JOINT STOCK COMPANY

HANSAMATRIX

UNIFIED REGISTRATION NUMBER 40003454390

CONSOLIDATED AND PARENT COMPANY'S ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016

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

Ogre, 2017

CONTENTS

General information

Name of the Parent Company	HansaMatrix
Legal status of the Parent company	Joint stock company
Unified registration number, place and date of registration	40003454390 Riga, 30 July 1999
Registration with the Commercial Register	Riga, 27 December 2002
Registered office	Akmeņu iela 72, Ogre, Latvia, LV-5001
Shareholders (over 5%) as at 31 December 2016 (end of the day)	SIA MACRO RĪGA (64.83%)
	Limited partnership FlyCap Investment F und I AIF (22.08%)
	Swedbank AS customer accounts (7.69%)
Subsidiaries	SIA HansaMatrix Ventspils (100%)
	SIA HansaMatrix Innovation (100%)
	SIA Campus Pārogre (100%)
Auditors	SIA Ernst & Young Baltic Muitas iela 1A, Riga Latvia, LV-1010 License No 17 Diāna Krišjāne Latvian Certified Auditor Certificate No 124
Financial year	1 January – 31 December 2016

Management Board

The Management Board of AS HansaMatrix (hereinafter – the Parent company) is a collegial executive body entrusted with management of the Parent company's business. Its members are elected by the Supervisory Board, which also elects one member of the Management Board to act as Chairman of the Management Board. In accordance with the Articles of Association of the Company, members of the Management Board are elected for an indefinite period of time.

In accordance with the Articles of Association of the Company, the Chairman of the Board has a right to represent the Parent company as sole representative when entering into relationships with third parties. Alternatively, the Parent company can be represented by two members of the Board acting jointly.

As of the date of the statement the Parent company's Management Board is composed of three persons consisting of Chairman of the Board and two Board Members.

Ilmārs Osmanis
Ilmārs Osmanis is the Chairman of the Management Board.
Date appointed: 30 December 2015

Positions held in other companies:
- SIA LEO Pētījumu centrs – Member of Council
- SIA LEITC – Member of Council
- Association Latvijas Elektrotehnikas un elektronikas rūpniecības asociācija – Board Member
- SIA Campus Pārogre – Chairman of the Board
- SIA Zinātnes parks – Board Member
- SIA HansaMatrix Ventspils – Board Member
- SIA MACRO RĪGA – Board Member
- SIA HansaMatrix Innovation – Board Member
- SIA Lightspace Technologies – Board Member

Owned shares:
- directly: 0
- indirectly (through SIA MACRO RĪGA): 1 185 938 shares

Participation in other companies:
- SIA MACRO RĪGA (100%)

Ilmārs Osmanis educational background is electrical engineering later complemented by additional executive MBA studies which were not completed due to business start-up. His entrepreneurial experience includes successful development of an electronic components distribution business in the Baltic countries, SIA MACRO RĪGA, a business that was subsequently successfully sold. During the last 15 years Ilmārs Osmanis, who created the Parent company, served as its CEO. The Parent company has evolved into one of the most modern high tech manufacturing groups in the Nordic and Baltic countries comprising 3 manufacturing plants currently employing around 240 employees. In 2014 he conducted a management buy-out, and in 2016 was successful in raising capital and getting the Company listed on the Nasdaq Baltic stock exchange Main List. .

Alvis Vagulis

Alvis Vagulis is a member of the Management Board of the Parent company, the Vice President of Operations and the Head of the Ogre Plant.
Date appointed: 30 December 2015

Positions held in other companies:
- SIA Campus Pārogre – Board Member
- SIA AMATEKS – Deputy Chairman of the Supervisory Board
- SIA EUROLCDS – Member of the Supervisory Board

Owned shared: 0

Alvis Vagulis holds a Mechanical Engineering degree from Riga Technical University and an MBA from the Brussels Business School (Master of Business Administration). His previous experience includes the position of a plant manager at Schneider Electric. Mr. Vagulis has been with the Parent company since 2008.

Aldis Cimoška

Aldis Cimoška is a member of the Management Board of the Parent company and the Head of the Ventspils Plant.
Date appointed: 30 December 2015

Positions held in other companies:
- SIA HansaMatrix Ventspils – Board Member
- Association Biznesa efektivitātes asociācija – Board Member

Owned shares: 0

Aldis Cimoška holds an Engineering degree in wood processing from the Latvian University of Agriculture. He possesses extensive experience in managing a wooden house fabrication company. Mr. Cimoška has been with the Parent company since 2013.

