

LIMITED LIABILITY COMPANY
HANZAS ELEKTRONIKA
UNIFIED REGISTRATION NUMBER 40003454390

CONSOLIDATED ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2014

Prepared in accordance with Latvian statutory requirements
Together with independent auditors' report

Riga, 2015



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INDEPENDENT AUDITORS' REPORT

To the shareholder of SIA Hanzas Elektronika

Report on the Consolidated Financial Statements

We have audited 2014 consolidated financial statements of SIA Hanzas Elektronika and its subsidiary (the "Group") for the year ended 31 December 2014, which are set out on pages 6 through 29 of the accompanying 2014 Annual Report and which comprise the consolidated balance sheet as at 31 December 2014, the consolidated statements of income, consolidated changes in equity and consolidated cash flows statement and a summary of significant accounting policies and other explanatory notes.

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 Consolidated 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.

Auditor's 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 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.

Basis for qualified opinion

As disclosed in Note 8 to the Consolidated Financial Statements as of 31 December 2014 long term financial investments are EUR 2,000 thousand (31.12.2013 – EUR 5,065 thousand). In year 2014 there were recognized impairment of investment of EUR 1,2 thousand. We were unable to determine whether adjustment might have been necessary in respect of the investment balance as of 31 December 2013 and in respect of profit for the year 2013 reported in the consolidated income statement and the net cash flows from operating activities reported in the consolidated cash flow statement. Auditors' report issued on 25 April 2014 on the consolidated financial statements by predecessor auditor for the year ended 31 December 2013 was qualified in respect of this matter. Our auditors' report on the current period's consolidated financial statements is also modified because of the possible effect of this matter on the comparative information and in respect of consolidated profit for the year 2014 reported in the consolidated income statement and the net cash flows from operating activities reported in the consolidated cash flow statement.


Qualified opinion

In our opinion, except for the possible effects of the matters described in paragraph of the Basis for Qualified Opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of SIA Hanzas Elektronika and its subsidiary as at 31 December 2014 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the Law of the Republic of Latvia on Consolidated Annual Reports.

Report on Compliance of the Management Report

Furthermore, we have read the Management Report for the year ended 31 December 2014 (set out on page 5 of the accompanying consolidated 2014 Annual Report) and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2014.

SIA Ernst & Young Baltic
Licence No. 17



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

Rīga, 29 May 2015

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General information

Name of the Parent Company	Hanzas Elektronika
Legal status of the Parent Company	Limited liability company
Unified registration number, place and date of registration	40003454390 Riga, 30 July 1999
Registration with the Commercial Register	Riga, 27 December 2002
Registered office	Akmeņu iela 72, Ogre, Latvia, LV-5001
Shareholders, until 25 August 2014	Baltic SME Fund C.V. (37.5%) Reg. No 1.175.409 Heregracht 469 1017 BS Amsterdam, the Netherlands AB Hornell Teknikinvest (25%) Reg. No 556545-7008 Bernhard Erikssons vag. 1B, SE-791 32 Falun, Sweden SIA Macro Rīga (25%) Reg. No 40003362005 Lielpriedes 19, Piņķi, Babīte pagasts, Latvia, LV-2107 AB Proditron Sweden (12.5%) Reg. No 556594-1647 Box 345, SE-781 24 Borlange, Sweden
Shareholders, from 25 August 2014	SIA Macro Rīga (100%) Reg. No 40003362005 Lielpriedes 19, Piņķi, Babīte pagasts, Latvia, LV-2107
Board Members	Ilmārs Osmanis (Chairman of the Board) Alvis Vagulis (Board Member) Vineta Grecka (Board Member)
Council Members, until 25 August 2014	Ake Hornell (Council Member) Dagnis Dreimanis (Council Member) Rūdolfs Osmanis (Council Member)
Subsidiaries	SIA Ventspils Elektronikas Fabrika (equity interest: 100%) Reg. No 40003779058 Ventspils Augsto tehnoloģiju parks 1, Ventspils, Latvia, LV-3602 SIA HM Holding (equity interest: 100%) Reg. No 40103775264 Akmeņu iela 72, Ogre, Latvia, LV-5001 SIA Mārupes Elektronikas Tehnoloģijas (equity interest: 100%) Reg. No 40103814400 Akmeņu iela 72, Ogre, Latvia, LV-5001
Auditors	SIA Ernst & Young Baltic Licence No 17 Muitas iela 1A, Riga Latvia, LV – 1010 Diāna Krišjāne Latvian Certified Auditor, Certificate No 124

Management report

28 May 2015

The core business activity of SIA Hanzas Elektronika (hereinafter – the Parent Company) comprises the turnkey manufacturing of electronic systems and their components, including printed circuit board assemblies (PCBA). The manufacturing process employs knowledge-intensive technologies: surface mount, soldering in a nitrogen atmosphere, furnace, selective and wave soldering, conformal coating and encapsulation, as well as the programming, adjustment, mechanical installation, final testing and packing of devices. Manufacturing is carried out as a service, only based on customer orders. Products are assembled and supplied to local and foreign manufacturers of end products and customers.

The year 2014 was the fifteenth year of the Group's operations. Net turnover for the year reached EUR 10 691 515, which exceeds the result of 2013 by 3.6%. For the reporting year, the Group incurred a loss of EUR 2 037 133, including operating profit of EUR 527 579 and impairment of historic investments amounting to EUR 2 564 712.

The Group intends to cover the write-off loss from future profits.

During 2014, the Group continued expanding its market share and strengthening the EMS market, which eventually bore fruit, i.e., three long-term orders placed by new customers at the end of 2014.

Moreover, the Group proceeded with the set-up of a product development division. As a result, a fully-owned subsidiary SIA Mārupes Elektronikas Tehnoloģijas was established in 2014. This subsidiary is engaged in the development and designing of electronic equipment and devices.

