LIMITED LIABILITY COMPANY

HANZAS ELEKTRONIKA

(UNIFIED REGISTRATION NUMBER 40003454390)

CONSOLIDATED ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2013

PREPARED IN ACCORDANCE WITH
THE CONSOLIDATED ANNUAL REPORT
OF THE REPUBLIC OF LATVIA
AND INDEPENDENT AUDITOR'S REPORT *

** This version of consolidated 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 consolidated financial statements takes precedence over this translation.*

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General information

Name of the Group	Hanzas Elektronika
Legal status of the Group	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	72 Akmenu Street, 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 of the Parent company	Ilmars Osmanis (chairman of the board) Alvis Vagulis (board member) Vineta Grecka (board member)
Council of the Parent company	Ake Hornell (council member) Dagnis Dreimanis (council member) Rudolfs Osmanis (council member)
Subsidiary	SIA “Ventspils Elektronikas Fabrika” (100%) Reg.No 40003779058 Ventspils high technology park 1, Ventspils, Latvia, LV-3602
Auditors	SIA “Deloitte Audits Latvia” Licence No. 43 4a Gredu Street, Riga, Latvia, LV-1019 Inguna Stasa Sworn Auditor Certificate No. 145

Group’s management report

SIA “Hanzas Elektronika” (hereinafter – the Group) 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 Group’s operating activities. Group closed this year with net sales of LVL 7 254 028, that is 39% more than in 2012 and net profit of LVL 547 622, that is 4% more than in previous year.

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

The Group focused 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 Group’s Parent 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 Group Parent company’s position as one of the most modern manufacturers in the Nordic and Baltic region.

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

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

In April 2014 the Group’s Parent company from banks has received two offers to refinance the Parent 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 Parent company established 100% subsidiary SIA “HM Holding”, to which the Parent 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 consolidated financial statements, there have been no significant or extraordinary events, which could have influence on annual results and Group’s financial situation.

Ogre, 30 May 2014

Ilmars Osmanis
Chairman of the Board

Consolidated income statement

	Note	2013 LVL	2012 LVL
Sales	1	7 254 028	5 203 674
Cost of sales	2	(5 541 100)	(3 796 767)
Gross profit		**1 712 928**	**1 406 907**
Selling costs	3	(308 921)	(230 096)
Administrative expense	4	(637 478)	(512 684)
Interest and similar income	5	1 334	241 120
Interest and similar expense	6	(145 400)	(332 835)
Profit before taxes		**622 463**	**572 412**
Corporate income tax	8	(71 196)	(39 489)
Real estate tax	27	(3 645)	(3 902)
PROFIT FOR THE REPORTING YEAR		**547 622**	**529 021**

The accompanying notes on pages from 10 to 25 form an integral part of these consolidated financial statements.

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

Ogre, 30 May 2014

Ilmars Osmanis
Chairman of the Board

Consolidated balance sheet

ASSETS	Note	31.12.2013 LVL	31.12.2012 LVL
NON-CURRENT ASSETS			
Intangible assets			
Other intangible assets		101 896	66 058
Total Intangible assets	10	**101 896**	**66 058**
Tangible assets			
Land and buildings		2 296 944	2 402 000
Equipment and machinery		2 024 543	1 840 690
Other fixtures and fittings, tools and equipment		158 097	48 353
Construction in progress		9 579	6 622
Leasehold improvements		4 140	3 549
Total Tangible assets	11	**4 493 303**	**4 301 214**
Non-current financial assets			
Investment in subsidiary	12	11 192	11 192
Other investments	13	3 559 500	3 559 500
Prepaid expense	14	1 120	83
Other loans and non-current receivables	15	1 400	-
Total Non-current financial assets		**3 573 212**	**3 570 775**
TOTAL NON-CURRENT ASSETS		**8 168 411**	**7 938 047**
CURRENT ASSETS			
Inventories			
Raw materials	16	660 139	719 386
Work in progress		202 317	266 737
Total Inventories		**862 456**	**986 123**
Receivables			
Trade receivables	17	322 841	363 046
Other receivables	18	23 234	65 431
Prepaid expense	14	13 222	13 550
Total Receivables		**359 297**	**442 027**
Cash and cash equivalents	19	**21 319**	**18 960**
TOTAL CURRENT ASSETS		**1 243 072**	**1 447 110**
TOTAL ASSETS		**9 411 483**	**9 385 157**

