LIMITED LIABILITY COMPANY

HANZAS ELEKTRONIKA

(UNIFIED REGISTRATION NUMBER 40003454390)

ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2013

(14th financial year)

PREPARED IN ACCORDANCE WITH
THE ANNUAL ACCOUNTS ACT
OF THE REPUBLIC OF LATVIA

AND INDEPENDENT AUDITOR’S REPORT *

** This version of financial statements is a translation from the original, which was prepared in the Latvian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, the original language version of financial statements takes precedence over this translation.*

CONTENTS

Deloitte.

Deloitte Audits Latvia SIA
Grēdu iela 4a
Rīga, LV -1019
Latvija

Tālr.: (+371) 6707 4100
Fakss: (+371) 6707 4103
www.deloitte.com/lv

INDEPENDENT AUDITORS' REPORT

Translation from Latvian

To the Shareholders of SIA "Hanzas Elektronika":

Report on the Financial Statements

We have audited the accompanying financial statements of SIA "Hanzas Elektronika" set out on pages 6 to 27 of the accompanying annual report, which comprise the balance sheet as of 31 December 2013, and the income statement, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Law of the Republic of Latvia on Annual Reports, 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.

Auditors' Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion
As disclosed in Note 14 to this financial statement, SIA "Hanzas Elektronika" non-current assets comprise other investments in the amount of LVL 3 559 500 as of 31 December 2013. During the audit, we were unable to obtain sufficient appropriate audit evidence to verify recoverable amount of this investment. Consequently, we do not express opinion on the value of other investments as af 31 December 2013.

Opinion
In our opinion, except for the possible effect of the matter described in the Basis for Qualified Opinion paragraph, the financial statement give a true and fair view of the financial position of SIA "Hanzas Elektronika" as of 31 December 2013, and of its financial performance and its cash flows for the year ended in accordance with the Law of the Republic of Latvia on Annual Reports.

Report on Other Legal and Regulatory Requirements

We have read the management report for 2013 set out on page 5 of the accompanying annual report for 2013 and have not identified any material inconsistencies between the financial information contained in the management report and the financial statements for 2013.

Deloitte Audits Latvia SIA
Licence No. 43

Roberts Stuģis
Member of the Board

Inguna Staša
Certified auditor of Latvia
Certificate No. 145

Riga, Latvia
25 April 2014

General information

Name of the company	“Hanzas Elektronika”
Legal status of the company	Limited liability company
Unified registration number, place and date of registration	40003454390 Riga, 30 July 1999
Place and date of registration in Commercial Register	Riga, 27 December 2002
Legal address	Akmenu Street 72, Ogre, Latvia, LV-5001
Shareholders	Baltic SME Fund C.V. (37.5%) Reg.No. 1.175.409 Heregracht 469 1017 BS Amsterdam, Netherlands
	AB “Hornell Teknikinvest” (25%) Reg.No. 556545-7008 Bernharnd Erikssons vag.1B, SE-791 32 Falun, Sweden
	SIA “Macro Rīga” (25%) Reg.No. 40003362005 Lielpriedes 19, Pinki, Babites pag., Latvia, LV-2107
	AB “Proditron Sweden” (12.5%) Reg.No. 556594-1647 Box 345, SE-781 24 Borlange, Sweden
Board	Ilmars Osmanis (chairman of the board) Alvis Vagulis (board member) Vineta Grecka (board member)
Council	Ake Hornell (council member) Dagnis Dreimanis (council member) Rudolfs Osmanis (council member)
Subsidiary	SIA “Ventspils Elektronikas Fabrika” (100%) Reg.No 40003779058 9 Kaiju Street, Ventspils, Latvia, LV-3602
Financial year	1 January 2013 – 31 December 2013
Previous financial year	1 January 2012 – 31 December 2012
Auditors	SIA “Deloitte Audits Latvia” Licence No. 43 4a Gredu Street Riga, Latvia, LV-1019
	Inguna Stasa Certified auditor of Latvia Certificate No. 145

Management report

SIA “Hanzas Elektronika” (hereinafter – the Company) economic activity is a manufacturing of electronics, as well as their components, including printed circuit (PCBA) production contract. The following knowledge-intensive technologies are used in manufacturing process: montage of component printed circuit surface, soldering in nitrogen atmosphere, an oven, a selective and wave soldering processes, protective perfusion and encapsulation of printed circuits, equipment programming, regulation, mechanical assembly, final testing and packaging. Production is done as a service, and only in accordance with customer orders. Products are completed and delivered to the terminal equipment manufacturers and consumers in Latvia and foreign countries.

Year 2013 was the fourteenth year of Company’s operating activities. Company closed this year with net sales of LVL 7 302 008, that is 40% more than in 2012 and net profit of LVL 486 456, that is 25% more than in previous year.

During year 2013 economic recovery continued and led to expansion of the Company’s market share and stabilisation of EMS (Electronics Manufacturing Services – Electronics manufacturing services) market in the form of increased volume of customer orders in comparison to Year 2012.

The Company focussed on working on an active and aggressive marketing and sales program to actively seek new business customers, which have already brought results – new customers’ orders in 2013. The Company invested in the modernization of the SMD process – created a new printed laser marking line. As well as invested to increase additional production capacity – purchased additionally 2 NXT M6 production modules, which increases the production capacity of the factory in Ogre by 25% and strengthen the Company’s position as one of the most modern manufacturers in the Nordic and Baltic region.

The company will use the profits to fund the future development and to increase working capital.

The financial statements have been prepared on the basis of supporting documents and fairly present the Company’s financial position as of 31 December 2013, the result of operating activities and cash flow for the year 2013.

In April 2014 the Company from banks has received two offers to refinance the Company’s bank loan which was obtained from the sale of bonds with maturity date August 2014. Bonds are planned to be refinanced as bank loan within medium-term (5 years).

Due to fact that there is a plan that AB “Hansa Holding” will be entering into the Stockholm OMX First North stock exchange, therefore in April 2014 the Company established 100% subsidiary SIA “HM Holding”, to which the Company’s owned AB “Hansa Holding” shares will be transferred and hand over the management functions as well.

In the period between reporting year and date of signing the financial statements, there have been no significant or extraordinary events, which could have influence on annual results and Company’s financial situation.