In 2014, the loan portfolio of the Parent Company was restructured, which included bond extinguishment and refinancing as medium-term loans with AS Citadele banka.

In 2014, the shareholder SIA Macro Rīga acquired the equity interest owned by the other shareholders, thereby becoming the sole shareholder of the Parent Company (100%).

The consolidated financial statements are prepared in accordance with the source documents and present fairly the financial position of the Group as at 31 December 2014, and the results of its operations and cash flows for the year then ended.

In order to carve the Group's core assets out of historic investments in the upcoming periods, in 2015 the 100% equity interest in the subsidiary SIA HM Holding was sold to the sole shareholder SIA Macro Rīga for EUR 2 500 000.

As of the last day of the reporting year until the date of signing these financial statements there have been no other significant events which could produce a considerable impact on the annual result.



Ilmārs Osmanis
Chairman of the Board

Income statement

	Notes	2014 EUR	2013 EUR
Net turnover	3	10 691 515	10 321 552
Cost of sales	4	(8 380 826)	(8 112 603)
Gross profit		2 310 689	2 208 949
Distribution costs	5	(506 965)	(439 555)
Administrative expense	6	(958 051)	(907 049)
Other operating income	7	550 000	-
Other operating expense	7	(1 898 954)	-
Impairment of investments	8	(1 215 758)	-
Interest receivable and similar income	9	210 907	230 226
Interest payable and similar expense	10	(350 463)	(206 886)
(Loss)/ profit before tax		(1 858 595)	885 685
Corporate income tax	12	(173 352)	(101 303)
Real estate tax	33	(5 186)	(5 186)
NET (LOSS)/ PROFIT FOR THE YEAR		(2 037 133)	779 196

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



Ilmārs Osmanis
Chairman of the Board

Balance sheet

	Notes	31/12/2014 EUR	31/12/2013 EUR
NON-CURRENT ASSETS			
Intangible assets			
Other intangible assets		172 660	144 986
Total intangible assets	14	172 660	144 986
Property, plant and equipment			
Land and buildings		3 119 315	3 268 257
Equipment and machinery		2 521 943	2 880 665
Other fixtures and fittings, tools and equipment		257 701	224 952
Construction in progress		24 758	13 630
Leasehold improvements		4 025	5 891
Total property, plant and equipment	15	5 927 742	6 393 395
Non-current financial assets			
Investments in other companies	16	15 925	15 925
Investments in shares	17	1 950 000	5 064 712
Prepaid expense	18	632	1 594
Other loans and receivables	19	1 992	1 992
Total non-current financial assets		1 968 549	5 084 223
TOTAL NON-CURRENT ASSETS		8 068 951	11 622 604
CURRENT ASSETS			
Inventories			
Raw materials	20	1 023 775	939 293
Work in progress		144 437	287 871
Total inventories			1 227 164
Receivables			
Trade receivables	21	284 230	459 361
Receivables from related companies	22	550 086	-
Other receivables	23	797 920	33 059
Prepaid expense	18	15 302	18 813
Total receivables		1 647 538	511 233
Cash and cash equivalents	24	93 526	30 334
TOTAL CURRENT ASSETS		2 909 276	1 768 731
TOTAL ASSETS		10 978 227	13 391 335

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

Ilmārs Osmanis

Chairman of the Board

Balance sheet

	Notes	31/12/2014 EUR	31/12/2013 EUR
EQUITY			
Share capital	25	1 280 272	1 280 585
Share premium		761 415	761 415
Other reserves	26	313	-
Non-current asset revaluation reserve	27	1 468 231	1 534 800
Retained earnings/ (accumulated deficit):			
a) brought forward		112 088	979 892
b) for the period		(2 037 133)	779 196
TOTAL EQUITY		1 585 186	5 335 888
LIABILITIES			
Non-current liabilities			
Loans from credit institutions	29	5 012 921	2 543 681
Deferred income	30	325 377	429 450
Deferred income tax liability	11	617 519	548 077
Total non-current liabilities		5 955 817	3 521 208
Current liabilities			
Issued debt securities	28	-	1 935 409
Loans from credit institutions	29	1 122 396	856 339
Prepayments received from customers		23 675	32 931
Trade payables		977 185	971 574
Taxes payable	33	171 912	197 779
Other liabilities	31	876 370	142 925
Accrued liabilities	32	161 613	168 708
Deferred income	30	104 073	175 216
Undrawn dividends		-	53 358
Total current liabilities		3 437 224	4 534 239
TOTAL LIABILITIES		9 393 041	8 055 447
TOTAL EQUITY AND LIABILITIES		10 978 227	13 391 335

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

Ilmārs Osmanis
 Chairman of the Board

Cash flow statement

	Notes	2014 EUR	2013 EUR
CASH FLOWS TO/ FROM OPERATING ACTIVITIES			
(Loss)/ profit before tax		(1 858 595)	885 685
Adjustments for:			
Amortisation and depreciation	14,15	781 965	752 678
Interest expense	10	234 290	179 407
Increase in allowances for slow-moving items and receivables	20	4 326	130 748
Income from grant recognition	9	(175 216)	(228 328)
Gain on disposal of property, plant and equipment		1 059	-
Adjustments for:			
Decrease in inventories		54 626	45 214
(Increase)/ decrease in receivables		(1 135 343)	114 246
Increase in payables		677 686	317 378
Cash generated from operations, gross		(1 415 202)	2 197 028
Corporate income tax paid	33	(126 334)	-
Real estate tax paid	33	(5 223)	(5 186)
Net cash flows to/ from operating activities		(1 546 759)	2 191 842
CASH FLOWS TO/ FROM INVESTING ACTIVITIES			
Purchase of intangible assets and property, plant and equipment	14,15	(471 361)	(1 157 136)
Investments in shares		3 114 712	-
Proceeds from sale of property, plant and equipment		48 001	1 831
Net cash flows to/ from investing activities		2 691 352	(1 155 305)
CASH FLOWS TO/ FROM FINANCING ACTIVITIES			
Dividends paid		(1 647 000)	-
Loans repaid, net		799 889	(856 338)
Interest paid		(234 290)	(176 843)
Net cash flows to/ from financing activities		(1 081 401)	(1 033 181)
Change in cash and cash equivalents for the year		63 192	3 356
Cash and cash equivalents at the beginning of the year	24	30 334	26 978
Cash and cash equivalents at the end of the year	24	93 526	30 334