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Ogre, 30 May 2014

Ilmars Osmanis
Chairman of the Board

Consolidated balance sheet

EQUITY AND LIABILITIES	Note	31.12.2013 LVL	31.12.2012 LVL
EQUITY			
Share capital	20	900 000	900 000
Share premium		535 126	535 126
Non-current investment revaluation reserve	21	1 078 663	1 125 448
Retained earnings:			
a) profit for the previous years		688 672	159 651
b) profit for the year		547 622	529 021
TOTAL EQUITY		**3 750 083**	**3 249 246**
LIABILITIES			
Non-current liabilities			
Debt securities issued	22	-	1 360 213
Loans from credit institutions	23	1 787 709	2 389 547
Deferred income	24	301 819	424 961
Deferred tax liabilities	8	385 191	361 743
Total Non-current liabilities		**2 474 719**	**4 536 464**
Current liabilities			
Debt securities issued	22	1 360 213	-
Loans from credit institutions	23	601 838	601 838
Prepayments from customers		23 144	76 934
Trade payables		682 827	494 953
Taxes payable	27	138 999	60 443
Other liabilities	25	100 449	61 050
Accrued liabilities	26	118 569	106 259
Deferred income	24	123 142	160 470
Unpaid dividends		37 500	37 500
Total Current liabilities		**3 186 681**	**1 599 447**
TOTAL LIABILITIES		**5 661 400**	**6 135 911**
TOTAL EQUITY AND LIABILITIES		**9 411 483**	**9 385 157**

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

Ogre, 30 May 2014

Ilmars Osmanis
Chairman of the Board

Consolidated cash flow statement

	Notes	2013 LVL	2012 LVL
Cash flows from operating activities			
Profit before tax		622 463	572 412
Adjustments for:			
Amortization and depreciation		528 985	622 108
Interest expense	6	126 088	160 763
Interest income	5	-	(128)
Provisions for slow-moving inventory, allowance for bad debt increase / (decrease)	16	91 890	(62 478)
Proceeds from grant funding recognition	2	(160 470)	(247 624)
Profit from fixed assets write-off / sale	5	-	(145 923)
Adjustments for:			
Decrease / (increase) in inventories		31 777	(43 922)
Decrease / (increase) in receivables		80 293	(67 063)
Increase in payables		223 055	276 078
Cash generated from operations, gross		**1 544 081**	**1 064 223**
Corporate income tax paid		-	(108 238)
Real estate tax paid	27	(3 645)	(3 901)
Net cash generated from operating activities		**1 540 436**	**952 084**
Cash flows from investing activities			
Purchase of non-current assets	10, 11	(813 240)	(1 436 327)
Interest income		-	128
Proceeds from sale of tangible assets		1 287	386 542
Net cash flows from investing activities		**(811 953)**	**(1 049 657)**
Cash flows from financing activities			
Repaid loans from credit institutions, net		(601 838)	(90 997)
Interest paid		(124 286)	(179 975)
Received grant funding		-	385 140
Payment of finance lease liabilities		-	(39 111)
Net cash flows from financing activities		**(726 124)**	**75 057**
Increase / (decrease) in cash and cash equivalents		**2 359**	**(22 516)**
Cash and cash equivalents at the beginning of the year	19	**18 960**	**41 476**
Cash and cash equivalents at the end of the year	19	**21 319**	**18 960**

The accompanying notes on pages from 10 to 25 form an integral part of these consolidated financial statements.