Supervisory Board

The Supervisory Board of the Parent company is a collegial body exercising supervision over key activities of the Parent company and, where appropriate, decision making by the Management Board. As of the date of this statement, the Supervisory Board of the Parent company consists of 5 members, selected by the General Meeting of Shareholders for the maximum term of office of 5 years. The members of the Supervisory Board shall elect from amongst themselves the Chairman of the Supervisory Board and one Deputy Chairman of the Supervisory Board.

As of the date of this statement, the Parent company's Supervisory Board is composed of the following members:
Chairman of the Supervisory Board, Deputy Chairman of the Supervisory Board and three Members of the Supervisory Board.

Jānis Skutelis

Jānis Skutelis is the Chairman of the Supervisory Board of the Parent company.
Date appointed: 13 June 2016
Term of office: 13 June 2021
Positions held in other companies:

- SIA PURIFIED – Deputy Chairman of the Council
- SIA LOR Klīnika – Member of Council
- SIA Cannelle Bakery – Member of Council
- SIA MolPort - Member of Council
- SIA B2Y - Member of Council
- SIA Mailigen - Chairman of Council
- SIA FlyCap AIFP – Chairman of the Board
- SIA Providencia – Member of the Board

Owned shares: 0
As FlyCap representative controls FlyCap 403 933 shares.

Participation in other companies:

- SIA Providencia (100%)
- SIA eegloo (5%)
- SIA FlyCap AIFP (33.33333%)
- SIA BranchTrack (1.8%)

Jānis Skutelis is the Chairman of the Management Board at FlyCap Investment Fund. Having been involved in business transactions and supervision of more than 25 companies, Jānis Skutelis possesses more than 8 years of venture capital and private equity industry experience. Jānis Skutelis holds an MSc degree from the Stockholm School of Economics (Sweden). His previous experience includes entrepreneurship, management and finance advisory functions, as well as corporate finance and CFO roles.

Krišs Osmanis

Krišs Osmanis is the Deputy Chairman of the Supervisory Board of the Parent company.
Date appointed: 13 June 2016
Term of office: 13 June 2021
Positions held in other companies:

- SIA Lightspace Technologies – Chairman of the Council

Owned shares: 0
Represents SIA MACRO RĪGA shareholding of 1 185 938 shares.

Krišs Osmanis is the representative of SIA MACRO RĪGA on the Supervisory Board. Since 2012 he has been the leading Electronics Design Engineer with the Parent company's R&D department. He holds a Dr.Sci.Ing. degree in Electronics from Riga Technical University. Krišs Osmanis' professional experience includes high speed FPGA architecture and design, high speed driving of DLP based optical projection systems. He is the author of several scientific publications and patents.

Andris Bērziņš

Andris Bērziņš is a member of the Supervisory Board of the Parent company.
Date appointed: 13 June 2016
Term of office: 13 June 2021

Positions held in other companies:
- RĪGAS EVAŅĢĒLISKĀ DRAUDZE – Chairman of the Board
- SIA KBZ Consulting – Receiver
- AS Cits medijs – Member of Council
- SIA BuzzTale – Member of Board
- Nodibinājums TechHub Riga – Member of Board
- SIA KBZ – Chairman of Board
- Nodibinājums TechChill – Member of Board
- Association Latvijas Start-up uzņēmumu asociācija – Member of Board
- SIA Sonarworks – Member of Council

Owned shares: 0
Participation in other companies:
- SIA KBZ (100%)
- SIA KBZ Consulting (100%)

Andris Bērziņš is an entrepreneur and executive with extensive experience in C-level roles at high-growth, global venture-backed start-ups. He holds a Stanford MBA with broad experience in investing, strategy, business development, sales, marketing and product management across Europe and the USA. He has a proven track record of having led global technology start-ups from pre-seed stage to rapid growth.