Ogre, 25 April 2014

Ilmars Osmanis
Chairman of the Board

Income statement

	Note	2013 LVL	2012 LVL
Sales	1	7 302 008	5 232 233
Cost of sales	2	(5 871 253)	(4 055 565)
Gross profit		**1 430 755**	**1 176 668**
Selling costs	3	(233 857)	(181 222)
Administrative expense	4	(503 017)	(404 712)
Other operating income	5	11 098	11 234
Interest and similar income	6	1 334	164 262
Interest and similar expense	7	(145 016)	(332 480)
Profit before taxes		**561 297**	**433 750**
Corporate income tax	8	(71 196)	(39 489)
Real estate tax	30	(3 645)	(3 902)
Profit for the reporting year		**486 456**	**390 359**

The accompanying notes on pages from 11 to 27 form an integral part of these financial statements.

The financial statements were approved on the Company’s behalf by:

Ogre, 25 April 2014

Ilmars Osmanis
Chairman of the Board

Balance sheet

ASSETS	Note	31.12.2013 LVL	31.12.2012 LVL
NON-CURRENT ASSETS			
Intangible assets			
Other intangible assets		97 586	60 337
Total Intangible assets	11	**97 586**	**60 337**
Tangible assets			
Land and buildings		2 296 944	2 402 000
Equipment and machinery		1 492 737	1 472 067
Other fixtures and fittings, tools and equipment		87 305	34 848
Prepayments for tangible assets		7 079	-
Total Tangible assets	12	**3 884 065**	**3 908 915**
Non-current financial assets			
Investment in subsidiary and other companies	13	310 992	310 992
Other investments	14	3 559 500	3 559 500
Other loans and non-current receivables	15	1 400	-
Total Non-current financial assets		**3 871 892**	**3 870 492**
TOTAL NON-CURRENT ASSETS		**7 853 543**	**7 839 744**
CURRENT ASSETS			
Inventories			
Raw materials	16	647 380	710 702
Work in progress		211 906	276 619
Total Inventories		**859 286**	**987 321**
Receivables			
Trade receivables	17	322 775	362 108
Other receivables	18	11 818	63 089
Prepaid expense	19	11 518	9 986
Total Receivables		**346 111**	**435 183**
Cash and cash equivalents	20	**20 800**	**18 837**
TOTAL CURRENT ASSETS		**1 226 197**	**1 441 341**
TOTAL ASSETS		**9 079 740**	**9 281 085**

The accompanying notes on pages from 11 to 27 form an integral part of these financial statements.
The financial statements were approved on the Company’s behalf by:

Ogre, 25 April 2014

Ilmars Osmanis
Chairman of the Board

Balance sheet

EQUITY AND LIABILITIES	Note	31.12.2013 LVL	31.12.2012 LVL
EQUITY			
Share capital	21	900 000	900 000
Share premium	21	535 126	535 126
Non-current investment revaluation reserve	22	1 078 663	1 125 448
Retained earnings:			
a) prior year profit		671 401	281 042
b) profit for the year		486 456	390 359
TOTAL EQUITY		**3 671 646**	**3 231 975**
LIABILITIES			
Non-current liabilities			
Debt securities issued	23	-	1 360 213
Loans from credit institutions	24	1 787 709	2 389 547
Finance lease	25	48 943	86 942
Deferred income	26	276 819	324 961
Deferred tax liabilities	8	385 191	361 743
Total Non-current liabilities		**2 498 662**	**4 523 406**
Current liabilities			
Debt securities issued	23	1 360 213	-
Loans from credit institutions	24	601 838	601 838
Prepayments from customers	27	23 144	76 934
Trade payables	28	578 706	485 243
Payables to subsidiary	29	-	63 977
Taxes payable	30	103 708	43 854
Other liabilities	31	68 733	46 925
Deferred income	26	48 142	85 470
Undrawn dividends		37 500	37 500
Accrued liabilities	32	87 448	83 963
Total Current liabilities		**2 909 432**	**1 525 704**
TOTAL LIABILITIES		**5 408 094**	**6 049 110**
TOTAL EQUITY AND LIABILITIES		**9 079 740**	**9 281 085**

The accompanying notes on pages from 11 to 27 form an integral part of these financial statements.

The financial statements were approved on the Company’s behalf by:

Ogre, 25 April 2014

Ilmars Osmanis
Chairman of the Board

Statement of changes in equity

	Share capital	Share premium	Revaluation reserve	(Accumulated losses) / retained earnings	Profit for the year	Total
	LVL	LVL	LVL	LVL	LVL	LVL
As at 31.12.2011	**900 000**	**535 126**	**1 021 475**	**(15 554)**	**296 596**	**2 737 643**
Transferred to retained earnings	-	-	-	296 596	(296 596)	-
Revaluation of non-current assets	-	-	166 741	-	-	166 741
Non-current investment revaluation reserve attribution to income	-	-	(44 420)	-	-	(44 420)
Deferred income tax directly referable to revaluation reserve	-	-	(18 348)	-	-	(18 348)
Profit for the reporting year	-	-	-	-	390 359	390 359
As at 31.12.2012	**900 000**	**535 126**	**1 125 448**	**281 042**	**390 359**	**3 231 975**
Transferred to accumulated losses	-	-	-	390 359	(390 359)	-
Non-current investment revaluation reserve attribution to income	-	-	(55 041)	-	-	(55 041)
Deferred income tax directly referable to revaluation reserve	-	-	8 256	-	-	8 256
Profit for the reporting year	-	-	-	-	486 456	486 456
As at 31.12.2013	**900 000**	**535 126**	**1 078 663**	**671 401**	**486 456**	**3 671 646**

The accompanying notes on pages from 11 to 27 form an integral part of these financial statements.