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

Ogre, 30 May 2014

Ilmars Osmanis
Chairman of the Board

Consolidated statement of changes in equity

	Share capital LVL	Share premium LVL	Revaluation reserve LVL	Retained earnings LVL	Profit for the year LVL	Total LVL
As at 31.12.2011	**900 000**	**535 126**	**1 021 475**	**(265 351)**	**425 002**	**2 616 252**
Transferred to retained earnings	-	-	-	425 002	(425 002)	-
Non-current investment revaluation result	-	-	166 741	-	-	166 741
Non-current investment revaluation reserve	-	-	(44 420)	-	-	(44 420)
Deferred income tax directly referable to revaluation reserve	-	-	(18 348)	-	-	(18 348)
Profit for the reporting year	-	-	-	-	529 021	529 021
As at 31.12.2012	**900 000**	**535 126**	**1 125 448**	**159 651**	**529 021**	**3 249 246**
Transferred to accumulated losses	-	-	-	529 021	(529 021)	-
Non-current investment revaluation reserve	-	-	(55 041)	-	-	(55 041)
Deferred income tax directly referable to revaluation reserve	-	-	8 256	-	-	8 256
Profit for the reporting year	-	-	-	-	547 622	547 622
As at 31.12.2013	**900 000**	**535 126**	**1 078 663**	**688 672**	**547 622**	**3 750 083**

The accompanying notes on pages from 10 to 25 form an integral part of these consolidated financial statements.

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

Ogre, 30 May 2014

Ilmars Osmanis
Chairman of the Board

Notes to the consolidated financial statements

I. General information about the Group

SIA “Hanzas Elektronika” (hereinafter – the Parent Company) has its registered office at 72 Akmenu Street, Ogre. 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.

Major shareholders of the Parent Company are Baltic SME Fund C.V. 37.5%, Hornell Teknikinvest AB 25%, SIA Macro Rīga 25%, and Proditron Sweden AB 12.5%.

As at 31 December 2013 the Parent Company had direct investment in SIA “Ventspils Elektronikas Fabrika” (incorporated in the Republic of Latvia).

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

II. Summary of significant accounting policies

Basis of preparation of consolidated financial statements

The consolidated financial statements of the Group have been prepared in accordance with the Consolidated Annual Reports of the Republic of Latvia and Latvian Accounting Standards. The financial statements of the Group’s parent company and the Group’s subsidiaries are prepared separately, in accordance with the national legislation and Latvian accounting standards, applicable in the reporting year.

The consolidated financial statements are prepared on a historical cost basis, except real estate which is recognized at revaluated amount. The monetary unit used in the consolidated financial statements is Latvian lat (LVL), the monetary unit of the Republic of Latvia. The consolidated financial statements cover the period 1 January 2013 till 31 December 2013.

Considering the specific business of the Group, according to Section 6, Paragraph 1 of the Annual Reports of the Republic of Latvia, the Group may introduce new items in its balance sheet unless their contents are included in any of the existing items. The introduction of those new items has not affected the amount of the Group’s assets and liabilities, its financial position and profit for the reporting year.

Consolidation

Subsidiaries, in which the Group directly or indirectly controls the business operations, and subsidiaries are significant, are consolidated. To reflect an acquisition of a subsidiary in financial statements the Group uses the purchase method. The subsidiary is consolidated with the moment when the Group has taken over the control, and consolidation is discontinued when control is lost.

Financial statements of the Group's parent company and its subsidiaries have been consolidated into the Group's consolidated financial statements, combining respective assets, liabilities, revenues and expenses. In the course of preparation of the Group’s consolidated financial statements intra-group unrealized gains, mutual settlements, shares and other mutual business are excluded.

Foreign currency translation

The functional and presentation currency of the Group is Latvian lat (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 LVL	31.12.2012 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

Investments in entity

Investments in entity initially are stated at cost. The Group determines the recoverable value of investments on a yearly basis and in cases, if the recoverable amount has decreased due to significant circumstances that are not considered as temporary, the value of investments is decreased till its recoverable 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.