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

Statement of changes in equity

	Share capital	Share premium	Other reserves	Non-current asset revaluation reserve	Retained earnings	Profit/ (loss) for the year	Total
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Balance as at 31 December 2012	1 280 585	761 415	-	1 601 368	227 163	752 729	4 623 260
Transfer of prior year result	-	-	-	-	752 729	(752 729)	-
Non-current asset revaluation reserve taken to income	-	-	-	(78 315)	-	-	(78 315)
Deferred corporate income tax directly attributable to the revaluation reserve	-	-	-	11 747	-	-	11 747
Profit for the reporting year	-	-	-	-	-	779 196	779 196
Balance as at 31 December 2013	1 280 585	761 415	-	1 534 800	979 892	779 196	5 335 888
Transfer of prior year result	-	-	-	-	779 196	(779 196)	-
Share capital denomination	(313)	-	313	-	-	-	-
Dividends paid	-	-	-	-	(1 647 000)	-	(1 647 000)
Non-current asset revaluation reserve taken to income	-	-	-	(78 315)	-	-	(78 315)
Deferred corporate income tax directly attributable to the revaluation reserve	-	-	-	11 746	-	-	11 746
Loss for the reporting year	-	-	-	-	-	(2 037 133)	(2 037 133)
Balance as at 31 December 2014	1 280 272	761 415	313	1 468 231	112 088	(2 037 133)	1 585 186

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

Notes to the financial statements

1. Corporate information

SIA Hanzas Elektronika (hereinafter – the Parent Company) was registered with the Republic of Latvia Enterprise Register on 30 July 1999 and re-registered with the Republic of Latvia Commercial Register on 27 December 2002 under unified registration number 40003454390. The registered office of the Parent Company is at Akmeņu iela 72, Ogre.

On 25 August 2014, SIA Macro Rīga became the sole shareholder of the Parent Company owning 100% of its shares.

As at 31 December 2014, the Parent Company had direct investments in the following companies incorporated in the Republic of Latvia: SIA Ventspils Elektronikas Fabrika, SIA HM Holding, SIA Mārupes Elektronikas Tehnoloģijas.

The core business activity of the Group comprises the manufacturing of components of various electronic and telecommunication equipment.

2. Summary of significant accounting policies

Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with the Laws of the Republic of Latvia on Accounting and on Consolidated Annual Reports. The financial statements of the Parent Company and its subsidiaries are prepared separately according to the relevant national legislation applicable in the reporting year.

The consolidated financial statements are prepared on a historical cost basis, except for real estate, which is stated at the revalued amount. The monetary unit used in the consolidated financial statements is the euro (EUR), the monetary unit of the Republic of Latvia. The consolidated financial statements cover the period 1 January 2014 through 31 December 2014.

Considering the specific nature of the Group's business, the Group may supplement the balance sheet with new captions unless their content has already been presented in the existing captions, pursuant to Section 6(1) of the Law of the Republic of Latvia on Annual Reports. The introduction of such new captions has not affected the Group's assets and liabilities, financial position or annual result.

Basis of consolidation

Subsidiaries where the Group has the power to govern, directly or indirectly, the operating policies and which are significant are consolidated. The purchase method is used to present the acquisition of subsidiaries by the Group in the consolidated financial statements. Subsidiaries are consolidated from the date on which the Group obtains control until the date that such control ceases.

The financial statements of the Parent Company and its subsidiaries are consolidated in the Group's financial statements on a line-by-line basis by adding together like items of assets and liabilities, as well as income and expense. For the purposes of consolidation, unrealised internal profits, intragroup balances, intragroup shareholdings and other intragroup transactions are eliminated.

Changes in accounting policies

In 2014, the Parent Company revised its accounting policy applied to work in progress. Considering the differences existing between the stage of completion and various costs of products, starting from 2014 overheads related to work in progress have been calculated as 50% of the prior-year consolidated production costs.

In these consolidated financial statements, accrued income from the ERDF is presented under other income, while in the previous period the respective income was deducted from production costs.

In these consolidated financial statements, employee training expense is stated as actual expense less financing received for the purpose of training.

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 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 financial statements, when determinable.

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

Foreign currency translation

The functional and presentation currency of the Group is the euro (EUR), the monetary unit of the Republic of Latvia. Transactions in foreign currencies are translated into the euro at the euro foreign exchange reference rate published by the European Central Bank at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the euro applying the euro foreign exchange reference rate published by the European Central Bank at the last day of the reporting year. The differences arising on settlements of transactions or on reporting foreign currency transactions at rates different from those at which these transactions have originally been recorded are netted in the income statement accounts.

Intangible assets

Intangible non-current assets are stated at cost and amortised 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 recognised where the carrying value of intangible non-current assets exceeds their recoverable amount.

Research and development costs

Research costs are expensed as incurred. Development expenditure incurred on an individual project is carried forward when its future recoverability can be foreseen with reasonable certainty. Any expenditure carried forward is amortised over the period of expected future sales from the related project.