The financial statements were approved on the Company’s behalf by:

Ogre, 25 April 2014

Ilmars Osmanis
Chairman of the Board

Cash flow statement

	Note	2013 LVL	2012 LVL
Cash flows from operating activities			
Profit before tax		561 297	433 750
Adjustments for:			
Amortization and depreciation		434 589	452 953
Interest expense	7	126 088	160 655
Interest income		-	(86)
Profit from sale of fixed assets	6	-	(145 923)
Income from grant funding recognition	2	(85 470)	(172 624)
Adjustments for:			
Decrease / (increase) in inventories		128 035	(97 237)
Decrease / (increase) in receivables		89 072	(36 790)
Increase in payable		21 351	339 571
Cash generated from operations, gross		**1 274 962**	**934 269**
Interest paid		(126 088)	(179 867)
Interest received		-	86
Corporate income tax paid		-	(108 238)
Real estate tax paid	30	(3 645)	(3 901)
Net cash generated from operating activities		**1 145 229**	**642 349**
Cash flows from investing activities			
Purchase of tangible and intangible assets	11, 12	(503 316)	(1 412 577)
Investments in project	15	(1 400)	-
Proceeds from sale of fixed assets		1 287	386 542
Net cash flows from investing activities		**(503 429)**	**(1 026 035)**
Cash flows from financing activities			
Received grant funding		-	385 140
Repaid bond to credit institutions		-	(22 273)
Repaid loans from credit institutions, neto	24	(601 838)	(68 724)
(Repaid) / received loans from related party, neto	25	(37 999)	86 942
Finance lease payments		-	(19 954)
Net cash flows from financing activities		**(639 837)**	**361 131**
Increase / (decrease) in cash and cash equivalents		**1 963**	**(22 555)**
Cash and cash equivalents at the beginning of the year		**18 837**	**41 392**
Cash and cash equivalents at the end of the year	20	**20 800**	**18 837**

The accompanying notes on pages from 11 to 27 form an integral part of these financial statements.

The financial statements were approved on the Company’s behalf by:

Ogre, 25 April 2014

Ilmars Osmanis
Chairman of the Board

Notes to the financial statements

I. Corporate information

SIA “Hanzas Elektronika” (hereinafter – the Company) was registered in the Republic of Latvia Enterprise Register on 30 July 1999 and registered in the Republic of Latvia Commercial Register on 27 December 2002 under the unified registration number 40003454390. The Company has its registered office at Akmenu Street 72, Ogre.

The Company’s core business activity comprises production of various components of electronic and communication devices.

II. Summary of significant accounting policies

Basis of preparation

The financial statements of SIA “Hanzas Elektronika” have been prepared in accordance with the Laws of the Republic of Latvia “On Accounting” and “On the Annual Reports”.

The financial statements are prepared on a historical cost basis. The monetary unit used in the financial statements is lat (LVL), the monetary unit of the Republic of Latvia. The financial statements cover the period 1 January 2013 through 31 December 2013. Company’s consolidated financial statements are prepared separately.

The income statement prepared according to the turnover costs scheme.

The cash flow statement prepared using indirect method in calculation of operating cash flow.

Compared to the previous reporting year, accounting and valuation methods used by the Company are not changed.

Financial statement items have been valued according to the following principles:

1) Assuming that the Company will continue to operate;

2) Using the same methods as used in the previous reporting year;

3) The valuation was made by proper precautions considering the following conditions:
- a) the report includes only profit incurred till the balance sheet date;
- b) all expected risk amounts and losses incurred during the reporting year or previous years are taken into account, even if they become known during the period between the date of the balance sheet and signing the annual report;
- c) all impairments and depreciations are calculated and taken into account regardless whether the reporting year is closed with profit or loss.

4) Income and costs included in profit and loss statement are related to the reported year regardless of the date of an invoice or payment. Costs are reconciled with appropriate revenues in definite reporting periods;
5) Components of asset and liabilities items are evaluated separately;
6) Opening balance of the reported year corresponds to the previous years’ closing balance;
7) All items are listed that materially affect the assessment or decision-making of annual report users;
8) Company’s economic transactions are booked and reflected in the annual report taking into account their economic substance and nature, and not merely the legal form.

Foreign currency translation

The functional and presentation currency of the Company is Latvian lats (LVL). Transactions in foreign currencies are translated into Latvian lats applying the official exchange rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Latvian lats applying the official exchange rate established by the Bank of Latvia 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 income statement accounts.

Currency exchange rates fixed by the Bank of Latvia:

	31.12.2013	31.12.2012
	LVL	LVL
1 EUR	0.702804	0.702804
1 USD	0.515000	0.531000
1 NOK	0.083700	0.095100
1 GBP	0.843000	0.857000
1 SEK	0.078100	0.081600
100 JPY	0.493000	0.619000

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. Amortization is calculated on a straight-line basis over the estimated useful life of the asset as follows:

	Years
Intangible assets	*5*

Tangible assets

Property, plant and equipment, except for land and buildings, are stated at cost less accumulated depreciation and any impairment in value. Land is not depreciated. Depreciation is calculated on a straight-line basis over the management estimated useful life of the asset as follows:

	Years
Buildings and constructions	*20 – 33*
Equipment and machinery	*5 – 8*
Other tangible assets	*3 – 14*

Depreciation is calculated starting with the following month after the tangible non-current asset is put into operation or engaged in commercial activity. When tangible non-current assets are sold or disposed of, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the income statement.

The cost of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenses incurred after the non-current assets have been put into operation, such as repair and maintenance and overhaul costs, are normally charged to the income statement in the period when incurred. Subsequent costs are included in the asset’s carrying amount or recognized as separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. Such costs are depreciated over the remaining useful life of the related asset. Capitalizing the cost of mounted spare parts, the carrying value of the part replaced is written off to the profit and loss account.

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 derecognizing of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year the item is derecognized.

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 are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the higher of an asset’s net selling price 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 income statement in the cost of sales caption.

Based on the certified real estate valuators in 2007 and 2012 revaluation of real estate was performed, which resulted in an increased net asset value. The increase in value reflected in item “Non-current investment revaluation reserve” is gradually decreased depreciation costs acknowledging that reduction in the income statement during the use of the asset. In each reporting period an amount is written off equal to the difference between depreciation calculated from fixed asset revaluated value and depreciation, calculated from the acquisition value.

Non-current financial investments

Non-current financial investments are stated in accordance with the cost method. Following initial recognition, non-current financial investments are carried at cost less any accumulated impairment losses. The carrying values of non-current financial investments are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Investments in subsidiaries

Investments in subsidiaries (i.e. where the Company holds more than 50% interest of the share capital or otherwise controls the company) are stated in accordance with the cost method. Following initial recognition, investments in subsidiaries are carried at cost less any accumulated impairment losses. The carrying values of investments in subsidiaries are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Inventories

Inventories are valued at the lower of cost and net realizable value.

Costs incurred in bringing each product to its present location and conditions are accounted for as follows:

- Raw materials – purchase cost on a first-in, first-out basis;

- Work-in-progress – cost of direct materials and labour 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 estimated costs of completion and the estimated costs necessary to make the sale. Net realizable value is disclosed at the purchase (production) cost less provisions made.