Other intangible assets

Other 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
Other intangible assets	*5*

Tangible assets

Tangible assets, 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 useful life of the asset fixed by the management 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 costs, are normally charged to the consolidated income statement in the period when incurred. Subsequent costs are added to the carrying amount of the asset or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the costs of the item can be measured reliably. Such costs are depreciated over the remaining useful life of the related asset.

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.

When events or changes in circumstances indicate that the carrying value of fixed assets may not be recoverable, the asset value will be reviewed to determine their values decline. If there is a sign of non-recovered value and if the asset’s carrying value exceeds the estimated recoverable amount, the asset is written down to its recoverable amount. Losses resulting from the reduction of value are recognized in the income statement.

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”. 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.

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 is accounted for as follows:

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

- Work-in-progress – cost of direct materials and labors 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 provisions made.

Trade and other receivables

Trade receivables are recognized and carried at original invoice amount less an allowance for any uncollectible amounts. Provisions are established by evaluating each receivable separately. 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 a 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 consolidated 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 a 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 financing granted tangible assets.

Grants attributable to income are charged to the income statement as cost of sales.

Grants

Grants not recognized until the Group gains 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 Group 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 Group and which are not connected with the future costs are recognized in profit or loss in the period when the Group 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 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.

Lease

Finance leases, which transfer to the Group 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 a 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 consolidated income statement on a straight-line basis over the lease term.

Factoring

Based on the factoring agreements received income are recorded as advances received from customers if the Group 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.

Accrued liabilities

Accrued liabilities are recognized when the Group 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 on taxable income generated during the taxation period at the tax rate of 15%.

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 consolidated 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 non-current assets, the treatment of temporary non-taxable accrued liabilities and tax losses carried forward for the subsequent years and real estate revaluation.

Revenue recognition

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 Group and the revenue can be reliably measured, less value added tax (if applicable) and sales-related discounts. The Group’s revenue comprises income from sale of its products. 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 risks 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 Group’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.

Use of estimates

The preparation of consolidated 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 occur which cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the consolidated 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 Group reviews the estimated useful lives of non-current assets at the end of each annual reporting period;

- the Group’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 Group’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 Group reviews non-current assets and assesses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The Group 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 Group does not believe that any material fixed asset adjustments are needed as of 31 December 2013 due to impairment of the Group’s assets considering the production and sales levels.

- the Group’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 carrying value.

- At each balance sheet date, the Group reviews the carrying amount of its non-current financial investments and determines whether there is any indication of impairment. The Group 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 Group’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 Group’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	2 229 155	1 808 671
TOTAL:	**7 254 028**	**5 203 674**

2. Cost of sales

	2013	2012
	LVL	LVL
Cost of raw materials	3 555 141	2 457 997
Personnel expense	1 223 066	809 389
Depreciation charge (Note 11)	428 301	493 347
Costs related to production premises, land lease, and utilities	253 524	183 893
Provisions for slow-moving inventory (Note 16)	100 636	-
Transport, customs expenses	83 325	50 300
Low value inventory	29 124	12 089
Repairs and service expenses	22 064	12 428
Equipment rental	4 464	16 428
Income from ERAF financing recognition	(160 470)	(247 624)
Other production related expense	1 925	8 520
TOTAL:	**5 541 100**	**3 796 767**

3. Selling costs

	2013	2012
	LVL	LVL
Personnel expense	259 765	205 488
Transport expense	16 275	11 770
Business trips	15 701	7 427
Marketing expense	15 205	3 605
Communication expense	1 975	1 806
TOTAL:	**308 921**	**230 096**

4. Administrative expense

	2013	2012
	LVL	LVL
Personnel expense	267 735	184 564
Research expense	97 393	106 113
including personnel expense	*43 147*	*41 814*
including amortization and depreciation (Note 11)	*44 096*	*52 454*
Depreciation charge (Note 11)	70 130	86 056
Allowances for bad debt (Note 17)	50 558	-
Bank charges	33 682	21 638
Transport expense	19 511	15 198
Training expense	18 581	18 368
Professional service fees *	15 888	34 944
Non-business expenses	14 250	-
Office expense	13 725	8 857
Insurance	5 855	6 288
Communications expense	5 057	11 298
Representation expense	3 458	4 169
Business trips	2 807	451
Other administrative expense	18 848	14 740
TOTAL:	**637 478**	**512 684**

* Deloitte Audits Latvia provided only audit services to the Group for the year 2013.