The carrying value of development costs is reviewed for impairment annually when the asset is not yet in use, and otherwise when events or changes in circumstances indicate that the carrying value may not be recoverable.

Property, plant and equipment

Property, plant and equipment 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 estimated useful life of the asset as follows:

Buildings	over 20 to 33 years
Equipment and machinery	over 5 to 8 years
Other property, plant and equipment	over 3 to 14 years

Depreciation is calculated starting with the following month after the asset is put into operation or engaged in commercial activity. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. To the extent that the Group depreciates separately some parts of property, plant and equipment, it also depreciates separately the remainder of the item. The remainder consists of the parts that are individually insignificant. The depreciation for the remainder is determined using approximation techniques to faithfully represent its useful life.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the higher of an asset's 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 recognised in the income statement in the cost of sales caption.

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

Property, plant and equipment (cont'd)

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

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

Construction in progress represents assets under construction and is stated at historical cost. This includes the cost of construction and other direct expenses. Construction in progress is not depreciated as long as the respective assets are not completed and put into operation.

Investments in subsidiaries and associates

Investments in subsidiaries (i.e. where the Parent Company holds more than 50% interest of the share capital or otherwise controls the company) and associates (i.e. where the Parent Company has significant influence, but less than a controlling interest, which is presumed to exist with 20 to 50% interest of the share capital of the entity) are stated in accordance with the cost method. Following initial recognition, investments in subsidiaries and associates are carried at cost less any accumulated impairment losses. The carrying values of investments in subsidiaries and associates are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. The Parent Company recognises income from the investment only to the extent that the Parent Company receives distributions from accumulated profits of the investee arising after the date of acquisition. Distributions received in excess of such profits are regarded as a recovery of the investment and are recognised as a reduction of the cost of the investment.

Inventories

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

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

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

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

Net realisable 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 realisable value is disclosed at the purchase (production) cost less allowances made.

Trade and other receivables

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

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand and short-term deposits with an original maturity of three months or less.

Loans and borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in the income statement as interest income/ expense when the liabilities are derecognised through the amortisation process.

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

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of provisions to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

Contingencies

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

Leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised 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 capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term on a straight-line basis.

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

Revenue

Revenue is recognised 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 and sales-related discounts. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

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

Rendering of services

The Group basically provides manufacturing services. Revenue is recognised in the period when the services are rendered.

Dividends

Revenue is recognised when the shareholders' right to receive the payment is established.

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 during the taxation period.

Deferred corporate income tax arising from temporary differences in the timing of the recognition of items in the tax returns and these financial statements is calculated using the liability method. 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.

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

Corporate income tax (cont'd)

The principal temporary timing differences arise from differing rates of accounting and tax amortisation and depreciation on non-current assets, the treatment of temporary non-taxable provisions and reserves, as well as temporary difference in securities in excess of set limits and tax losses carried forward for the subsequent years.

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.

3. Net turnover

<i>By geographical segments:</i>	2014 EUR	2013 EUR
Export sales	6 992 030	7 149 750
Domestic sales	3 699 485	3 171 802
TOTAL:	10 691 515	10 321 552

4. Cost of sales

	2014 EUR	2013 EUR
Costs of raw materials	4 982 897	5 058 510
Staff costs	2 052 978	1 740 266
Depreciation (see Note 11)	597 752	609 417
Production facilities, land lease and utilities	442 237	360 732
Transport and customs expense	141 325	118 561
Costs related to the production process	44 326	-
Low-value items	42 448	41 440
Allowances for slow-moving items	29 199	143 192
Lease of equipment	23 371	6 352
Repair and maintenance expense	22 096	31 394
Other production costs	2 197	2 739
TOTAL:	8 380 826	8 112 603

5. Distribution costs

	2014 EUR	2013 EUR
Staff costs	446 333	369 612
Transport expense	23 979	23 157
Business trips	16 017	22 341
Marketing expense	15 267	21 635
Communications expense	5 369	2 810
TOTAL:	506 965	439 555

6. Administrative expense

	2014	2013
	EUR	EUR
Staff costs	403 000	380 953
Research costs	135 775	138 578
<i>including staff costs</i>	92 757	61 392
<i>including amortisation and depreciation (see Notes 12 and 13)</i>	21 844	62 743
Amortisation and depreciation (see Notes 12 and 13)	175 122	99 786
Allowances for doubtful receivables (see Note 19)	-	71 938
Transport expense	45 198	27 762
Bank charges	43 847	47 925
Professional fees*	39 051	22 607
Office expense	26 868	19 529
Non-operating expense	16 409	20 276
Staff recruitment and training	14 429	26 438
Insurance	9 847	8 331
Communications expense	7 864	7 195
Business trips	5 935	3 994
Representation expense	4 276	4 920
Other administrative expense	30 430	26 817
TOTAL:	958 051	907 049

* The total fee paid to the firm of certified auditors SIA Ernst & Young Baltic for the annual audit/ review amounts to EUR 11 700.

7. Other operating income/ expense

	2014	2013
	EUR	EUR
Income from the sale of shares in Hanza Holding AB	550 000	-
Value of the shares in Hanza Holding AB sold	(1 898 954)	-
	(1 348 954)	-

8. Impairment of investments

	2014	2013
	EUR	EUR
Acquisition value of the shares in Hanza Holding AB	5 064 712	-
Value of the shares in Hanza Holding AB sold	(1 898 954)	-
Value of the remaining shares in Hanza Holding AB	3 165 758	-
Impairment of the investment in HM Holding attributable to the shares in Hanza Holding AB	(1 950 000)	-
Impairment of the shares in Hanza Holding AB	1 215 758	-

In April 2015, 100% shares in the subsidiary SIA HM Holding were sold for EUR 2 500 000, of which the amount of EUR 1 950 000 refers to the shares in Hanza Holding AB.