Ingrīda Blūma

Ingrīda Blūma is a member of the Supervisory Board of the Parent company.
Date appointed: 13 June 2016
Term of office: 13 June 2021
Positions held in other companies:
- Nodibinājums Iespējamā misija – Chairman of the Board
- AS Expobank – Council Member
- AS RĪGAS PIENA KOMBINĀTS – Council Member
- SIA i-bloom – Board Member
- Biedrība Sabiedrība par labām pārmaiņām – Board Member

Owned shares: 0

Participation in other companies:
- SIA i-bloom (50%)

Ingrīda Blūma holds a MSc. degree from Stockholm University. Her additional training includes INSEAD Advanced Management Program and Strategic Management and Leadership Training course at EBRD. Ingrīda Blūma's work experience is mainly related to the banking sector, where she has worked for almost 20 years. Her work as CEO of AS Swedbank (former AS Hansabank) has equipped her with a unique blend of business experience in the banking industry and corporate business environment. Under her leadership AS Hansabanka grew to become the largest bank of Latvia. Ingrīda Blūma has also served in the capacity of a member of the Supervisory Board of SIA Primekss, SIA Pure Food and JSCA URSA Bank.

Māris Rambaks

Māris Rambaks is a member of the Supervisory Board of the Company
Date appointed: 13 June 2016
Term of office: 13 June 2021
Owned shares: 0

Māris Rambaks holds a Bachelor's degree in Business Administration from the International University Concordia Audentes, Estonia, along with a Master's degree in Law and Finance from Riga Graduate School of Law. Moreover, Mr. Rambaks holds a CFA (Chartered Financial Analyst) designation. His previous experience is in the field of banking and investment services sector and financial markets. For more than 4 years, Māris Rambaks worked as the Head of Broker Department of AS "LHV Pank". From 2014 to April 2016 he was in charge of the Latvian branch of AS LHV Pank.

In addition to the aforementioned, Mr. Rambaks helped to establish one of the leading and widely-recognised investment service providers in Latvia. He also represented investors at various shareholder general meetings and took an active part in multiple investor conferences. Currently Māris Rambaks is working for AS Swedbank as Head of the Assets and Liabilities division in Latvia.

Changes in Board Membership.

There have been no changes in Board Membership.

Changes in Membership of the Supervisory Board.

On 13 June 2016 the Supervisory Board, consisting of Chairman of the Supervisory Board Jānis Skutelis, Deputy Chairman Krišs Osmanis, Board Member Andris Bērziņš, was relieved of its duties. On 13 June 2016 a new Supervisory Board was appointed: Chairman of the Supervisory Board Jānis Skutelis, Deputy Chairman Krišs Osmanis, Board Member Andris Bērziņš, Board Member Ingrīda Blūma and Board Member Māris Rambaks.

Audit Committee

The audit committee is responsible for supporting the Supervisory Board with internal and independent audits of the Parent company and related issues, including relationships with independent auditors, developing plans for internal audits, reviewing internal audit reports, supervising the independent audit procedure. The Shareholders' Meeting appoints the members of the Audit Committee.
The Parent company shareholders, with their decision of 16 May 2016, has entrusted the duties of the Audit Committee to the Supervisory Board of the Company. The Audit Committee functions in the Company are executed by:

Jānis Skutelis, Chairman of the Supervisory Board, acting Audit Committee Chairman,
Date appointed: 13 June 2016

Krišs Osmanis, Deputy Chairman of the Supervisory Board, Acting Member of the Audit Committee
Date appointed: 13 June 2016

Andris Bērziņš, Member of the Supervisory Board, Acting Member of the Audit Committee
Date appointed: 13 June 2016

Ingrīda Blūma, Member of the Supervisory Board, Acting Member of the Audit Committee
Date appointed: 13 June 2016

Māris Rambaks, Member of the Supervisory Board, Acting Member of the Audit Committee
Date appointed: 13 June 2016

Major shareholders

The major shareholders of the Company as of 31 December 2016 (end of the day).

Major shareholders (over 5%) **Shareholder**	**Owned shares**	**Ownership interest**
SIA MACRO RĪGA	1 185 938	64.83 %
Limited partnership FlyCap Investment Fund I AIF	403 933	22.08 %
AS Swedbank clients account	140 616	7.69 %

Group and Parent Company Management Report

Introduction

The joint stock company HansaMatrix (hereinafter – HansaMatrix or ''the Parent company") is a leading Baltic electronic system product developer and manufacturer, listed with Nasdaq Baltic, Main List. The Parent company is actively operating in industrial systems, data network infrastructure, Internet of Things, medical and several other B2B (business-to-business) market segments. Building on its 16-year experience and its business mission, which is to develop global technology products, the Parent company makes itself a valuable asset assisting customers in the achievement of success on global markets.

