUR	31.12.2017 EUR
Cash at bank	2 376 781	259 185	2 369 105	254 337
TOTAL:	2 376 781	259 185	2 369 105	254 337

Cash and cash equivalents by currency profile:

	Group		Parent Company	
	31.12.2018 EUR	31.12.2017 EUR	31.12.2018 EUR	31.12.2017 EUR
EUR	2 375 572	257 215	2 367 896	252 367
USD	1 209	1 970	1 209	1 970
TOTAL:	2 376 781	259 185	2 369 105	254 337

25. Share capital

As at 31 December 2018, the share capital of the Parent Company was EUR 1 829 381 (31 December 2017: EUR 1 829 381). The par value of one share is 1 EUR (31 December 2017: EUR 1). All the shares are fully paid.

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

	Number of shares	Par value, EUR	Share capital, EUR	Share premium, EUR
31.12.2018	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:

Major shareholders (over 5% of equity interest) Shareholder	31.12.2018			31.12.2017	
	Number of shares and votes	Equity interest		Number of shares	Equity interest
SIA MACRO RĪGA	898 065	49.09%		1 104 729	60.39%
Swedbank AS customer accounts	269 146	14.71%		189 904	10.38%
Limited partnership BaltCap Latvia Venture Capital Fund	182 000	9.95%		-	-
Limited partnership FlyCap Investment Fund I AIF	175 738	9.61%		403 933	22.08%
Other	304 432	16.64%		130 815	7.15%
TOTAL:	1 829 381	100%		1 829 381	100.00%

26. Non-current revaluation reserve

Real estate was revalued in 2007, 2012 and 2017 by certified 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	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
	EUR	EUR	EUR	EUR
Revaluation reserve (land)	1 898 901	2 022 593	1 898 901	2 022 593
Deferred tax related to non-current asset revaluation reserve	263 438	263 438	263 438	263 438
Reversal of deferred tax	-	(342 905)	-	(342 905)
Revaluation reserve (land)	-	342 905	-	342 905
TOTAL:	2 162 339	2 286 031	2 162 339	2 286 031

27. Loans from credit institutions

The Parent Company has received the following loans from AS SEB Banka (refinanced from AS Citadele Banka at the end of 2017) and European Investment bank:

				Group		Parent Company	
				31.12.2018	31.12.2017	31.12.2018	31.12.2017
				EUR	EUR	EUR	EUR
<i>Non-current</i>							
Initial loan amount	Interest rate	Maturity					
EUR 2 773 083	6m EURIBOR+3.5%	06.08.2019			1 013 833	-	1 013 833
EUR 2 214 362	6m EURIBOR+3.5%	06.08.2020			756 634	-	756 634
EUR 1 500 000	6m EURIBOR+5.0%	24.08.2019			491 613	-	491 613
EUR 980 000	6m EURIBOR+4.0%	29.04.2021			452 929	-	452 929
		Refinancing 22.12.2017			(2715 009)	-	(2715 009)
EUR 5 200 000	3m EURIBOR+1.9%	25.12.2022		2 924 445	2 715 009	2 924 445	2 715 009
EUR 5 000 000*		30.11.2023		5 000 000	-	5 000 000	-
Non-current loans from credit institutions:				7 924 445	2 715 009	7 924 445	2 715 009
Loan agreement closing costs – non-current portion				-	(38 598)	(284 276)	(38 598)
TOTAL:				7 924 445	2 676 411	7 640 169	2 676 411
<i>Current</i>							
EUR 2 773 083	6m EURIBOR+3.5%	06.08.2019		-	353 452	-	353 452
EUR 2 214 362	6m EURIBOR+3.5%	06.08.2020		-	268 976	-	268 976
EUR 1 500 000	6m EURIBOR+5.0%	24.08.2019		-	182 979	-	182 979
EUR 980 000	6m EURIBOR+4.0%	29.04.2021		-	142 724	-	142 724
EUR 600 000	6m EURIBOR+4.0%	30.11.2018		-	573 936	-	573 936
		Refinancing 22.12.2017		-	(948 131)	-	(948 131)
EUR 5200000	3m EURIBOR+1.9%	25.12.2022		1 056 966	948 131	1 056 966	948 131
Current loans from credit institutions:				1 056 966	1 522 067	1 056 966	1 522 067
Accrued interest				13 483	6 949	13 483	6 949
Loan agreement closing costs – current portion				(9 242)	-	(9 242)	-
TOTAL:				1 061 207	1 529 016	1 061 207	1 529 016

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

27. Loans from credit institutions (cont'd)

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

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

	Group		Parent Company	
	31.12.2018 EUR	31.12.2017 EUR	31.12.2018 EUR	31.12.2017 EUR
Payable:				
In less than one year	2 045 561	1 522 067	2 045 561	1 522 067
Between one and five years	6 515 770	2 715 009	6 515 770	2 715 009
In more than five years	-	-	-	-
TOTAL:	8 561 331	4 237 076	8 561 331	4 237 076

As at 31 December 2018, the unused credit line amount available to the Group and the Parent Company was EUR 11 405 (31 December 2017: EUR 26 064). As at 31 December 2018 and 2017 all the Group and Parent Company's property, plant and equipment and current assets were pledged as security for the loans received. The pledge agreements are registered in the Commercial Pledge register.