9. Interest receivable and similar income

	2014	2013
	EUR	EUR
Income from EU grant recognition (accrued)	175 216	228 328
Income from EU grant recognition	35 414	1 790
Other income	277	108
TOTAL:	210 907	230 226

10. Interest payable and similar expense

	2014	2013
	EUR	EUR
Interest payments	234 290	179 407
Expense related to the conclusion of contracts	81 905	15 250
Penalties paid	11 505	4 047
Currency exchange loss, net	21 705	8182
Extra loss on disposal of property, plant and equipment	1058	0
TOTAL:	350 463	206 886

11. Staff costs and number of employees

	2014	2013
	EUR	EUR
Wages and salaries	2 404 160	2 033 932
Statutory social insurance contributions	551 758	489 173
Employee health insurance	38 092	28 197
Unemployment risk duty	1058	921
TOTAL:	2 995 068	2 552 223

Including key management personnel compensation

	2014	2013
	EUR	EUR
Board Members		
Wages and salaries	83 242	72 841
Statutory social insurance contributions	13 362	17 547
Employee health insurance	167	-
Unemployment risk duty	4	4
TOTAL:	96 775	90 392

In 2014 and 2013, the Council Members did not receive remuneration for their functions in the Council.

	2014	2013
Average number of employees during the reporting year	238	212

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

	2014	2013
	EUR	EUR
Cost of sales	2 052 978	1 740 266
Distribution costs	446 333	369 612
Administrative expense	403 000	380 953
Administrative expense - research costs	92 757	61 392
TOTAL:	2 995 068	2 552 223

12. Corporate income tax

	2014	2013
	EUR	EUR
Current corporate income tax charge for the reporting year	92 164	56 192
Deferred corporate income tax	81 188	45 111
Tax charged to the income statement:	173 352	101 303

Deferred corporate income tax:

	2014	2013
	EUR	EUR
Deferred corporate income tax liability, 15%		
Temporary differences in the carrying amounts of non-current assets for accounting and taxation purposes	380 074	288 409
Deferred tax from the revaluation reserve (buildings)	226 830	238 579
Deferred tax from the revaluation reserve (land)	32 270	32 269
Gross deferred tax liability	639 174	559 257
Deferred corporate income tax asset, 15%		
Vacation pay reserve	(14 496)	(11 179)
Tax loss carried forward	(7 159)	-
Gross deferred tax asset	(21 655)	(11 179)
Net deferred tax	617 519	548 078

	2014	2013
	EUR	EUR
Change in deferred corporate income tax due to changes in temporary differences	81 188	45 111
Increase in deferred corporate income tax through the non-current asset revaluation reserve	(11 747)	(11 747)
Increase/ (decrease) in deferred corporate income tax	69 441	33 364

13. Earnings before interest, taxes, depreciation and amortisation

		2014	2013
EBITDA	EUR	1 793 763	1 799 876
EBITDA	%	17	17

14. Intangible assets

	Other intangible assets EUR
<hr/>	
ACQUISITION VALUE	
As at 31 December 2012	303 046
Additions	98 061
<hr/>	
As at 31 December 2013	401 107
Additions	1 643
Reclassification	100 724
<hr/>	
As at 31 December 2014	503 474
ACCUMULATED AMORTISATION	
As at 31 December 2012	209 053
Charge for the year	47 068
<hr/>	
As at 31 December 2013	256 121
Charge for the year	74 693
<hr/>	
As at 31 December 2014	330 814
NET CARRYING AMOUNT	
<hr/>	
As at 31 December 2013	144 986
<hr/>	
As at 31 December 2014	172 660
<hr/>	

15. Property, plant and equipment

	Land and buildings EUR	Equipment and machinery EUR	Other fixtures and fittings, tools and equipment EUR	Construction in progress EUR	Leasehold improvements EUR	Total EUR
ACQUISITION VALUE/ REVALUED AMOUNT						
As at 31 December 2012	4 370 857	7 434 151	735 918	9 422	25 653	12 576 001
Additions		839 898	196 745	116 512	2 829	1 155 984
Disposals		(370 305)	(5 202)	(16 488)	-	(391 995)
Reclassification		(7 804)	26 037	(95 816)	-	(77 583)
As at 31 December 2013	4 370 857	7 895 940	953 498	13 630	28 482	13 262 407
Additions		223 444	133 394	112 121	759	469 718
Disposals		(217 589)	(82 806)	-		(300 395)
Reclassification		-	269	(100 993)		(100 724)
As at 31 December 2014	4 370 857	7 901 795	1 004 355	24 758	29 241	13 331 006
ACCUMULATED DEPRECIATION						
As at 31 December 2012	953 118	4 815 085	667 118	-	20 603	6 455 924
Charge	149 482	578 831	53 628	-	1 988	783 929
Disposals		(370 305)	(3 370)	-		(373 675)
Reclassification		(8 336)	11 170			2 834
As at 31 December 2013	1 102 600	5 015 275	728 546	-	22 591	6 869 012
Charge	148 942	533 732	100 288	-	2 625	785 587
Disposals		(169 155)	(82 180)	-		(251 335)
As at 31 December 2014	1 251 542	5 379 852	746 654	-	25 216	7 403 264
NET CARRYING AMOUNT						
As at 31 December 2013	3 268 257	2 880 665	224 952	13 630	5 891	6 393 395
As at 31 December 2014	3 119 315	2 521 943	257 701	24 758	4 025	5 927 742

Cadastral value of the Group's real estate

	31/12/2014 EUR	31/12/2013 EUR
Buildings	313 734	313 734
Land	32 028	32 028
TOTAL:	345 762	345 762

Pledges and other restrictions on title

The Group has pledged its movable and immovable properties at Akmeņu iela 72, Ogre, as security for all the loans granted by AS Citadele Banka (see Note 24).