Listing the joint stock company HansaMatrix in the Nasdaq Baltic Main List

After successfully raising private capital, in the amount of EUR 1.85 million, at 12 July 2016 HansaMatrix was listed on the Nasdaq Baltic Main List.

Financial Results of the Group during the Reporting Period

The HansaMatrix Group completed the 2016 reporting period with net turnover of EUR 16.96 million, which is 27% greater than the EUR 13, 35 million reported during the previous period. During the reporting period, the Group reported EBITDA result of EUR 2,215 million, compared to EUR 2,521 million in 2015; the net profit was EUR 0,551 million, compared to EUR 1,082 million in 2015.

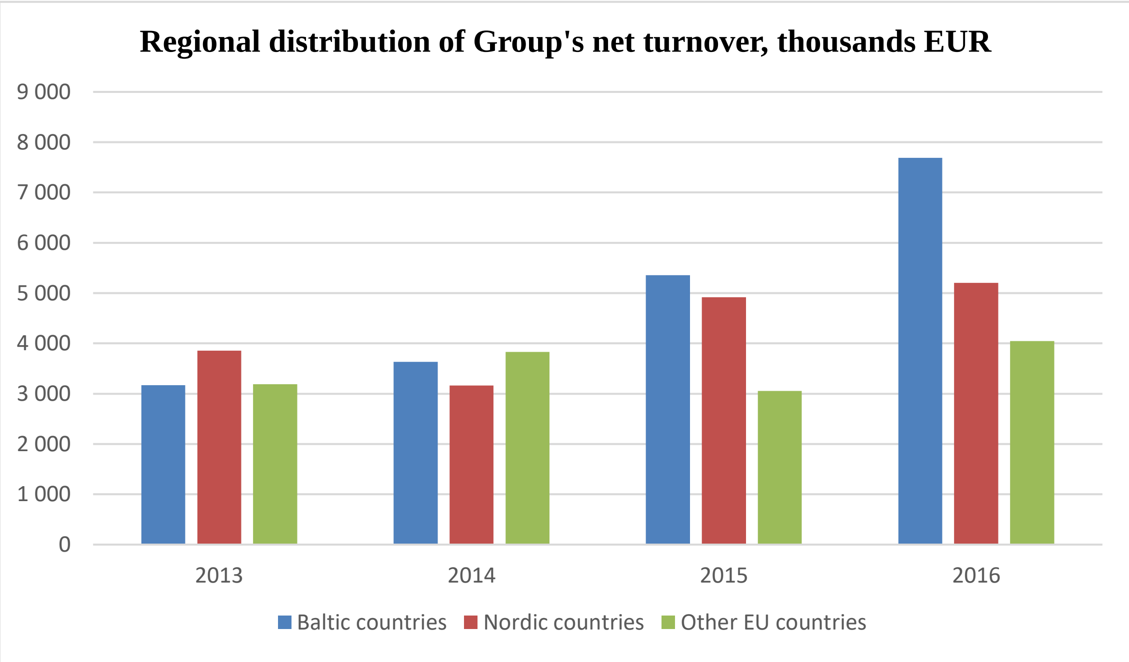
Finance Results of the Parent Company during the Reporting Period

The HansaMatrix Parent company completed the 2016 reporting period with net turnover of EUR 17.08 million, which is 27% greater than the EUR 13.47 million reported during the previous period. During the reporting period, the Parent company reported EBITDA result of EUR 1,700 million, compared to EUR 2,232 million in 2015; net profit was EUR 0,542 million compared to EUR 1.05 million in 2015.

Sales Analysis of the Group for the Reporting Period

The majority of HansaMatrix business clients are in the Baltic and Nordic countries. The greatest growth was achieved in the Baltic countries and other European Union countries.