5. Interest and similar income

		2013	2012
		LVL	LVL
Income from ERAF funding allocated		1 258	93 203
Income from sale of fixed assets, net		-	145 923
Currency exchange income, net		-	1 866
Interest income		-	128
Other income		76	-
	TOTAL:	**1 334**	**241 120**

6. Interest and similar expense

		2013	2012
		LVL	LVL
Interest payments		126 088	160 763
Contract concluding expense		10 718	39 956
Penalties paid		2 844	1 400
Currency exchange loss, net		5 750	-
Additional costs of disposed fixed assets		-	130 716
	TOTAL:	**145 400**	**332 835**

7. Personnel expense and number of employees

		2013	2012
		LVL	LVL
Remuneration to employees		1 429 456	988 306
Social security tax contributions for employees		343 793	237 760
Employee health insurance		19 817	14 680
Risk duty		647	468
Other personnel expense		-	41
	TOTAL:	**1 793 713**	**1 241 255**

Key management personnel compensation

		2013	2012
		LVL	LVL
Board Members			
Remuneration		51 193	55 608
Social security tax contributions		12 332	13 396
Risk duty		3	3
	TOTAL:	**63 528**	**69 007**

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	**212**	**153**

Personnel expense is included in the following consolidated income statement captions:

		2013	2012
		LVL	LVL
Cost of sales		1 223 066	809 389
Administrative expense		310 882	226 378
Selling costs		259 765	205 488
	TOTAL:	**1 793 713**	**1 241 255**

8. Current and deferred corporate income tax

	2013 LVL	2012 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 income tax

	31.12.2013 LVL	31.12.2012 LVL
Deferred tax liabilities, 15%		
Temporary difference between the value of fixed assets in the balance sheet and 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 LVL	2012 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. Earnings Before Interest, Tax Depreciation and Amortization

		2013	2012
EBITDA	LVL	1 264 960	1 243 530
EBITDA	%	17	24

10. Intangible assets

	Other intangible assets
	LVL
ACQUISITION VALUE	
As at 31.12.2011	**201 154**
Additions	1 828
Transfer from fixed assets	10 000
As at 31.12.2012	**212 982**
Additions / transfer	68 918
As at 31.12.2013	**281 900**
ACCUMULATED AMORTIZATION	
As at 31.12.2011	**88 106**
Amortization for the year	58 818
As at 31.12.2012	**146 924**
Amortization for the year	33 080
As at 31.12.2013	**180 004**
NET CARRYING AMOUNT	
As at 31.12.2012	**66 058**
As at 31.12.2013	**101 896**