Value of slow moving inventory is written of or provided for, if necessary.

Trade and other receivables

Trade receivables are recognized and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made by evaluating each debt individually. Bad debts are written off when recovery is deemed impossible.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand.

Loans and borrowings

All loans and borrowings are initially recognized at principal amount issued or received as specified under the respective agreement, less borrowing or loans issuance costs.

After initial recognition, loans are subsequently measured at amortized cost.

Interest calculated on loans and borrowings is recognized in the income statement as interest income/ expense in the reporting period to which they relate.

Deferred income

Grants received for specific capital investments are accounted for as deferred income by respective charge to non-current and current liabilities. Grants are taken to income on a systematic basis over the useful life of tangible assets obtained for the financial resources thus granted.

Grants attributable to income are charged to the income statement as interest receivable and similar income.

Grants

Grants not recognized until the Company gain a reasonable assurance that the grant will be executed and the receipt of the grant will be received.

Grants are recognized in profit or loss in a systematic manner during those periods when the Company includes compensated costs to profit and loss. Grants which are intended to compensate current expenses, such as training, participation in fairs and similar expenses are recognized in profit or loss in the period when the related cost are included in the profit or loss.

The grants, which should be received for incurred expenses or losses, or if intended for immediate financial support to the Company and which are not connected with the future costs are recognized in profit or loss in the period when the Company has rights to receive them.

Vacation pay reserve

Amount of accrual for unused annual leave is determined by multiplying the average daily wage of employees (including salary tax) for the last six months of the reporting year by the amount of accrued but unused annual leave at the end of the reporting year.

Trade payables

Trade payables are stated at amortized cost value.

Leases

Finance leases, which transfer to the 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, by respective charge to current and non-current liabilities. 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 charged directly against income.

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

Leases where the lesser 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 income statement on a straight-line basis over the lease term.

Factoring

Under the factoring agreements revenues are recorded as advances received from customers if the company remains exposed to the accounts receivable related to credit risk. If a credit retains the other contracting party, the debtor's balance is reduced by the amount of revenue.

Accruals

Accrued liabilities are recognized when the Company has a present legal or constructive obligation as any other as a result of past events and there is a possibility that will require funds to meet their obligations and those obligations can be reliably estimated and evaluated.

Corporate income tax

Corporate income tax includes current and deferred taxes. Current corporate income tax is applied at the rate of 15% on taxable income generated by the Company during the taxation period.

Deferred tax is provided for, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The deferred corporate income tax asset and liability are determined on the basis of the tax rates that are expected to apply when the timing differences reverse. The principal temporary timing differences arise from differing rates of accounting and tax amortization and depreciation on the Company's non-current assets, the treatment of temporary non-taxable accrued liabilities, as well as temporary difference in interest and tax losses carried forward for the subsequent years.

Revenue and net turnover

Net turnover of sales during the year of production without the total value allocated to the discounts and value added tax.

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, less value added tax (if applicable) and sales-related discounts. The Company's revenue comprises income from sale and processing of its products, as well as supply of management services. Revenue is recognized on an accrual basis.

The following specific recognition criteria must also be met before revenue is recognized:

Sale of goods

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

Rendering of services

Revenue is recognized in the period when the services are rendered.

Subsequent events

Post-year-end events that provide additional information about the 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 notes when material.

Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expense and disclosure of contingencies. Future events can influence assumptions based on which estimates were made. The effect of any changes in estimates will be recorded in the financial statements when determinable.

Critical accounting judgments

The following are the critical judgments and key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

- the Company reviews the estimated useful lives of non-current assets at the end of each annual reporting period;
- the Company's management evaluates the carrying amounts of trade receivables and assesses their recoverability, making an allowance for doubtful and bad trade receivables, if necessary. The Company's management has evaluated the trade receivables and considers that it is not necessary to make an additional significant allowance as of 31 December 2013.
- the Company reviews non-current assets and assesses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The Company calculates and records loss on impairment of property, plant and equipment on the basis of an evaluation of their future use, planned liquidation or sale. The Company does not believe that any material fixed asset adjustments are needed as of 31 December 2013 due to impairment of the Company's assets considering the production and sales levels.
- the Company's management each year evaluates whether there have been significant changes in fair value of fixed assets carried at a revalued amount. The management believes that as of 31 December 2013 the fair value of the revalued fixed assets approximates the book value.
- At each balance sheet date, the Company reviews the carrying amount of its non-current financial investments and determines whether there is any indication of impairment. The Company calculates recoverable amount of the investment in order to determine the extent of the impairment loss, if any. Impairment loss is recognized in the income statement, when incurred.
- At each balance sheet date, the Company's management assesses the carrying value of inventory and considers whether the net realizable value exceeds cost price. If necessary, a provision is created for inventories to write-down the carrying value to its net realizable value. According to the evaluation performed and planned future selling prices, the Company's management believes, that no additional corrections regarding the carrying value of inventories are necessary.

1. Sales

	2013	2012
	LVL	LVL
Export sales	5 024 873	3 395 003
Domestic sales	2 277 135	1 837 230
TOTAL:	**7 302 008**	**5 232 233**

2. Cost of sales

	2013	2012
	LVL	LVL
Cost of raw materials	3 541 232	2 370 818
Costs related to production process	867 402	646 336
Personnel expense	851 518	611 626
Depreciation charge (Note 12)	356 415	340 475
Allowances for slow-moving inventory (Note 16)	100 636	80 045
Utilities expense	96 959	82 055
Transport, customs expenses	83 325	50 300
Low value inventory	29 124	12 089
Repairs and service expenses	22 064	12 428
Equipment rental	7 406	16 428
Income from ERAF financing recognition (Note 26)	(85 470)	(172 624)
Other production related expense	642	5 589
TOTAL:	**5 871 253**	**4 055 565**

3. Selling expenses

	2013	2012
	LVL	LVL
Personnel expense	192 114	162 421
Marketing expense	15 205	3 605
Business trips	12 569	6 161
Transport expense	12 254	7 510
Communication expense	1 715	1 525
TOTAL:	**233 857**	**181 222**

4. Administrative expense

	2013	2012
	LVL	LVL
Personnel expense	189 251	125 872
Research expense	90 396	89 266
including personnel expense	*36 150*	*33 623*
including amortization and depreciation (Note 12)	*44 096*	*52 454*
Allowances for bad debt (Note 17)	50 558	-
Depreciation charge (Note 12)	47 620	69 773
Bank charges	32 807	21 080
Transport expense	15 509	13 921
Non-business expense	14 250	4 519
Professional service fees *	13 000	32 219
Training expense	12 870	14 485
Office expense	10 459	6 691
Insurance	5 411	5 918
IT expense	5 382	7 112
Representation expense	3 306	4 122
Business trips	2 807	451
Communications expense	1 697	8 519
Other administrative expense	7 694	764
TOTAL:	**503 017**	**404 712**

* Deloitte Latvia provided only audit services to the Company in the year 2013 in total amount of EUR 11 000 (VAT excluded).