28. Finance lease liabilities

	Group				Parent Company			
	31.12.2018 EUR	31.12.2018 EUR	31.12.2017 EUR	31.12.2017 EUR	31.12.2018 EUR	31.12.2018 EUR	31.12.2017 EUR	31.12.2017 EUR
Lessor	Current	Non-current	Current	Non-current	Current	Non-current	Current	Non-current
Luminor Līzings, SIA	22 241	8 915	26 525	31 180	20 286	8 915	19 774	29 225
Swedbank Līzings, SIA	-	-	114 126	418 463	-	-	20 011	73 373
Citadele Līzings un faktoringi, SIA	-	-	302 576	184 145	-	-	63 240	184 145
SEB Līzings, SIA	174 156	654 343	-	-	32 668	125 302	-	-
	196 397	663 258	443 227	633 788	52 954	134 217	103 025	286 743
Lease closing costs	(3 351)	(462)	(5 355)	(15 634)	(3 307)	(346)	(4 243)	(13 644)
TOTAL:	193 046	662 796	437 872	618 154	49 647	133 871	98 782	273 099

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			
	31.12.2018 EUR	31.12.2018 EUR	31.12.2017 EUR	31.12.2017 EUR	31.12.2018 EUR	31.12.2018 EUR	31.12.2017 EUR	31.12.2017 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	211 375	196 397	477 567	443 227	56 250	52 954	108 146	103 025
Between one and five years	686 850	663 258	676 045	633 788	138 863	134 217	308 655	286 743
Total minimum lease payments	898 225	859 655	1153 612	1077 015	195 113	187 171	416 801	389 768
Less finance charges	(38 570)	-	(76 597)	-	(7 942)	-	(27 033)	-
Present value of minimum lease payments	859 655	859 655	1077 015	1077 015	187 171	187 171	389 768	389 768

29. Changes in liabilities arising from financing activities

Group	1 January 2018	Cash flows	Other	31 December 2018
Loans from credit institutions - current	1 529 016	523 494	(14 990)	2 037 520
Finance lease liabilities - current	437 872	(246 830)	2 004	193 046
Loans from credit institutions – non-current	2 715 009	5 209 436	(1 421 394)*	6 503 051
Finance lease liabilities – non-current	618 154	29 471	15 171	662 796
Dividends payable	-	(146 350)	146 350	-
TOTAL:	5 300 051	5 369 221	(1 272 859)	9 396 413

Parent Company	1 January 2018	Cash flows	Other	31 December 2018
Loans from credit institutions - current	1 529 016	523 494	(14 990)	2 037 520
Finance lease liabilities - current	98 782	(50 071)	936	49 647
Loans from credit institutions – non-current	2 715 009	5 209 436	(1 421 394)*	6 503 051
Finance lease liabilities – non-current	273 099	(152 527)	13 299	133 871
Dividends payable	-	(146 350)	146 350	-
TOTAL:	4 615 906	5 383 982	(1 275 799)	8 724 089

* separation of warrant, Note 18.

Group	1 January 2018	Cash flows	Other	31 December 2018
Loans from credit institutions - current	1 636 007	(124 471)	17 480	1 529 016
Finance lease liabilities - current	56 915	386 108	(5 151)	437 872
Loans from credit institutions – non-current	3 624 391	(947 706)	38 324	2 715 009
Finance lease liabilities – non-current	142 299	470 704	5 151	618 154
Dividends payable	-	(54 881)	54 881	-
TOTAL:	5 459 612	(270 246)	110 685	5 300 051

Parent Company	1 January 2018	Cash flows	Other	31 December 2018
Loans from credit institutions - current	1 636 007	(124 471)	17 480	1 529 016
Finance lease liabilities - current	42 196	60 625	(4 039)	98 782
Loans from credit institutions – non-current	3 624 391	(947 706)	38 324	2 715 009
Finance lease liabilities – non-current	113 256	172 928	(13 085)	273 099
Dividends payable	-	(54 881)	54 881	-
TOTAL:	5 415 850	(893 505)	93 561	4 615 906