Group's Net turnover, thousands EUR	2013	2014	2015	2016
Baltic countries	3 169	3 633	5 359	7 689
Nordic countries	3 854	3 164	4 920	5 206
Other EU countries	3 189	3 830	3 054	4 044

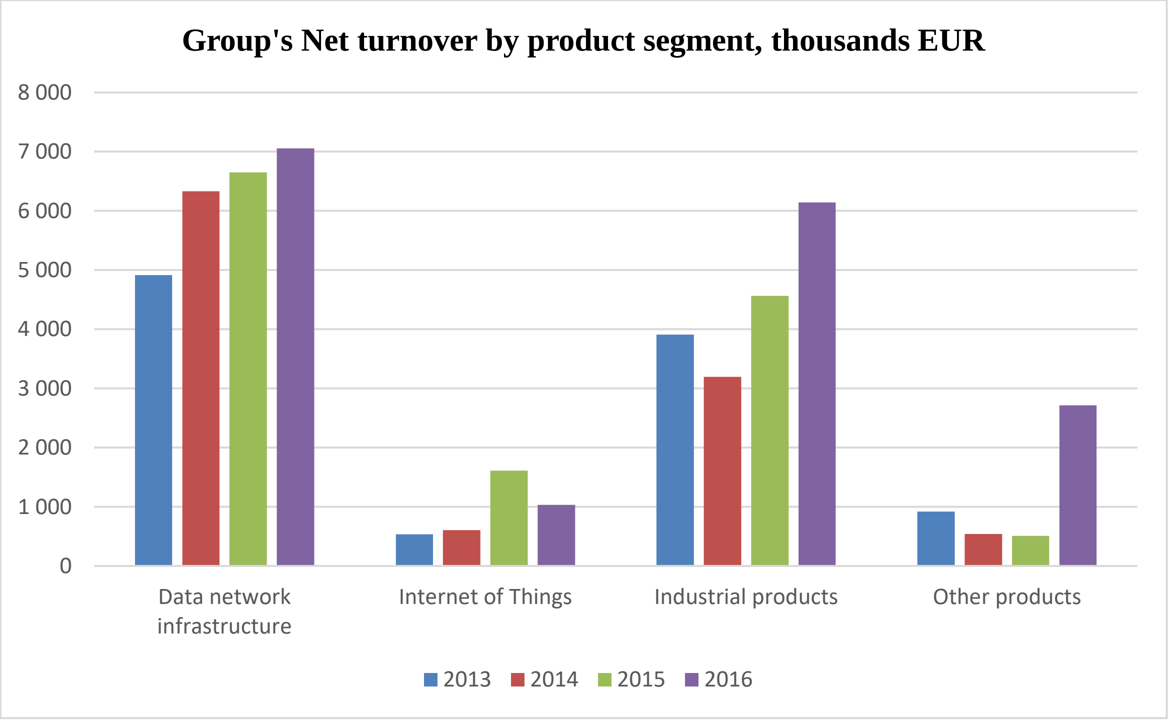


In 2016 Net turnover in the Baltic region grew by 43% in comparison to 2015. This is due to growth in demand from data network infrastructure clients in the Baltic region, as well as growth in other market segments. More moderate business development was observed in the Nordic region, where 6% growth is due to a growing market in the industrial segment. In other EU countries, 32% growth reflects growing demand in the market for data network infrastructure and industrial products.

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

The largest market share in 2016 was data network infrastructure, representing 42% of sales, up from 6% from the previous year. The next largest is industrial products, with a 36% share of sales, up 35% from the previous period. The third largest share by volume is all other segments – 16%, representing more than 4-fold growth from the previous period, and the Internet of Things with a 6% share, down 36% from 2015.

Group's Net turnover, thousands EUR	2013	2014	2015	2016
Data network infrastructure	4 914	6 329	6 651	7 055
Internet of Things	533	603	1 608	1 031
Industrial products	3 908	3 193	4 562	6 141
Other products	919	538	508	2 713



Investments

The most significant investment activity in 2016 for the Group and the Parent company is the infusion of new private capital, amounting to EUR 1.85 million, and subsequently, the listing of the Parent company on the Nasdaq Baltic Main List at 12 July 2016.

During the reporting period, the Group and the Parent Company have made three significant strategic investments:

- A convertible (to shares) investment loan of EUR 687 thousand was made to SIA Zinātnes Parks for the purchase of a lease on a 4,51 hectare plot of land in the Riga Airport territory, a partially constructed building, design and financing plans for the development of infrastructure for a high tech industrial park. The Company plans to build a new product accelerator and a ''Fast Track" production facility on this site. The Company owns 24% of the shares in SIA Zinātnes Park.

- A convertible (to shares) investment loan of EUR 200 thousand was made to SIA Lightspace Technologies, a product development start-up, whose core activity is the development and commercialization of a volumetric 3D imaging display system, with applications in medicine, science and real-time robot controls. Following the restructuring of SIA Lightspace Technologies at 30 December 2016, in 2017 the Company is now a shareholder in SIA Lightspace Technologies with 16.11% of shares.