5. Other operating income

	2013	2012
	LVL	LVL
Income from IT services within the group	11 098	11 234
TOTAL:	**11 098**	**11 234**

6. Interest and similar income

	2013	2012
	LVL	LVL
Income from EU financing recognition	1 258	17 541
Profit from sale of fixed assets, net	-	145 923
Currency exchange income, net	-	712
Interest income	-	86
Other income	76	-
TOTAL:	**1 334**	**164 262**

7. Interest and similar expense

	2013	2012
	LVL	LVL
Interest payments	126 088	160 655
Contract concluding expense	10 718	39 956
Currency exchange loss, net	5 737	-
Penalties paid	2 473	1 153
Additional costs of disposed fixed assets	-	130 716
TOTAL:	**145 016**	**332 480**

8. Corporate income tax charge and deferred income tax

	2013	2012
	LVL	LVL
Current corporate income tax charge for the reporting year	39 492	-
Deferred tax	31 704	39 489
Income taxes charged to the income statement:	**71 196**	**39 489**

Deferred tax:

	31.12.2013	31.12.2012
	LVL	LVL
Deferred tax liabilities, 15%		
Accelerated depreciation for tax purposes	202 695	169 970
Deferred tax on revaluation reserves of buildings	167 674	175 929
Deferred tax on revaluation reserves of land	22 679	22 679
Gross deferred income tax liability	**393 048**	**368 578**
Deferred income tax assets, 15%		
Tax losses carried forward	-	(399)
Provisions for unused vacations	(7 857)	(6 436)
Gross deferred income tax asset	**(7 857)**	**(6 835)**
Deferred tax, net	**385 191**	**361 743**

	2013	2012
	LVL	LVL
Deferred income tax changes due to temporary differences	31 704	39 489
Deferred income tax (decrease) / increase using non-current investment revaluation reserve	(8 256)	18 348
Deferred income tax increase:	**23 448**	**57 837**

9. Personnel expense and number of employees

	2013	2012
	LVL	LVL
Remuneration to employees	1 011 524	743 622
Social security tax contributions for employees	243 113	178 815
Employee health insurance	13 974	10 731
Risk duty and other personnel expense	422	333
Other personnel expense	-	41
TOTAL:	**1 269 033**	**933 542**

Key management personnel compensation

	2013	2012
	LVL	LVL
Remuneration	26 907	18 000
Social security tax contributions	6 482	4 336
TOTAL:	**33 389**	**22 336**

In 2013 and 2012 the Council members did not receive remuneration for their functions in the Council.

	2013	2012
Average number of employees during the reporting year	**137**	**108**

10. Earnings Before Interest, Tax Depreciation and Amortization

		2013	2012
EBITDA	LVL	1 153 110	1 064 670
EBITDA	%	16	20

11. Intangible assets

	Other intangible assets LVL
ACQUISITION VALUE	
As at 31.12.2011	**191 347**
Additions / Transfer	11 828
As at 31.12.2012	**203 175**
Transfer from tangible assets	66 950
As at 31.12.2013	**270 125**
ACCUMULATED AMORTIZATION	
As at 31.12.2011	**87 289**
Amortization for the year	55 549
As at 31.12.2012	**142 838**
Amortization for the year	29 701
As at 31.12.2013	**172 539**
NET CARRYING AMOUNT	
As at 31.12.2012	**60 337**
As at 31.12.2013	**97 586**

12. Tangible assets

	Land and buildings LVL	Equipment and machinery LVL	Other fixtures and fittings, tools and equipment LVL	Prepayments for tangible assets LVL	Total LVL
ACQUISITION VALUE					
As at 31.12.2011	**2 905 114**	**3 790 686**	**416 980**	**4 426**	**7 117 206**
Additions	-	70 040	28 327	1 312 382	**1 410 749**
Disposals	-	(1 161 585)	(21 645)	(48 200)	**(1 231 430)**
Revaluation	166 741	-	-	-	**166 741**
Transfer	-	1 258 608	-	(1 268 608)	**(10 000)**
As at 31.12.2012	**3 071 855**	**3 957 749**	**423 662**	**-**	**7 453 266**
Additions	-	348 811	80 086	74 419	**503 316**
Disposals	-	(260 252)	(3 656)	-	**(263 908)**
Transfer	-	-	390	(67 340)	**(66 950)**
As at 31.12.2013	**3 071 855**	**4 046 308**	**500 482**	**7 079**	**7 625 724**
ACCUMULATED AMORTIZATION					
As at 31.12.2011	**575 113**	**3 136 896**	**381 329**	**-**	**4 093 338**
Depreciation for the year	94 742	329 046	18 036	-	**441 824**
Disposals	-	(980 260)	(10 551)	-	**(990 811)**
As at 31.12.2012	**669 855**	**2 485 682**	**388 814**	**-**	**3 544 351**
Depreciation for the year	105 056	328 141	26 732	-	**459 929**
Disposals	-	(260 252)	(2 369)	-	**(262 621)**
As at 31.12.2013	**774 911**	**2 553 571**	**413 177**	**-**	**3 741 659**
NET CARRYING AMOUNT					
As at 31.12.2012	**2 402 000**	**1 472 067**	**34 848**	**-**	**3 908 915**
As at 31.12.2013	**2 296 944**	**1 492 737**	**87 305**	**7 079**	**3 884 065**

Depreciation is included in the following expenses:

		2013	2012
		LVL	LVL
Cost of sales		356 415	340 475
Administrative expense		47 620	69 773
Loss from catering services		44 096	52 454
	TOTAL:	**448 131**	**462 702**
Write-off of the revaluation reserve		55 041	44 420
Depreciation expenses included in the value of work in progress		(13 542)	(9 749)
	OVERALL:	**489 630**	**497 373**

Depreciation of tangible assets included in the value of work in progress as at 31 December 2013 was (LVL 13 542) (as at 31 December 2012: (LVL 9 749)).