30. Deferred income

	Group		Parent Company	
	2018	2017	2018	2017
	EUR	EUR	EUR	EUR
Balance at the beginning of the year	742 284	911 860	464 041	583 028
Grants received				
Attributed to income (Note 7)	(169 577)	(169 576)	(118 987)	(118 987)
Balance at the end of the year	572 707	742 284	345 054	464 041

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	31.12.2017	31.12.2018	31.12.2017
	EUR	EUR	EUR	EUR
Non-current	403 130	572 707	226 067	345 054
Current	169 577	169 577	118 987	118 987
TOTAL:	572 707	742 284	345 054	464 041

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.

31. Prepayments received under contracts with customers

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

Movement in prepayments:

	Group		Parent Company	
	2018 EUR	2017 EUR	2018 EUR	2017 EUR
At the beginning of the year	517 148	440 531	429 735	440 531
Written off to income	(216 377)	(185 219)	(147 117)	(184 632)
Received	852 353	261 836	819 408	173 836
At the end of the year	1 153 124	517 148	1 102 026	429 735

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

	Group		Parent Company	
	31.12.2017 EUR	31.12.2017 EUR	31.12.2018 EUR	31.12.2017 EUR
Non-current	463 638	-	463 638	-
Current	689 486	517 148	638 388	429 735
TOTAL:	1 153 124	517 148	1 102 026	429 735

32. Trade payables

	Group		Parent Company	
	31.12.2018 EUR	31.12.2017 EUR	31.12.2018 EUR	31.12.2017 EUR
Trade payables, EUR	2 382 042	2 262 350	1 444 242	1 515 290
Trade payables, USD	676 522	504 882	670 389	495 739
Trade payables, JPY	32 288	5 348	32 288	5 348
TOTAL:	3 090 852	2 772 580	2 146 919	2 016 377

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

	Group		Parent Company	
	31.12.2018 EUR	31.12.2017 EUR	31.12.2018 EUR	31.12.2017 EUR
Trade payables without factoring	3 007 612	2 772 580	2 077 130	2 016 377
Trade payables with factoring	69 789	-	69 789	-
TOTAL:	3 077 401	2 772 580	2 146 919	2 016 377

The Group has signed a reverse factoring agreement with SIA SEB Līzings, limit 300 000 EUR. The agreement expires on 17 January 2020.

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

33. Taxes payable

The Group and Parent Company's taxes payable to the State budget as at 31 December 2018 and 2017 may be specified as follows:

	Group		Parent Company	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
	EUR	EUR	EUR	EUR
Statutory social insurance contributions	(204 807)	(189 331)	(8 109)	(16 014)
Personal income tax	(89 023)	(93 959)	(5 213)	(4 433)
Value added tax – payable	(268 648)	(207 271)	-	(27 496)
Value added tax – receivable	217 683	89 308	217 683	-
Natural resource tax	(1 171)	(869)	(91)	(90)
Real estate tax	(74)	(10)	(74)	(10)
Corporate income tax – payable	(211)	-	(43)	-
Corporate income tax – receivable	1 347	-	-	-
Unemployment risk duty	(78)	(81)	(3)	(3)
TOTAL:	(344 982)	(402 213)	204 150	(48 046)
TOTAL PAYABLE:	(564 012)	(491 521)	(13 533)	(48 046)
TOTAL RECEIVABLE (Note 23):	219 030	89 308	217 683	-

34. Corporate income tax

	Group		Parent Company	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
	EUR	EUR	EUR	EUR
Corporate income tax – payable	-	(177 702)	-	(177 702)
Corporate income tax – receivable	-	1 000	-	-

35. Other liabilities

	Group		Parent Company	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
	EUR	EUR	EUR	EUR
Wages and salaries	203 051	199 261	15 568	17 664
Balances due to employees	1 175	874	353	849
Credit cards	1 154	3 296	1 154	3 296
LMT agreements	982	3 379	219	1 009
Other liabilities	-	262	-	-
TOTAL:	206 362	207 072	17 294	22 818

36. Accrued liabilities

	Group		Parent Company	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
	EUR	EUR	EUR	EUR
Vacation pay reserve	170 259	170 874	23 813	31 422
Other accrued liabilities	79 831	148 093	26 388	91 833
TOTAL:	250 090	318 967	50 201	123 255