- In accordance with a share purchase agreement at 3 October 2016, AS HansaMatrix acquired for EUR 137 thousand an additional 55 shares in SIA EUROLCDS. The first payment of EUR 97 thousand was made in the fourth quarter of 2016. SIA EUROLCDS is a LCD technology development start-up, whose core activity is the development and commercialization of fast shutter and smart glass applications. Following this additional investment, HansaMatrix now owns 16.11% shares in SIA EUROLCDS.

Research and Development

In 2016 the Parent Company with its subsidiary SIA HansaMatrix Innovation and SIA Lightspace Technologies continued implementing a research and development project, supervised by the Centrālā Finanšu un līgumu aģentūra, entitled "Real time 3D volumetric imaging technology development". This project is implemented in cooperation with SIA LEO Pētījumu centrs, and financed by European Regional Development Funds (ERDF). Total budget of the project is EUR 665 046, with reimbursable costs planned at EUR 449 958.

During the reporting period the Parent Company has also implemented a new technology development research project: "Dependence of soldering-related manufacturing defects on the quality of solder" Reimbursable costs of this project amounted to EUR 165 836. AS HansaMatrix engineering personnel were engaged in this projects, with their salaries included in the reimbursable costs. As a result of this research project, a new quality control system was developed and implemented for the soldering paste inspection process. The new technology has significantly reduced soldering defects and reduced costs, speeding up the production cycle and increasing the quality of production for current and future clients.

Engineering teams from the Pārogre and Ventspils manufacturing plants, as well as from the subsidiary HansaMatrix Innovation new product development group have been involved in new product and technology research for the Group.

Stock and Securities Market

AS HansaMatrix was listed on the Nasdaq Baltic Main List at 12 July 2016. Note the following trading information:

The securities trading history can be seen in the following table:

Price	2016
First	6.950
Max	8.150
Min	6.950
Most recent transaction	7.950
Number	19 574
Turnover (millions)	0.15 EUR
Capitalisation (millions)	14.54 EUR

Risk Assessment

The Group and the Parent company, operating in a highly competitive market, is subject to ***market risk***. The Parent company manages risk with its business development strategy, which foresees the development of a highly automated and technologically developed manufacturing process, operating in diversified market segments with a growth tendency, and the persistent pursuit of new clients. At 31 December 2016 the Parent company was working with 25 regular clients, of which at least 15 have at least 1% share of total turnover, and many have been working with AS HansaMatrix as their manufacturer for over 10 years.

The Group and the Parent company face a ***credit risk*** due to the debts of its buyers and clients. The Company has adopted various procedures to mitigate the risk of unrecoverable debts. Most clients use a particular financing instrument, factoring without recourse. In accordance with Note 37 of financial statements, at 31 December 2016 64% of all client debt was insured. Clients, whose transactions for any reason are not or cannot be insured, are given special terms aimed at risk mitigation, for example, shortened payment schedules, advance payments, credit limits and others. Also, client payment history is closely monitored, and if necessary, individual credit limits and terms of payments are set.

The Group and the Parent company are subject to ***liquidity and cash flow risks***. Liquidity is influenced by stocks and the volume of unfinished manufacturing, the amount of credit extended to clients, the volume of receipt of advance payments, suppliers' terms of payment and the volume of working capital available to the Parent company. To mitigate liquidity risk, the Parent company employs financial and operational management procedures. Inventory control is conducted regularly, orders and deliveries from suppliers are reviewed, as is the order and volume of planned manufacturing, in order to speed up the turnover of inventory. Working capital is monitored regularly; this in turn feeds into planning credit and financial instrument availability, volume and repayment schedules.

The Group and the Parent company are subject to ***exchange rate risks***. Financial assets and obligations subject to foreign exchange risk include cash and cash equivalents buyer and client debt, debt to suppliers. The greatest risk to the Group and the Parent company lies with the USD – EUR exchange rate. To mitigate exchange rate risks, the Parent company effectively employs operational exchange rate risk minimization procedures, for example, using pricing policy, regularly adjusting sales prices to reflect exchange rate variations in supply costs, and planning supplies and sales in the main currencies employed – EUR and USD.