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

The total depreciation costs are included in the following income statement captions:

	2014	2013
	EUR	EUR
Cost of sales	597 752	609 417
Administrative expense	175 122	99 786
Research costs	21 844	62 743
SUBTOTAL:	794 718	771 946
Depreciation of revalued assets	78 315	78 315
Depreciation included in the cost of work in progress	(12 753)	(19 264)
TOTAL:	860 280	830 997

16. Investments in other companies

Company	Equity interest, %	31/12/2014	31/12/2013
		EUR	EUR
SIA LEITC (Latvia)	4	14 929	14 929
SIA LEO PĒTĪJUMU CENTRS (Latvia)	14	996	996
TOTAL:		15 925	15 925

SIA LEO PĒTĪJUMU CENTRS (registration No 51203037371) is a company established on 27 July 2010 by 20 shareholders. SIA Hanzas Elektronika and SIA Ventspils Elektronikas Fabrika own 700 (seven hundred) out of 5 000 (five thousand) shares in this company.

On 12 September 2012, the interest-free loan issued by the Parent Company to the Latvian Electrical Engineering and Electronics Industry Association was remitted in exchange for 79 shares in SIA LEITC (registration No 40008010789), which formed 3.95% of this entity's share capital.

17. Investments in shares

	31/12/2014	31/12/2013
	EUR	EUR
Shares in Hanza Holding AB (Sweden)	1 950 000	5 064 712
TOTAL:	1 950 000	5 064 712

On 23 November 2007, the Parent Company acquired the shares in Elektromekan i Ārjäng AB from the previous shareholder Westergyllen. On 18 December 2009, an agreement was signed on the sale of Elektromekan i Ārjäng AB to Hanza AB by means of a share swap. According to the agreement signed at the beginning of 2011, the Parent Company was to receive the shares issued by Hanza AB in proportion to the shareholding in Elektromekan i Ārjäng AB sold in 2010 or an equivalent payment in cash. On 26 October 2010, the Parent Company agreed with Hanza AB on the share swap, thereby acquiring 53 192 shares in Hanza Holding AB (Hanza Interessenter AB until 14 January 2011), which was the parent of Hanza AB.

In 2014, SIA Hanzas Elektronika was reorganised by carving out the shares in Hanza Holding AB and investing them in the share capital of the subsidiary SIA HM Holding. In 2014, SIA HM Holding sold part of the shares in Hanza Holding AB.

In 2015, 100% shares in the subsidiary SIA HM Holding have been sold for EUR 2 500 000, of which the amount of EUR 1 950 000 refers to the shares in Hanza Holding AB.

18. Prepaid expense

	31/12/2014	31/12/2013
	EUR	EUR
Designing of the annex to the building – non-current portion	632	1 581
Other prepaid expense – non-current portion	-	13
Total non-current portion:	632	1 594
Insurance - current portion	7 874	8 213
Guarantee premium	3 793	4 000
Rent of Riga office	-	2 022
Designing of the annex to the building – current portion	949	949
Ramp lease – current portion	-	118
Other prepaid expense – current portion	2 686	3 511
Total current portion:	15 302	18 813
TOTAL:	15 934	20 407

19. Other loans and receivables

On 1 August 2011, the Parent Company entered into an agreement with SIA LEO PĒTĪJUMU CENTRS on cooperation under the research project “Competence Centre for the Latvian Electrical and Optical Equipment Manufacturing Sector”, which will be implemented in 2016. In 2013, the Parent Company made a security deposit of EUR 1 992 for the purposes of project implementation.

20. Raw materials

	31/12/2014	31/12/2013
	EUR	EUR
Raw materials	1 363 017	1 274 209
Allowances for slow-moving items	(339 242)	(334 916)
TOTAL:	1 023 775	939 293

Movement of allowances for slow-moving items:

	31/12/2014	31/12/2013
	EUR	EUR
At the beginning of the year	(334 916)	(204 168)
Release of allowances	24 873	12 444
Allowances established in the reporting year (see Note 4)	(29 199)	(143 192)
At the end of the year	(339 242)	(334 916)

21. Trade receivables

	31/12/2014	31/12/2013
	EUR	EUR
Other trade receivables	284 230	531 299
Allowances for doubtful trade receivables (see Note 4)	-	(71 938)
TOTAL:	284 230	459 361

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

22. Receivables from related companies

	31/12/2014	31/12/2013
	EUR	EUR
SIA Macro Rīga	550 086	-
TOTAL:	550 086	-

23. Other receivables

	31/12/2014	31/12/2013
	EUR	EUR
Pre-financing by the ERDF*	723 816	-
Guarantee coverage	32 170	27 904
Interim payment by the ERDF for project 1.10	24 455	-
Interim payment by the ERDF for employee training	12 563	-
Security deposit - Latvija Statoil	2 988	2 988
Security deposit - SIA Ektornet	1 733	1 733
Other receivables	195	434
TOTAL:	797 920	33 059

*In 2014, the Parent Company SIA Hanzas Elektronika entered into agreements on the implementation of the project "Set-up of the Robotic Printed Circuit Board Assembly and Production Line", for which the Investment and Development Agency of Latvia transferred 89.24% of the aid as pre-financing, and the project "Launch of the Production of Precision Metal Parts of the Volumetric 3D Display System at SIA Hanzas Elektronika", for which the Investment and Development Agency of Latvia transferred 89.20% of the aid as pre-financing.