37. Related party disclosures

The major shareholder of the Parent Company is SIA MACRO RĪGA, which owns 49.09% (2017: 60.39%) 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	31.12.2017	159 000	159 000	-	-	845 700	845 700	-	-	
		31.12.2018	363 000	363 000	-	-	1 208 700	1 208 700	-	-	
SIA Lightspace Technologies (AS HansaMatrix share: 47%)	Loan	31.12.2017	22 207	22 207	-	-	222 207	222 207	-	-	
		31.12.2018	2 231 916	2 231 916	-	-	2 454 123	2 454 123	-	-	
	Services, purchase of materials, sales	31.12.2017	17 324	17 324	2 183	2 183	-	-	271	271	
		31.12.2018	1 362 034	2 659	717	717	499 299	-	-	-	
TOTAL		31.12.2017	198 531	198 531	2 183	2 183	1 067 907	1 067 907	271	271	
TOTAL		31.12.2018	3 956 950	2 597 575	717	717	4 162 122 **	3 662 823	-	-	
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	
2. Entities with significant influence over the Parent Company											
SIA MACRO RĪGA (shareholder)	Loans	31.12.2017	93 591	93 561	-	-	2 462 227	2 462 227	-	-	
		31.12.2018	46 783	46 783	-	-	2 502 290	2 502 290	-	-	
	Purchase of services; sale of materials	31.12.2017	8 044	8 044	-	-	-	-	-	-	
		31.12.2018	1 422	1 422	-	-	-	-	-	-	
	TOTAL		31.12.2017	101 635	101 605	-	-	2 462 227	2 462 227	-	-
	TOTAL		31.12.2018	48 205	48 205	-	-	2 502 290	2 502 290	-	-
3. Subsidiaries											
SIA HansaMatrix Ventpils (AS HansaMatrix share: 100%)	Production services, material supplies	31.12.2017	-	210 129	-	4 552 176	-	-	-	193 816	
		31.12.2018	-	201 109	-	4 719 287	-	-	-	100 751	
SIA HansaMatrix Innovation (AS HansaMatrix share: 100%)	Production services, material supplies	31.12.2017	-	263 152	-	318 231	-	625 188	-	-	
		31.12.2018	-	312 342	-	290 853	-	842 009	-	58 864	
SIA Campus Pārogre (AS HansaMatrix share: 100%)	Production services, material supplies	31.12.2017	-	949 940	-	4 508 662	-	-	-	38 550	
		31.12.2018	-	687 666	-	5 586 902	-	26 767	-	461 745	
TOTAL		31.12.2017	-	1 423 221	-	9 379 069	-	625 188	-	232 366	
TOTAL		31.12.2018	-	1 201 117	-	10 597 042	-	868 776	-	621 360	
4. Other related companies											
	Services, purchase of materials, sales	31.12.2017	8 185	8 185	51 780	51 780	7 698	7 698	4 055	4 055	
		31.12.2018	54 607	54 607	6 805	6 805	-	-	1 325	1 325	
	TOTAL		31.12.2017	8 185	8 185	51 780	51 780	7 698	7 698	4 055	4 055
	TOTAL		31.12.2018	54 607	54 607	6 805	6 805	-	-	1 325	1 325

* Including the recognized impairment (Note 15).

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

37. Related party disclosures (cont'd)

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

Interest rate	Maturity	Interest charged		Amounts owed by related parties			
		2017	2016	31.12.2018		31.12.2017	
				EUR	EUR	EUR	EUR
				Non-current	Current	Non-current	Current
1.9	01.09.2019	46 783	93 591	2 502 290	-	1 912 227	550 000

		Group				Parent Company			
		31.12.2018	31.12.2018	31.12.2017	31.12.2017	31.12.2018	31.12.2018	31.12.2017	31.12.2017
		EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
		Current	Non-current	Current	Non-current	Current	Non-current	Current	Non-current
SIA MACRO RĪGA									
Loan	-	2 462 277	550 000	1 818 636	-	2 462 277	550 000	1 818 636	
Interest charged	-	46 783	-	93 591	-	46 783	-	93 591	
Accrual	-	(6 770)	-	-	-	(6 770)	-	-	
TOTAL:	-	2 502 290	550 000	1 912 227	-	2 502 290	550 000	1 912 227	

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 2018, in a number of large transactions, described in more detail in the Management Report section Stock and Securities market, various investors and shareholders sold 398 thousand HansaMatrix shares. The largest transaction with HansaMatrix shares in 2018 took place on July 20, 2018, when the fund KS BaltCap Latvia Venture Capital Fund managed by SIA BaltCap AIFP acquired 182 000 shares in HansaMatrix obtaining 9.95% of voting rights in the company. As a result of the transaction, the shareholding of SIA MACRO RĪGA in HansaMatrix decreased to 898 065 shares or 49.09%. In 2018, the number and volume of transactions executed with HansaMatrix shares indicates that the sale of HansaMatrix shares planned by SIA MACRO RĪGA for loan repayment could be realized within the next 1 year.