Depreciation amount for which expenses were decreased in the reporting year due to the write-off of the revaluation reserve amounted LVL 55 041 (2012: LVL 44 420).

Cadastral value of the Company's real estate

		31.12.2013	31.12.2012
		LVL	LVL
Buildings		220 494	220 496
Land		22 509	22 532
	TOTAL:	**243 003**	**243 028**

Mortgage

The Company has pledged its movable properties and real estate at 72 Akmenu Street 72, Ogre in favour of Nordea Bank Finland Plc. (Note 24).

13. Investment in subsidiary and other companies

		31.12.2013	31.12.2012
Company	%	LVL	LVL
SIA “Ventspils Elektronikas Fabrika” (Latvia)	100	300 000	300 000
SIA „LEITC” (Latvija)	3.95	10 492	10 492
SIA “LEO PĒTĪJUMU CENTRS” (Latvia)	10	500	500
	TOTAL:	**310 992**	**310 992**

On 1 November 2005, the Company established a wholly owned subsidiary SIA “Ventspils Elektronikas Fabrika”. The share capital of the subsidiary amounts to LVL 300 000. SIA “Ventspils Elektronikas Fabrika” is engaged in production of various electronic and communication devices by using state-of-art technologies: surface assembling, oven and wave soldering, device programming, regulation and control. Company's products are delivered to the manufacturers of the end products both in Latvia and abroad.

During the period from 1 January 2013 to 31 December 2013, the subsidiaries revenue was LVL 866 291 (2012: LVL 655 520), and net profit amounted to LVL 50 443 (2012: LVL 144 127). Equity as of 31.12.2013 was LVL 388 026 (as at 31 December 2012 it was LVL 337 586).

SIA “LEO PETIJUMU CENTRS” (registration No. 51203037371) was established in 27 July 2010 by 20 shareholders. SIA “Hanzas Elektronika” owns 500 (five hundred) of 5 000 (five thousand) shares in SIA “LEO PĒTĪJUMU CENTRS”.

On 12 September 2012, the Company by deleting an interest-free loan to association “Latvian Electrical Engineering and Electronics Industry Association”, in return obtained 79 shares of SIA “LEITC” (registration No. 40008010789), representing 3.95% of SIA “LEITC” equity.

14. Other investments

	%	31.12.2013 LVL	31.12.2012 LVL
Hanza AB shares (Sweden)	10.7	3 559 500	3 559 500
	TOTAL:	**3 559 500**	**3 559 500**

On 23 November 2007, the Company from previous owners Westergyllen acquired shares in Elektromekan i Årjäng AB (Sweden). On 18 December 2009 an agreement was signed for a sale of Elektromekan i Årjäng AB to Hanza AB. The agreement terms foresees that the settlement will be in a form of share swap. According to agreement the Company should receive shares in Hanza AB or cash based on the sales volumes during 2010 of Elektromekan i Årjäng AB at the closing date at the beginning of 2011. On 26 October 2010 the Company agreed with Hanza AB on share exchange (share swap), thereby obtaining 53 192 shares in Hanza Holding AB (till 14 January 2011 Hanza Interessenter AB) which is a parent company of Hanza AB. The Company has pledged all Hanza Holding AB shares as security for received bond (Note 23).

Impairment test of investment

In 2013 the Management of the Company reviewed for impairment an investment in Hanza Holding AB. In valuation of Hanza Holding AB, the Management used Market approach (Public Guideline Company Method).

In order to apply this method valuator must find a sufficient number of comparable companies (at least 10 – 15). This approach provides an indication of value based on what investors are paying for similar companies.

In the valuation of Hanza Holding AB the Management used stock prices of 41 comparable publicly traded companies. By using “Valmerics” data base the following market capitalization of public guideline companies and market multiplies were obtained:
- Enterprise value / Sales,
- Enterprise value / EBITDA,
- Enterprise value / EBIT,
- Price/Earnings.

In order to arrive at multiples applicable to Hanza Holding AB the Management used median value of the public guideline companies’ market multiples (Enterprise value / Sales – 0.96, Enterprise value / EBITDA – 7.79, Enterprise value / EBIT – 12.72, Price / Earnings – 20.73).

The market multiples were derived from traded companies, they correspond to minority interest (shares traded on an exchange usually represent shares with minority rights). As 10.7% equity interest represents a minority interest, the calculated value was not increased by control premium.

According to calculated results and the Management assumptions, the investment value as at 31 December 2013 and 2012 is recoverable and fairly presented in the financial statements and correction on reduction in value of investment is not required.

15. Other loans and non-current receivables

In 1 August 2011 the Company signed a cooperation agreement with SIA “LEO PETIJUMU CENTRS” for cooperation in research project “Latvian electrical and optical equipment industry center of expertise”, the project deadline is year 2016. In year 2013 the Company paid a security in amount of LVL 1 400.

16. Raw materials

	31.12.2013 LVL	31.12.2012 LVL
Raw materials and consumables	882 491	853 395
Provisions for slow-moving inventory	(235 111)	(142 693)
TOTAL:	**647 380**	**710 702**

Movement of allowances for slow-moving inventory:

	2013 LVL	2012 LVL
Balance at the beginning of the year	**(142 693)**	**(204 976)**
Write-off of allowances	8 218	142 328
Allowances made for slow moving goods (Note 2)	(100 636)	(80 045)
Balance at the year end	**(235 111)**	**(142 693)**

17. Trade receivables

	31.12.2013	31.12.2012
	LVL	LVL
Trade receivables	373 333	362 108
Allowance for bad debt	(50 558)	-
TOTAL:	**322 775**	**362 108**

Trade receivables by currency

	31.12.2013		31.12.2012	
	Currency	LVL	Currency	LVL
LVL	14 997	14 997	23 669	23 669
EUR	361 901	254 345	370 110	260 115
USD	103 764	53 433	147 504	78 324
TOTAL:		**322 775**		**362 108**

18. Other receivables

	31.12.2013	31.12.2012
	LVL	LVL
Warranty coverage	8 326	-
Security deposit to Latvia Statoil	2 100	2 100
Security deposit to Ektornet SIA	1 218	-
Overpaid taxes (Note 30)	-	52 419
ERAF funding for employee training	-	8 525
Other receivables	174	45
TOTAL:	**11 818**	**63 089**