*In 2014, the subsidiary SIA Ventspils Elektronikas Fabrika entered into an agreement on the implementation of the project "Acquisition of Printed Circuit Component Surface Mount Modules", and the Investment and Development Agency of Latvia transferred 89.23% of the aid as pre-financing.

24. Cash and cash equivalents

	31/12/2014	31/12/2013
	EUR	EUR
Cash at bank	93 526	30 334
TOTAL:	93 526	30 334

Cash and cash equivalents by currency profile:

	31/12/2014		31/12/2013	
	Currency	EUR	Currency	EUR
LVL	-	-	2 373	3 377
USD	2 543	2 094	17 105	12 614
EUR	91 432	91 432	14 343	14 343
TOTAL:		93 526		30 334

25. Share capital

At the beginning of the year, the share capital of the Parent Company was EUR 1 280 585 and consisted of 9 000 shares. After the denomination, the share capital was EUR 1 280 272 and consisted of 9 016 shares. The share capital is fully paid. The par value of each share is EUR 142. The share premium as at 31 December 2014 and 2013 was EUR 761 415. In 2014, the shareholders of the Parent Company changed.

Until 25 August 2014, the shares of the Parent Company had been distributed as follows:

	Equity interest, %	Number of shares	Par value EUR
Baltic SME Fund C.V.	37.5	3 375	480 220
SIA Macro Rīga	25	2 250	320 146
Hornell Teknikinvest AB	25	2 250	320 146
Proditron Sweden AB	12.5	1 125	160 073
TOTAL:	100	9 000	1 280 585

Since 25 August 2014, the shares of the Parent Company have been distributed as follows:

	Equity interest, %	Number of shares	Par value EUR
SIA Macro Rīga	100	9 016	1 280 272
TOTAL:	100	9 016	1 280 272

The dividends paid in 2014 were EUR 1 647 000. No dividends were paid in 2013.

26. Other reserves

	31/12/2014 EUR	31/12/2013 EUR
Reorganisation reserve	2567 512	-
Share capital denomination reserve	313	-
TOTAL:	2567 825	-

27. Non-current asset revaluation reserve

Real estate was revalued in 2007 and 2012. As a result, the carrying amount was increased by EUR 1 989 062 (LVL 1 397 921) in 2007 and by EUR 237 251 (LVL 166 741) in 2012. The revaluation reserve made for the building is taken to income over the useful life of the asset.

	31/12/2014 EUR	31/12/2013 EUR
Revaluation reserve (building)	1 512 200	1 590 515
Revaluation reserve (land)	215 131	215 131
Transferred to deferred corporate income tax	(259 100)	(270 846)
TOTAL:	1 468 231	1 534 800

28. Issued debt securities

In 2007, the Parent Company issued bonds totalling EUR 2 000 000 (LVL 1 405 608), which were managed by AS Hansa Investeerimisfondid (incorporated in Estonia). New bonds were issued on 13 August 2010, and they were managed by AS Swedbank Estonia. The new issue resulted in the retirement of old bonds. The Parent Company has pledged the shares in Hanza Holding AB to secure these bonds. In September 2014, the Parent Company obtained a loan from AS Citadele Banka and extinguished the bonds.

29. Loans from credit institutions

	Initial loan amount	Interest rate	Maturity	31/12/2014 EUR	31/12/2013 EUR
Swedbank AS (loan)	EUR 3 585 159	3m EURIBOR+2.5%	31/12/2017		1 898 024
Swedbank AS (loan)	EUR 836 757	3m EURIBOR+2.5%	31/12/2017		442 989
Swedbank AS (loan)	EUR 900 000	3m EURIBOR+5.0%	17/08/2017		202 668
Citadele Banka AS (loan)	EUR 2 773 083	6m EURIBOR+3.5%	06/08/2019	2 119 188	
Citadele Banka AS (loan)	EUR 2 214 362	6m EURIBOR+3.5%	06/08/2020	1 734 433	
Citadele Banka AS (loan)	EUR 1 500 000	6m EURIBOR+5.0%	24/08/2019	1 159 300	
TOTAL non-current loans from credit institutions:				5 012 921	2 543 681

	Initial loan amount	Interest rate	Maturity	31/12/2014 EUR	31/12/2013 EUR
Swedbank AS (loan)	EUR 3 585 159	3m EURIBOR+2.5%	31/12/2017		632 675
Swedbank AS (loan)	EUR 836 757	3m EURIBOR+2.5%	31/12/2017		147 663
Swedbank AS (loan)	EUR 900 000	3m EURIBOR+5.0%	17/08/2017		76 001
Citadele Banka AS (loan)	EUR 2 773 083	6m EURIBOR+3.5%	06/08/2019	516 168	
Citadele Banka AS (loan)	EUR 2 214 362	6m EURIBOR+3.5%	06/08/2020	333 737	
Citadele Banka AS (loan)	EUR 1 500 000	6m EURIBOR+5.0%	24/08/2019	272 491	
TOTAL current loans from credit institutions:				1 122 396	856 339

TOTAL loans from credit institutions: 6 135 317 3 400 020

30. Deferred income

On 31 May 2005, the Parent Company completed a project for which a grant was awarded under the state aid programme. The Parent Company fulfilled all the conditions set out in the agreement signed between the Parent Company and the Investment and Development Agency of Latvia on 6 December 2004. During the project, the Parent Company set up a production facility and acquired production equipment for a total amount of LVL 2 914 305 (EUR 4 146 682). After the conditions of project implementation had been assessed, on 27 July 2005 the Parent Company received a grant of LVL 1 000 000 (EUR 1 422 872).