SIA "MACRO RĪGA" loan impairment in amount of 6770 EUR was obtained using Expected Credit Losses model, using the following variables Exposure at Default (EAD), Loss Given Default (LGD), and Probability of Default (PD), the latter variable value obtained from the available public data by Moody's investors service for high-tech industry.

Terms and conditions of transactions with related parties

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

38. Off-balance sheet items

In the ordinary course of business, the Group receives raw materials from customers. Such raw materials are processed and delivered back to the respective customers. Raw materials are owned by customers and the Group accepts them only for processing. As at 31 December 2018, the total value of these materials was EUR 18 160 832 (31 December 2017: EUR 9 742 305).

On 22 December 2017, the Parent Company entered into a guarantee line agreement with AS SEB banka for a total amount of EUR 100 000 to receive guarantees for the participation in the EU grant programs administered by Latvian authorities and to be used as security for prepayments due from customers. In 2018, the Parent Company increased the limit of the guarantee line agreement with AS SEB banka up to EUR 800 000. The above agreement is secured by a commercial pledge on the aggregation of the Parent Company's property. As at 31 December 2018, three guarantees were used: a) a guarantee of EUR 40 586 as a performance guarantee under EU funding programs expiring on 18 June 2020; b) a guarantee of USD 599 399 as security for the prepayment received from a customer expiring on 4 October 2020; c) a guarantee of EUR 48 663 as a performance guarantee under EU funding programs expiring on 30 December 2022.

39. 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 SEB banka (Note 27).

Sureties

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), overdraft agreement No 2017012422 of 22 December 2017 (maturing on 22 December 2019) and from surety agreement of 22 December 2017 No 2017012424, signed with AS SEB banka.

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

Commitments under operating leases

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

Lease commitments

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 232 378 (without VAT) in 2018 and EUR 238 653 (without VAT) in 2017.

In 2019 the aggregate minimum lease payments (excl. utilities) under the lease agreement due to the foundation Ventspils Augsto tehnoloģiju parks are EUR 133 639 (without 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 211 743 (without VAT) in 2018 and EUR 212 868 (without VAT) in 2017.

In 2019 the aggregate minimum lease payments (excl. utilities) under the lease agreement due to Ventspils Freeport Authority are EUR 159 739 (without VAT). The lease expires on 31 January 2028.

On 7 June 2017, the SIA HansaMatrix Innovation entered into a real estate lease agreement with SIA Gorod on the lease of premises and the respective territory at Ziedleju iela 1, Mārupe. The total amount of annual lease expenses amounted to EUR 161 544 in 2018.

In 2019, the aggregate minimum lease payments (excl. utilities) under the lease agreement due to SIA Gorod are EUR 163 800 (without VAT). The real estate lease expires on 30 September 2022.

On 22 October 2018, SIA Campus Pārogre entered into an agreement with the parent company AS HansaMatrix on the lease of premises and land at Akmeņu iela 72, Ogre. The total amount of annual lease expenses amounted to EUR 55 960 (without VAT) in 2018.

In 2019, the aggregate minimum lease payments (excl. utilities) under the lease agreement due to AS "HansaMatrix are EUR 289 127 (without VAT). The lease expires on 21 October 2025.

39. Commitments and contingencies (cont'd)

The future aggregate minimum lease payments are as follows:

	Group		Parent Company	
	31.12.2018 EUR	31.12.2017 EUR	31.12.2018 EUR	31.12.2017 EUR
Payable:				
In less than one year	485 039	667 471	19 109	126 072
Between one and five years	2 121 535	1 569 514	183 040	403 138
TOTAL:	2 606 574	2 236 985	202 149	529 210

40. 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:

Group		USD EUR	JPY EUR	EUR EUR	TOTAL EUR
Trade receivables	2018	137 924	-	738 736	876 660
	2017	212 522	-	741 198	953 720
Cash	2018	1 209	-	2 375 572	2 376 781
	2017	1 970	-	257 215	259 185
<hr/>					
Total financial assets subject to currency risk, EUR	2018	139 133	-	3 114 308	3 253 441
	2017	214 492	-	998 413	1 212 905
<hr/>					
Trade and other payables	2018	1 403 431	32 288	2 794 806	4 230 525
	2017	638 675	5 348	2 645 705	3 289 728
<hr/>					
Total financial liabilities subject to currency risk, EUR	2018	1 403 431	32 288	2 794 806	4 230 525
	2017	638 675	5 348	2 645 705	3 289 728
<hr/>					
Net assets / (liabilities) subject to currency risk, EUR	2018	(1 264 298)	(32 288)	319 502	(977 084)
	2017	(424 183)	(5 348)	(1 647 292)	(2 076 823)