19. Prepaid expense

	31.12.2013	31.12.2012
	LVL	LVL
Insurance	5 772	3 445
Guarantee fee	2 811	2 773
Rent of Riga office	1 421	-
Equipment maintenance	-	3 135
Other prepaid expense	1 514	633
TOTAL:	**11 518**	**9 986**

20. Cash and cash equivalents

	31.12.2013	31.12.2012
	LVL	LVL
Cash at bank	20 800	18 817
Cash on hand	-	20
TOTAL:	**20 800**	**18 837**

Cash and cash equivalents by currencies:

	31.12.2013		31.12.2012	
	Currency	LVL	Currency	LVL
LVL	1 855	1 855	2 628	2 628
USD	17 105	8 809	754	400
EUR	14 422	10 136	22 494	15 809
TOTAL:		**20 800**		**18 837**

21. Share capital

The share capital of the Company is LVL 900 000 and consists of 9 000 shares. The par value of each share is LVL 100. Share capital is fully paid. As at 31 December 2013 and 31 December 2012, the share premium amounted to LVL 535 126.

As at 31 December 2013 the shares were distributed as follows:

	%	Number of shares	Par value LVL
Baltic SME Fund C.V.	37.5	3 375	337 500
Macro Rīga, SIA	25	2 250	225 000
Hornell Teknikinvest AB	25	2 250	225 000
Proditron Sweden AB	12.5	1 125	112 500
TOTAL:	**100**	**9 000**	**900 000**

22. Non-current investment revaluation reserve

In 2007 and 2012 a revaluation of real estate was performed and as a result of that the balance sheet value was increased by LVL 1 397 921 in year 2007 and LVL 166 741 in year 2012. Revaluation reserve of the building is assigned to the revenue during buildings useful lifetime.

	31.12.2013 LVL	31.12.2012 LVL
Revaluation reserve on building	1 117 820	1 172 861
Revaluation reserve on land	151 195	151 195
Transfer to company’s deferred income tax	(190 352)	(198 608)
TOTAL:	**1 078 663**	**1 125 448**

23. Debt securities issued

In 2007 the Company issued bonds in amount of EUR 2 000 000 (LVL 1 405 608). The bonds were managed by AS Hansa Investeerimisfondid (Estonia). On 13 August 2010 new bonds managed by AS Swedbank Estonia were issued. These new bonds were used to written off old bonds. As collateral for these obligations the Company has pledged shares of Hanza Holding AB (Note 14). Bond amount is EUR 2 046 331 (LVL 1 438 170), maturity is 13 August 2014. Anticipatory repayment of bond is possible. Interest rate is 3m EURIBOR + 2.5%, interest payable per quarter. Balance as of 31.12.2013 is LVL 1 360 213 (as of 31.12.2012: LVL 1 360 213).

In April 2014 the Company from banks has received two offers to refinance the Company’s debt securities. The Company plan to refinanced these securities as bank loan within medium-term (5 years).

24. Loans from credit institutions

The Company has received the following loans from credit institutions:

	Available amount of credit line and initial loan amount	Interest	Maturity	31.12.2013 Current LVL	31.12.2013 Non-current LVL
Swedbank AS (loan)	EUR 3 585 159	3m EURIBOR+2.5%	31.12.2017	444 647	1 333 939
Swedbank AS (loan)	EUR 836 757	3m EURIBOR+2.5%	31.12.2017	103 778	311 334
Swedbank AS (loan)	EUR 900 000	3m EURIBOR+5%	17.08.2017	53 413	142 436
			TOTAL:	**601 838**	**1 787 709**

The Company has pledged its movable properties and real estate at 72 Akmenu Street 72, Ogre, in favour of Swedbank AS.

	31.12.2013 LVL	31.12.2012 LVL
Non-current		
Payment period from 2 to 5 years	1 787 709	2 389 547
TOTAL non-current	**1 787 709**	**2 389 547**
Current		
Loan from Swedbank AS	601 838	601 838
TOTAL current	**601 838**	**601 838**
TOTAL:	**2 389 547**	**2 991 385**

Loans are reflected including commissions paid for loan issue, which are amortized over the life of the contract.

25. Loans from related party

	31.12.2013 LVL	31.12.2012 LVL
SIA „Ventspils Elektronikas Fabrika”	48 943	86 942
TOTAL:	**48 943**	**86 942**

In Year 2012 the Company received interest-free loan from subsidiary company SIA “Ventspils Elektronikas Fabrika” The maturity of the loan is 1 September 2015. The loan should be repaid in full amount at the end of the loan term. The loan is not secured.

26. Deferred income

On 31 May 2005, the Company completed the project for receiving a grant within the framework of implementation of the state support program. The Company complied with all the requirements under the agreement with the Latvian Investment and Development Agency dated 6 December 2004. Under the project, the production facility was constructed and technological equipment for production purposes was acquired for the total amount of LVL 2 914 305. Following the review of the project implementation conditions on 27 July 2005, the Company received the grant in amount of LVL 1 000 000.

On 6 September 2011, the Company entered into an agreement with the Latvian Investment and Development Agency of the implementation project “Development of new products and technologies”. The Company complied with all the requirements that were agreed and within the project purchased technological equipment for production for a total amount LVL 1 100 400. After evaluation of the project on 9 July 2012 the Company received financial support in amount of LVL 385 140.

Non-current and current deferred income comprises the grant amount according to their expected recognition as income.

	31.12.2013 LVL	31.12.2012 LVL
Non-current	276 819	324 961
Current	48 142	85 470
TOTAL:	**324 961**	**410 431**

27. Prepayments from customers

	31.12.2013 LVL	31.12.2012 LVL
Prepayments from customers	23 144	76 934
TOTAL:	**23 144**	**76 934**

28. Trade payables

	31.12.2013 LVL	31.12.2012 LVL
Payables to foreign creditors	522 228	415 502
Payables to local suppliers for services	33 167	36 696
Payables to local suppliers for goods	23 311	33 045
TOTAL:	**578 706**	**485 243**