11. Tangible assets

	Land and buildings	Equipment and machinery	Other fixtures and fittings, tools and equipment	Construction in progress	Leasehold improve-ments	**Total**
	LVL	LVL	LVL	LVL	LVL	**LVL**
ACQUISITION VALUE						
As at 31.12.2011	**2 905 114**	**5 047 339**	**505 826**	**4 426**	**15 948**	**8 478 653**
Additions	-	80 389	33 025	1 319 004	2 081	1 434 499
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**	**5 224 751**	**517 206**	**6 622**	**18 029**	**8 838 463**
Additions	-	590 284	138 273	81 885	1 988	812 430
Disposals	-	(260 252)	(3 656)	-	-	(263 908)
Write-off	-	-	-	(11 588)	-	(11 588)
Transfer	-	(5 485)	18 299	(67 340)	-	(54 526)
As at 31.12.2013	**3 071 855**	**5 549 298**	**670 122**	**9 579**	**20 017**	**9 320 871**
ACCUMULATED DEPRECIATION						
As at 31.12.2011	**575 113**	**3 877 300**	**455 175**	**-**	**12 762**	**4 920 350**
Depreciation for the year	94 742	487 021	24 229	-	1 718	607 710
Disposals	-	(980 260)	(10 551)	-	-	(990 811)
As at 31.12.2012	**669 855**	**3 384 061**	**468 853**	**-**	**14 480**	**4 537 249**
Depreciation for the year	105 056	406 804	37 689	-	1 397	550 946
Transfer	-	(5 858)	7 852	-	-	1 994
Disposals	-	(260 252)	(2 369)	-	-	(262 621)
As at 31.12.2013	**774 911**	**3 524 755**	**512 025**	**-**	**15 877**	**4 827 568**
NET CARRYING AMOUNT						
As at 31.12.2012	**2 402 000**	**1 840 690**	**48 353**	**6 622**	**3 549**	**4 301 214**
As at 31.12.2013	**2 296 944**	**2 024 543**	**158 097**	**9 579**	**4 140**	**4 493 303**

Cadastral value of the Group'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 Group's parent company has pledged its movable properties and real estate at 72 Akmenu Street 72, Ogre in favor of Swedbank AS (Note 23).

Depreciation and amortization

	2013	2012
	LVL	LVL
Cost of sales	428 301	493 347
Administrative expense	114 226	138 510
TOTAL:	**542 527**	**631 857**
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:	**584 026**	**666 528**

12. Investment in entity

		31.12.2013	31.12.2012
Company	%	LVL	LVL
SIA „LEITC” (Latvia)	3.95	10 492	10 492
SIA „LEO PĒTĪJUMU CENTRS” (Latvia)	14	700	700
KOPĀ:		**11 192**	**11 192**

SIA "LEO PĒTĪJUMU CENTRS" (registration No. 51203037371) was established on 27 July 2010 by 20 shareholders. SIA "Hanzas Elektronika" and SIA "Ventspils Elektronikas Fabrika" owns 700 (seven hundred) of 5 000 (five thousand) shares in SIA "LEO PĒTĪJUMU CENTRS".

On 12 September 2012, the Group's parent 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.

13. Other investments

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

On 23 November 2007, the SIA "Hanzas Elektronika" 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 SIA "Hanzas Elektronika" 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 SIA "Hanzas Elektronika" 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. SIA "Hanzas Elektronika" has pledged all Hanza Holding AB shares (Note 22).

Impairment test of investment

In 2013 the Management of the Group 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 “Valmetrics” 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.

Based on calculated results and the Management assumptions, in 2013 and 2012 the investment value is adequate and fairly presented in the financial statements and correction on reduction in value of investment is not required.

14. Prepaid expense

	31.12.2013 LVL	31.12.2012 LVL
Design of the building extension – non-current part	1 111	-
Ramps rental costs – non-current part	-	83
Other prepaid expense – non-current part	9	-
Total non-current part:	***1 120***	***83***
Insurance – current part	5 772	3 445
Guarantee fee	2 811	2 773
Rent of Riga office	1 421	-
Design of the building extension – current part	667	-
Ramps rental costs – current part	83	500
Equipment maintenance	-	4 370
Other prepaid expense – current part	2 468	2 462
Total current part:	***13 222***	***13 550***
TOTAL:	**14 342**	**13 633**

15. Other loans and other non-current receivables

In 1 August 2011 the Group 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 Group paid a security in amount of LVL 1 400.