40. Financial risk management (cont'd)

Parent Company		USD EUR	JPY EUR	EUR EUR	TOTAL EUR
Trade receivables	2018	123 245	-	1 043 051	1 166 296
	2017	208 015	-	1 010 636	1 218 651
Cash	2018	1 209	-	2 367 896	2 369 105
	2017	1 970	-	252 367	254 337
Total financial assets subject to currency risk, EUR	2018	124 454	-	3 410 947	3 535 401
	2017	209 985	-	1 263 003	1 472 988
Trade and other payables	2018	1 397 298	32 288	2 381 855	3 811 441
	2017	629 533	5 348	2 043 597	2 678 478
Total financial liabilities subject to currency risk, EUR	2018	1 397 298	32 288	2 381 855	3 811 441
	2017	629 533	5 348	2 043 597	2 678 478
Net assets / (liabilities) subject to currency risk, EUR	2018	(1 272 844)	(32 288)	1 087 808	(217 324)
	2017	(419 548)	(5 348)	(780 594)	(1 205 490)

The Group has assessed the potential impact of USD and JPY currency exchange rate fluctuations on profit before tax as at 31 December 2018 in four different scenarios of potential USD fluctuations at the Group and the Parent Company level.

Group		Potential net effect from the changes in the USD exchange rate EUR	Potential net effect from the changes in the JPY exchange rate EUR	TOTAL EUR EUR
Change in exchange rate				
+10%	2018	114 936	2 935	117 871
	2017	38 562	486	39 048
+5%	2018	60 205	1 538	61 743
	2017	20 199	255	20 454
-5%	2018	(66 542)	(1 699)	(68 241)
	2017	(22 325)	(281)	(22 606)
-10%	2018	(140 478)	(3 588)	(144 066)
	2017	(47 131)	(594)	(47 725)
Parent Company		Potential net effect from the changes in the USD exchange rate EUR	Potential net effect from the changes in the JPY exchange rate EUR	TOTAL EUR EUR
Change in exchange rate				
+10%	2018	115 713	2 935	118 648
	2017	38 141	486	38 627
+5%	2018	60 612	1 538	62 150
	2017	19 978	255	20 233
-5%	2018	(66 992)	(1 699)	(68 691)
	2017	(22 081)	(281)	(22 362)
-10%	2018	(141 427)	(3 588)	(145 015)
	2017	(46 616)	(594)	(47 210)

40. Financial risk management (cont'd)

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the market interest rates. The Group'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 27.

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

Interest rate sensitivity for the Group and the Parent Company may be specified as follows:

Year	EURIBOR	Effect on profit before tax
		EUR
2018	+0.5%	(29 148)
2017		(21 218)
2018	+1.0%	(58 297)
2017		(42 436)
2018	-0.5%	29 148
2017		21 218

In 2018, the calculation method was changes – the impact of the change in interest rate on the profit is calculated by multiplying all liability balances (including maximum credit line limits) as at 31 December 2018 by the respective change in the interest rate.

The calculation method used in 2017 required to recalculate the effective interest rate for all financial liabilities for the whole reporting year by increasing or reducing it respectively.

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

Liquidity risk

The Group manages its liquidity risk by arranging an adequate amount of committed credit facilities with banks, planning of terms of payment of trade payables, developing and analyzing future cash flows comprising both the existing and planned loans and interest on such loans.

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

Group		Less than 3 months	3 to 12 months	1 to 5 years	TOTAL
Loans from credit institutions	2018	264 241	1 781 320	7 924 445	9 970 006
	2017	248 152	699 978	3 288 946	4 237 076
Interest expense	2018	18 452	53 564	97 117	169 133
	2017	13 521	61 179	144 777	219 477
Finance lease liabilities	2018	49 099	147 298	663 258	859 655
	2017	110 807	332 420	633 788	1 077 015
Interest expense	2018	3 745	11 234	23 592	38 571
	2017	8 585	25 755	42 257	76 597
Trade and other payables	2018	3 090 852	-	-	3 090 852
	2017	2 772 580	-	-	2 772 580
Taxes	2018	564 012	-	-	564 012
	2017	491 521	177 702	-	669 223
TOTAL	2018	3 990 401	1 993 416	8 708 412	14 692 229
	2017	3 645 166	1 297 034	4 109 768	9 051 968