29. Payables to related party

	31.12.2013 LVL	31.12.2012 LVL
SIA “Ventspils Elektronikas Fabrika”	-	63 977
TOTAL:	**-**	**63 977**

30. Taxes payable

	31.12.2012 LVL	Calculated LVL	Penalties LVL	Transferred LVL	Paid / (repaid) LVL	31.12.2013 LVL
Social security tax contributions	(22 658)	(348 792)	(211)	27 320	310 906	(33 435)
Personal income tax	(11 958)	(184 579)	(321)	14 499	164 808	(17 551)
Value added tax	(9 120)	(161 205)	(282)	-	157 516	(13 091)
Natural resource tax	(88)	(309)	-	-	298	(99)
Real estate tax	-	(3 645)	-	-	3 645	-
Risk duty	(30)	(423)	-	-	413	(40)
Corporate income tax	52 419	(39 492)	-	(41 819)	(10 600)	(39 492)
TOTAL:	**8 565**	**(738 445)**	**(814)**	**-**	**626 986**	**(103 708)**
TOTAL PAYABLE:	**(43 854)**					**(103 708)**
TOTAL RECEIVABLE:	**52 419**					**-**

31. Other liabilities

	31.12.2013 LVL	31.12.2012 LVL
Salaries and wages	66 927	44 681
Credit Cards	1 443	2 171
Payables to employees	-	18
Other creditors	363	55
TOTAL:	**68 733**	**46 925**

32. Accrued liabilities

	31.12.2013 LVL	31.12.2012 LVL
Unused vacation reserve	52 379	42 907
Accrued interest for dividends	17 663	15 750
Accrued interest for debt securities issued	4 820	4 778
Accrued interest Swedbank AS loan	592	745
Other accrued liabilities	11 994	19 783
TOTAL:	**87 448**	**83 963**

33. Off-balance sheet items

As at 31 December 2013 the Company has received raw materials from customers in amount of LVL 8 825 979 (2012: LVL 3 757 331). The materials are processed and delivered back to customers.

34. Related party disclosures

Related parties are defined as subsidiaries of the Company as well as shareholders that have the ability to control the Company or exercise significant influence over the Company in making financial and operating decisions, members of the key management personnel of the Company, and close members of the families of any individual referred to previously and entities over which these persons exercise significant influence or control.

Related party	Description of transaction	Balances due from / (to) related parties as at 31.12.2012	Transaction amount *	Payments	Balances due from / (to) related parties as at 31.12.2013
SIA „Ventspils Elektronikas Fabrika”	Production services received	(63 977)	(1 036 582)	1 100 559	-
SIA „Ventspils Elektronikas Fabrika”	Rent of warehouse received	-	(3 560)	3 560	-
SIA „Ventspils Elektronikas Fabrika”	Raw materials purchased	-	(7 693)	7 693	-
SIA „Ventspils Elektronikas Fabrika”	Received loan	(86 942)	-	37 999	(48 943)
SIA „Ventspils Elektronikas Fabrika”	Raw materials sold	-	59 990	(59 990)	-
SIA „Ventspils Elektronikas Fabrika”	Services sold	-	13 429	(13 429)	-
SIA „Macro Rīga”	Services received	-	(88 270)	88 270	-
SIA „Macro Rīga”	Materials sold	-	937	(937)	-
SIA „Macro Rīga”	Services sold	-	675	(675)	-
	TOTAL:	**(150 919)**	**(878 693)**	**698 049**	**(48 943)**
	TOAL RECEIVABLE:	**-**			**-**
	TOTAL PAYABLE:	**(150 919)**			**(48 943)**

* Including VAT (22%).

Outstanding balances as at year-end are unsecured and settlements are made in cash. For the year ended 31 December 2013, the Company has not raised any provisions for doubtful trade receivables relating to amounts owed by related parties (2012: LVL 0).

35. Commitments and contingencies

Operating leases

The Company has entered into several car operating lease agreements. The total minimum operating lease liabilities can be specified as follows:

	2013 LVL	2012 LVL
Payable:		
Within one year	15 291	9 495
Between two and five years	24 664	7 935
TOTAL:	**39 955**	**17 430**

36. Financial risk management

The Company’s principal financial instruments comprise loans from credit institutions, debt securities, trade receivables, trade payables and cash.

Financial risks

The main financial risks arising from the Company’s financial instruments are foreign currency risk, interest rate risk, liquidity risk and credit risk.

Foreign currency risk

The Company’s monetary assets and liabilities, which are exposed to foreign currency risk, comprise cash and cash equivalents, a long-term loan, trade receivables, trade payables, as well as current and non-current borrowings. Since 1 January 2005, the Bank of Latvia has stated a fixed currency exchange rate for Latvian lat against euro, i.e. 0.702804. To reduce currency risk for other currencies, the Company is planning sales and purchases in different currencies.

Interest rate risk

The Company is exposed to interest rate risk mainly through its current and non-current borrowings and debt securities liabilities.

Liquidity risk

The Company pursues a prudent risk management policy ensuring the availability of adequate financial resources to settle its commitments as they fall due. Company’s management believes that actively attracting new customers in 2014 will improve the Company’s liquidity ratios by the end of 2014.

Credit risk

The Company is exposed to credit risk through its trade receivables and cash. The Company manages its credit risk by continuously assessing the credit history of customers and assigning credit terms on individual basis. In addition, receivable balances are monitored on an on-going basis to ensure that the Company’s exposure to bad debts is minimized. As well factoring transactions are used to decrease this risk. The Company’s partners in cash transactions are local financial institutions.

37. Going concern

On 31 December 2013 Company’s short-term liabilities exceeded current assets by LVL 1 683 235 (including deferred income from the ERAF in amount of LVL 48 142 which do not have impact on Company’s cash flow and LVL 1 360 213 issued debt securities with maturity 13 August 2014 which the Company plan to refinance (Note 23)). The management of the Company has compiled the budget of 2014 based on assumptions for development of Latvian and global business environment. Approved budget shows improvement in financial performance and profit from operating activities. Future events in the business environment might differ from the management assumptions.

38. Events after balance sheet date

On 1 January 2014, Latvia joined the Eurozone and the Latvian Lat was replaced by the Euro. Since that date, the Company has converted its accounting to the Euro. The conversion to the Euro was done using the official exchange rate set by the Bank of Latvia – 1 Euro/0.702804 Latvian Lat. The Company’s financial statements for subsequent financial periods will be presented in the Euro.

In April 2014 the Company from banks has received two offers to refinance the Company’s debt securities. The Company plan to refinanced these securities as bank loan within medium-term (5 years) (Note 23).

As of the last day of the reporting year until the date of signing these financial statements, there have been no other events requiring adjustment of or disclosure in the financial statements.

* * * * *