16. Raw materials

	31.12.2013 LVL	31.12.2012 LVL
Raw materials and consumables	895 519	862 876
Provisions for slow-moving inventory	(235 380)	(143 490)
TOTAL:	**660 139**	**719 386**

Movement of allowances for slow-moving inventory:

	2013 LVL	2012 LVL
Balance at the beginning of the year	**(143 490)**	**(205 968)**
Write-off of allowances	8 746	142 523
Allowances made for slow moving goods (Note 2)	(100 636)	(80 045)
Balance at the year end	**(235 380)**	**(143 490)**

17. Trade receivables

	31.12.2013 LVL	31.12.2012 LVL
Trade receivables	373 399	363 046
Allowance for bad debt (Note 4)	(50 558)	-
TOTAL:	**322 841**	**363 046**

Trade receivables by currency

	31.12.2013		31.12.2012	
	Currency	LVL	Currency	LVL
LVL	15 063	15 063	24 607	24 607
EUR	361 901	254 345	370 110	260 115
USD	103 764	53 433	147 504	78 324
TOTAL:		**322 841**		**363 046**

18. Other receivables

	31.12.2013 LVL	31.12.2012 LVL
Warranty coverage	19 611	-
Security deposit to Latvia Statoil	2 100	2 100
Security deposit to Ektornet	1 218	-
Overpaid taxes (Note 27)	-	52 419
ERAF funding for employee training	-	10 798
Other receivables	305	114
TOTAL:	**23 234**	**65 431**

19. Cash and cash equivalents

	31.12.2013 LVL	31.12.2012 LVL
Cash at bank	21 319	18 940
Cash on hand	-	20
TOTAL:	**21 319**	**18 960**

20. Share capital

The share capital of the Parent Company is LVL 900 000, which consists of 9 000 shares. Share capital is fully paid. Nominal value of each share is LVL 100. Share premium as of 31 December 2013 and 2012 was LVL 535 126.

As of 31 December 2013 Parent Company shares were divided in a following way:

	%	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**

21. 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 2007 and by LVL 166 741 in 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**

22. Debt securities issued

In 2007 the Group's parent 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 Parent Company has pledged shares of Hanza Holding AB (Note 13). 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 Group from banks has received two offers to refinance the Parent company's debt securities. The Group plan to refinance these securities as bank loan within medium-term (5 years).

23. Loans from credit institutions

The Group has received the following loans from credit institutions:

	Available amount of credit line and initial loan amount	Interest rate	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 Group has pledged its movable properties and real estate at 72 Akmenu Street, Ogre in favor 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 recognized including commission payments for the issue of loans, which are amortized throughout the loan period.

24. Deferred income

On 31 May 2005, the Group completed the project for receiving a grant within the framework of implementation of the state support program. The Group 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 Group received the grant in amount of LVL 1 000 000.

On 6 September 2011, the Parent company entered into an agreement with the Latvian Investment and Development Agency of the implementation project "Development of new products and technologies". The Parent 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 Parent company received financial support in amount of LVL 385 140.

On 4 October 2006, the subsidiary concluded an agreement for receiving a grant within the framework of implementation of the state support program. The subsidiary complied with all the requirements under the agreement with the Latvian Investment and Development Agency. Under the project, the production facility was constructed and technological equipment for production purposes was acquired for the total amount of LVL 1 149 158. Following the review of the project implementation conditions on August 29, 2007, the subsidiary received the grant in amount of LVL 600 000.

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	301 819	424 961
Current	123 142	160 470
TOTAL:	**424 961**	**585 431**

25. Other liabilities

	31.12.2013 LVL	31.12.2012 LVL
Salaries and wages	98 553	58 748
Credit cards	1 443	2 218
Payables to employees	20	29
Other liabilities	433	55
TOTAL:	**100 449**	**61 050**

26. Accrued liabilities

	31.12.2013 LVL	31.12.2012 LVL
Vacation pay reserve	69 942	54 826
Accrued interest for dividends	17 663	15 750
Accrued interest for debt securities issued	4 820	4 778
Accrued interest Swedbank AS	592	745
Other accrued liabilities	25 552	30 160
TOTAL:	**118 569**	**106 259**