40. Financial risk management (cont'd)

Parent Company		Less than 3 months	3 to 12 months	1 to 5 years	TOTAL
Loans from credit institutions	2018	264 241	1 781 320	7 924 445	9 970 006
	2017	248 152	699 978	3 288 946	4 237 076
Interest expense	2018	18 452	53 564	97 117	169 133
	2017	13 521	61 179	144 777	219 477
Finance lease liabilities	2018	13 239	39 715	134 217	187 171
	2017	25 756	77 269	286 743	389 768
Interest expense	2018	824	2 472	4 646	7 942
	2017	1 280	3 841	21 912	27 033
Trade and other payables	2018	1 666 253	1 102 026	-	2 768 279
	2017	1 819 008	429 735	-	2 248 743
Taxes	2018	13 533	-	-	13 533
	2017	48 046	177 702	-	225 748
TOTAL	2018	1 976 542	2 979 097	8 160 425	13 116 064
	2017	2 155 763	1 449 704	3 742 378	7 347 845

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

		Group		Parent Company	
		2018	2017	2018	2017
		EUR	EUR	EUR	EUR
EBITDA	EUR	3 258 987	3 659 755	1 644 787	2 443 750
EBITDA	%	15	19	8	13

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.

Group	31.12.2018	31.12.2017
	EUR	EUR
Trade receivables – not insured	707 492	633 696
Insured trade receivables (factoring)	1 205 340	1 673 274
TOTAL:	1 912 832	2 306 970
Factoring prepayment made	(1 021 958)	(1 353 250)
	890 874	953 720
Parent Company	31.12.2017	31.12.2016
	EUR	EUR
Trade receivables – not insured	1 011 724	898 627
Insured trade receivables (factoring)	1 170 600	1 673 274
TOTAL:	2 182 324	2 571 901
Factoring prepayment made	(990 692)	(1 353 250)
	1 191 632	1 218 651

40. Financial risk management (cont'd)

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	31.12.2018	31.12.2017
	EUR	EUR
Equity	8 770 491	8 134 812
Total assets	25 349 981	18 662 137
Equity-to-asset ratio	35%	44%

Parent Company	31.12.2018	31.12.2017
	EUR	EUR
Equity	8 136 819	7 622 657
Total assets	22 503 225	15 752 903
Equity-to-asset ratio	36%	48%

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

41. Fair value

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

The table below provides the fair value measurement hierarchy of the Group's assets and liabilities at 31 December 2018.

Group	Fair value measurement using				
	Total at carrying amount	Total at fair value	quoted prices in active markets (level 1)	significant observable inputs (level 2)	significant unobservable inputs (level 3)
	EUR	EUR	EUR	EUR	EUR
<i>Assets and liabilities valued at fair value</i>					
Convertible loan SIA Lightspace Technologies	2 454 123	2 454 123		2 454 123	
Convertible loan SIA Zinātnes parks	1 134 580	1 134 580		1 134 580	
Warrants	1 345 930	1 345 930		1 345 930	
Investments in other companies	20 333	20 333			20 333
Other financial assets	123 987	123 987		123 987	
Other financial liabilities	1 345 930	1 345 930		1 345 930	
<i>Assets and liabilities for which FV is disclosed</i>					
Loan to shareholder	2 502 240	2 502 240			2 502 240
Loans from credit institutions	8 540 571	8 540 571		8 540 571	
Finance lease liabilities	855 842	855 842		855 842	
Parent Company					
	Fair value measurement using				
	Total at carrying amount	Total at fair value	quoted prices in active markets (level 1)	significant observable inputs (level 2)	significant unobservable inputs (level 3)
	EUR	EUR	EUR	EUR	EUR
<i>Assets and liabilities valued at fair value</i>					
Convertible loan SIA Lightspace Technologies	2 454 123	2 454 123		2 454 123	
Convertible loan SIA Zinātnes parks	1 208 700	1 208 700		1 208 700	
Warrants	1 345 930	1 345 930		1 345 930	
Investments in other companies	20 048	20 048			20 048
Other financial assets	123 987			123 987	
Other financial liabilities	1 345 930	1 345 930		1 345 930	
<i>Assets and liabilities for which FV is disclosed</i>					
Loan to shareholder	2 502 240	2 502 240			2 502 240
Loans from credit institutions	8 540 571	8 540 571		8 540 571	
Finance lease liabilities	183 518	183 518		183 518	

41. Fair value (cont'd)

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.

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

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

42. Going concern

As at 31 December 2018, the Group's working capital (current assets) totaled EUR 7.341 million, incl., a cash balance of EUR 2.377 million. As at 31 December 2018, the liquidity ratio was 1.02 which demonstrated that the Group has sufficient current assets at its disposal.