On 6 September 2011, the Parent Company entered into an agreement on the implementation of the project "Development of New Products and Technologies" with the Investment and Development Agency of Latvia. The Parent Company fulfilled all the conditions set out in the agreement and acquired production equipment for a total amount of LVL 1 100 400 (EUR 1 565 728). After the conditions of project implementation had been assessed, on 9 November 2012 the Parent Company received a grant of LVL 385 140 (EUR 548 005).

On 4 October 2006, the subsidiary entered into a grant agreement associated with the implementation of the state aid programme. The subsidiary fulfilled all the conditions set out in the agreement signed between the subsidiary and the Investment and Development Agency of Latvia. During the project, the subsidiary set up a production facility and acquired production equipment for a total amount of LVL 1 149 158 (EUR 1 635 105). After the conditions of project implementation had been assessed, on 29 August 2007 the subsidiary received a grant of LVL 600 000 (EUR 853 723).

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

30. Deferred income (cont'd)

	31/12/2014	31/12/2013
	EUR	EUR
Non-current	325 377	429 450
Current	104 073	175 216
TOTAL:	429 450	604 666

31. Other liabilities

	31/12/2014	31/12/2013
	EUR	EUR
Pre-financing by the ERDF	723 816	-
Salaries	148 849	140 228
Credit cards	2 224	2 053
Balances due to employees	1 034	28
Other liabilities	447	617
TOTAL:	876 370	142 926

32. Accrued liabilities

	31/12/2014	31/12/2013
	EUR	EUR
Vacation pay reserve	96 645	99 519
Accumulated interest on the loans from Citadele Banka AS	14 743	
Accumulated interest on dividends	0	25 132
Accumulated interest on securities	0	6 858
Accumulated interest on the loans from Swedbank AS	0	842
Other accrued liabilities	50 225	36 357
TOTAL:	161 613	168 708

33. Taxes payable

	31/12/2013	Calculated	Penalties	Paid	31/12/2014
	EUR	EUR	EUR	EUR	EUR
Statutory social insurance contributions	(69 446)	(786 540)	(3 782)	799 965	(59 803)
Personal income tax	(35 166)	(409 787)	(1 938)	409 469	(37 422)
Value added tax	(36 248)	(478 203)	(1 743)	464 699	(51 495)
Natural resource tax	(635)	(674)	-	1 083	(226)
Real estate tax	-	(5 186)	(56)	5 223	(19)
Unemployment risk duty	(92)	(1 058)	-	1 069	(81)
Corporate income tax	(56 192)	(92 164)	(844)	126 334	(22 866)
TOTAL:	(197 779)	(1773 612)	(8 363)	1 807 842	(171 912)
TOTAL PAYABLE:	(197 779)				(171 912)
TOTAL RECEIVABLE:	-				-

34. Off-balance sheet items

As at 31 December 2014, the Parent Company had raw materials received from customers. The total value of these materials was EUR 12 977 988 (31 December 2013: EUR 12 131 376). These raw materials are processed and sent back to customers.

35. Commitments and contingencies

Commitments under operating leases

The Parent Company and the subsidiary have entered into vehicle lease agreements. The future aggregate minimum lease payments are as follows:

	2014 EUR	2013 EUR
Payable:		
Less than one year	27 060	21 757
Between one and five years	35 878	35 094
More than five years		
TOTAL:	62 938	56 851

Lease commitments

The subsidiary has entered into an agreement on the lease of production facilities and land. The production facilities were commissioned on 1 December 2006. The total amount of lease expenses (including utilities) was EUR 231 468 (including VAT at 21%) in 2014 (2013: EUR 155 360 (including VAT at 21%)).

The minimum rent (without utilities) payable in 2015 to the foundation Ventspils Augsto tehnoloģiju parks according to the real estate lease agreement is EUR 142 775 (including VAT at 21%). The lease expires on 30 April 2021.

Surety

In August 2014, the subsidiary entered into surety agreements with AS Citadele banka for the benefit of the Parent Company SIA Hanzas Elektronika. The agreements expire in August 2019 and 2020.

36. Financial risk management

The Group's principal financial instruments comprise loans from credit institutions, finance leases, cash and short-term deposits. The main purpose of these financial instruments is to ensure financing for the Group's operations. The Group has various other financial instruments such as trade and other receivables and trade and other payables, which arise directly from its operations.

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 financial assets and liabilities, which are exposed to foreign currency risk, comprise cash and cash equivalents, trade receivables, trade payables, as well as current and non-current borrowings. The Group is mainly exposed to foreign currency risk of the U.S. dollar. In order to manage its foreign currency risk, the Group balances the currencies of current and non-current borrowings with the currencies of future cash flows from operations.

Interest rate risk

The Group is exposed to interest rate risk mainly through its current and non-current borrowings. The Group's policy is to ensure that the majority of its borrowings are at a floating rate. The average interest rate payable on the Group's borrowings is disclosed in Note 28.

36. Financial risk management (cont'd)

Liquidity risk

The Group manages its liquidity risk by arranging an adequate amount of committed credit facilities with banks.

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 an individual basis. In addition, receivable balances are monitored on an ongoing basis to ensure that the Group's exposure to bad debts is minimised. Moreover, the Group enters into factoring contracts to minimise this risk. The Group's counterparties in money transactions are local financial institutions.

37. Going concern

As at 31 December 2014, the Group's current liabilities exceeded its current assets by EUR 527 948 (including deferred income of EUR 104 073 representing ERDF financing, which does not affect the Group's cash flows). The Group's management has prepared the 2015 budget assuming that the local and global business environment will develop. The budget provides for the improvement of financial performance and operating profit. Future events in the business environment may differ from the management's forecasts.

38. Events after balance sheet date

In April 2015, 100% shares in the subsidiary SIA HM Holding were sold to the sole shareholder of the Parent Company (SIA Macro Rīga) for EUR 2 500 000.

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 or notes thereto.