27. Taxes payable

	31.12.2012 LVL	Calculated LVL	Penalties LVL	Transferred LVL	Paid / (repaid) LVL	31.12.2013 LVL
Social security tax contributions	(29 563)	(493 849)	(325)	27 320	447 611	(48 806)
Personal income tax	(15 436)	(256 951)	(415)	14 499	233 588	(24 715)
Value added tax	(15 314)	(282 165)	(394)	-	272 397	(25 476)
Natural resource tax	(88)	(740)	-	-	382	(446)
Real estate tax	-	(3 645)	-	-	3 645	-
Risk duty	(42)	(648)	-	-	626	(64)
Corporate income tax	52 419	(39 492)	-	(41 819)	(10 600)	(39 492)
TOTAL:	**(8 024)**	**(1 077 490)**	**(1 134)**	**-**	**947 649**	**(138 999)**
TOTAL PAYABLE:	**(60 443)**					**(138 999)**
TOTAL RECEIVABLE:	**52 419**					**-**

28. Off-balance sheet items

As of 31 December 2013 the Group has received raw materials from clients amounting to LVL 8 825 979 in value (as of 31 December 2012: LVL 3 757 331); these raw materials are being processed and then delivered back to clients.

29. Commitments and contingencies

Operating leases

The Group has entered into several 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**	**35 526**

The subsidiary as a tenant has entered into industrial premises and land rent agreement. Industrial premises are put into operation on 1 December, 2006. The total amount of rent expenses (including utilities) in reporting year was LVL 133 924 (VAT 21% included) (2012: LVL 109 188 (VAT 21% included)).

The rent costs (without utilities) to be paid in the year 2014 to the foundation „Ventspils Augsto tehnoloģiju parks” under the agreement is LVL 65 685 (VAT 21% included). The expiry date of the rent agreement is 30 April 2021.

Guarantee

On 5 April 2012 Group’s subsidiary entered into all its assets including shares commercial pledge agreements with Swedbank AS on the commercial pledge claim at the maximum amount of LVL 6 526 254. Commercial pledge provided for the benefit of the Parent company. Maturity date is 31 December 2014.

30. Financial risk management

The Group’s principal financial instruments comprise loans from credit institutions, finance leases, trade receivables, trade payables and cash.

Financial risks

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

Foreign currency risk

The Group’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 Group is planning sales and purchases in different currencies.

Interest rate risk

The Group is exposed to interest rate risk mainly through its current and non-current borrowings and financial lease liabilities.

Liquidity risk

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

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 credit terms on individual basis. In addition, receivable balances are monitored on an ongoing basis to ensure that the Group’s exposure to bad debts is minimized. As well factoring transactions are used to decrease this risk. The Group’s partners in cash transactions are local financial institutions.

31. The going concern principle

As of 31 December 2013 Group’s short-term liabilities exceeded current assets by LVL 1 923 297 (including deferred income from the ERAF in amount of LVL 123 142 which do not have impact on Group’s cash flow and LVL 1 360 213 issued debt securities with maturity 13 August 2014 which the Group plan to refinance (Note 22)). The management of the Group 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.

32. 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 Group 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 Group’s financial statements for subsequent financial periods will be presented in the Euro.

In April 2014 the Group from banks has received two offers to refinance the Group Parent company’s debt securities. The Group plan to refinanced these securities as bank loan within medium-term (5 years) (Note 22).

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

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of SIA „Hanzas Elektronika”:

Translation from Latvian

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements (page 5 to 25) of SIA „Hanzas Elektronika” and its subsidiary SIA „Ventspils Elektronikas Fabrika” (the Group), which comprise the Group's consolidated balance sheet as of 31 December 2013 and the consolidated income statement, statement of changes in equity and statement of cash flow statement for the calendar year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the Latvian law “On the Consolidated Annual Reports”, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 13 to this consolidated 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 consolidated financial statement give a true and fair view of the financial position of the Group 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 the Consolidated Annual Reports”.

Report on Other Legal and Regulatory Requirements

We have read the management report for 2013 set out on page 4 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 Latvija SIA
Licence nr. 43

Roberts Stuģis
Member of the Board
Riga, Latvia
30 May 2014

Inguna Staša
Certified auditor of Latvia
Certificate No. 145