The Group's management has prepared the budget and cash flow projection for the year 2019 ensuring adequate resources for financing the Group's operating activities as well as the expected investment flows. The key assumptions used in the Group's cash flow and liquidity projection for the year 2019 are as follows:

- No significant changes occur either in the business environment or the market both in the EU and Latvia;
- In 2019, 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 2019, the working capital is considerably 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 2018, the Group entered into a EUR 10 million financing agreement with the European Investment Bank. The objective of the funding is to support the AS HansaMatrix Group's planned investments in 2018-2020 amounting to EUR 20 million. The funds granted by the European Investment Bank are mainly intended for co-funding the R&D activities, IT system development, boosting the production capacity at Ogre and Ventspils manufacturing plants and investments in production automation, thus facilitating the business growth as well as for increasing the current assets.
- On 10 December 2018, the Group entered into factoring agreements with SIA SEB lizings for a period of one year with the total factoring limit EUR 2.56. The objective of the agreement is to speed up the current asset movement. The above factoring agreements will replace the factoring agreements signed with AS Swedbank lizings.
- The Group raises funds for investments from commercial banks, as applicable.

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

43. Events after the reporting date

On 1 February 2019, 205 298 warrants owned by the European Investment Bank (EIB) and issued according to the EUR 10 million financing agreement signed between AS HansaMatrix and EIB AS were registered with Nasdaq CSD SE.

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



Ilmārs Osmanis
Chairman of the Management Board
15 April 2019



Vineta Grecka
Chief Accountant
15 April 2019



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Translation from Latvian

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 85 of the accompanying Annual Report, which comprise the statements of financial position as at 31 December 2018 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 2018, 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) The Group's and the Parent Company's work in progress as at 31 December 2018 amounts to EUR 1 083 825 and EUR 481 232 respectively, as described in <i>Note 19</i> . 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;

- for a sample of inventory, classified as work in progress items in financial statement, we checked that they have appropriate manufacturing cycle status in the production 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 (t) Inventories* and *Note 19*.

Recoverability of investments in associated companies and valuation of investments in other companies and other loans (the Group and the Parent Company)

The Group's and the Parent Company's investments in associated and other companies as at 31 December 2018 amounts to EUR 1 696 310 and EUR 2 229 397, 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 3 588 703 and EUR 3 662 823 as at 31 December 2018 (*Note 17*).

Other loans, investments in associated and other companies correspond to 21% and 26% of the Group's and the Parent Company's assets, respectively.

Some of the companies, in which the Group and the Parent Company has invested in, are in the process of starting up their operations and their future cash flows are difficult to forecast. The Group's management has evaluated recoverability for these investments as disclosed in *Note 15*, *Note 16* and *Note 17*.

Investments in other companies and other loans in year 2018 are measured at fair value based on Group's management valuation as disclosed in *Note 15*, *Note 16* and *Note 17*.

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

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

We obtained assessment of recoverability of investments in associated companies and valuation of other investments and loans prepared by the Group's management and identified the key assumptions used. We involved valuation specialists to assist us in performing our audit procedures and assessing the key assumptions used by the Group's management.

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

We evaluated adequacy of the disclosures made in the financial statements, including the disclosures of the Group's management key assumptions and judgements (*Note 15*, *Note 16* and *Note 17*).

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

As disclosed in *Note 37*, the Parent Company has issued a long term loan to the shareholder amounting to EUR 2 509 101 in the Group's and the Parent Company's statements of financial position as at 31 December 2018. Loan to the shareholder corresponds to 10% and 11% of the Group's and the Parent Company's assets, respectively.

We assessed the management's assumptions used in the recoverability assessment of the loan to the shareholder and discussed with the management the feasibility of Parent company share sales planned by the shareholder in light of historical transactions.

We also evaluated the results of the majority shareholder's historical share sales, as disclosed in *Note 37*. We considered the impact of these events in the recoverability of the loan to the shareholder as at 31 December 2018.



The Group's and the Parent Company's ability to collect the shareholder loan, depends on the majority shareholder's ability to obtain sufficient funds for its settlement. The loan to the shareholder is expected to be recovered from the proceeds generated by the majority shareholder via the sale of its shares in the Parent Company through public offering. 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.

Finally, we assessed whether the main assumptions and related uncertainties are appropriately reflected in the *Note 37*.

Reporting on other information

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

- the Management Report as set out on pages 9 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 2018, 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.

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 shareholder resolution representing a total period of uninterrupted engagement appointment of 5 years.

We confirm that:

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

Riga, 15 April 2019

Other notes to the financial statement

Definitions of alternative performance measures (APM)

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

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

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

Normalized earnings in 2017: Net profit for 2017 – Deferred CIT liabilities reversed in 2017.

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