The Group and the Parent company are also subject to ***interest risks*** from the interbank money market EURIBOR rate changes, mostly regarding the possible increase of the ECB base rate and resulting EURIBOR rate increase for long-term loans using floating rate debt instruments. The sensitivity of the pre-tax profit of the Group and the Parent company to possible changes in the EURIBOR rate is insignificant for example a 1% increase in the EURIBOR rate leads to a less than -5% change in pre-tax profit. At the time of a rate change, the equity is not affected.

Subsequent events

In early 2017 the Group restructured the operational model of the Ogre manufacturing plant. The team of employees of the plant were transferred from the Parent company to the subsidiary SIA Campus Pārogre. The Parent Company AS HansaMatrix will in the future purchase manufacturing services from the subsidiary SIA Campus Pārogre. This change will allow the Group to more precisely define management responsibilities, offer more flexibility in the development of the organization, and to further expand the manufacturing plant in Pārogre.

At 4 January 2017 shareholder SIA MACRO RĪGA sold 56 100 shares of AS HansaMatrix (HMX1R) at a price of EUR 6.85 per share. The seller is deemed an insider under EU legal acts and local securities law and was granted a consent under the Lock-up Agreement (dated 16 May 2016) it had entered into. As a result of the transaction the free float of AS HansaMatrix will increase by 3.07%.

At 10 January 2017 the SIA Lightspace Technologies investment loan was converted to shares. After the conversion of the Company's investment of 200 000 EUR to shares, the Company now holds 17.21% of SIA LightSpace Technologies shares.

At 25 January 2017 the subsidiary SIA HansaMatrix Innovation created a new manufacturing division, and started production of a new product – in optics, including development and limited series production of lenses.

At 16 February 2017 a lease agreement with building rights (for Akmeņu iela 74, Ogre) was signed between AS HansaMatrix and the Ogre local government. The Ogre local government development plan for 2014-2020 and investment plan for 2014-2017 foresees the construction of a manufacturing facility of 8000 – 10000 m2 on the leased site within the Pārogre industrial park.

At 23 February 2017 the President of Latvia Raimonds Vējonis participated in the opening ceremony of new surface mount assembly line at the SIA HansaMatrix Ventspils manufacturing plant. This is the fifth production line for the company. Total project costs were approximately EUR 1 million, of which EUR 380 000 is investment in new equipment, financed using 30% own investment and 70% with a leaseback arrangement from credit institutions.

At 14 March 2017 SIA Lightspace Technologies opened a technology demonstration office in Silicon Valley, San Jose, California, USA.

On 29 March 2017 SIA MACRO RĪGA sold in a public offering 24 971 shares of AS HansaMatrix (HMX1R) at a price of EUR 6.90 per share. The seller is deemed an insider under EU legal acts and local securities law and was granted a consent under the Lock-up Agreement (dated 16 May 2016) it had entered into. As a result of the transaction the free float of AS HansaMatrix will increase by 1.36%. Following this transaction, SIA MACRO RĪGA has repaid EUR 100 000 of its shareholder loan.

Future Development of the Company

In 2017 the Group and Parent company continues to follow its strategic development goals. Sales are expected to increase in 2018, exceeding 20 million, and raising the share of knowledge intensive product development and manufacturing.

Ilmārs Osmanis
Chairman of the Board

10 April 2017

Statement of Responsibility of the Management

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

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

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

For the Board of AS HansaMatrix:

Ilmārs Osmanis
Chairman of the Board

10 April 2017

Financial statements
Statement of comprehensive income

	Notes	Group 2016 EUR	Group 2015 EUR	Parent Company 2016 EUR	Parent Company 2015 EUR
Net turnover	3	16 961 077	13 352 837	17 077 584	13 465 695
Cost of sales	4	(14 690 351)	(10 690 179)	(15 226 228)	(11 103 304)
Gross profit		**2 270 726**	**2 662 658**	**1 851 356**	**2 362 391**
Distribution costs	5	(631 749)	(590 550)	(395 927)	(371 283)
Administrative expense	6	(1 318 232)	(976 864)	(1 009 174)	(722 695)
Other operating income	7	548 196	444 081	297 294	252 333
Other operating expense	8	(86 186)	(53 797)	(72 609)	(50 117)
Operating profit		**782 755**	**1 485 528**	**670 940**	**1 470 629**
Loss from investments in associates	15	(16 637)	-	-	-
Financial income		92 919	54 138	92 919	54 138
Financial expense	9	(286 057)	(293 984)	(284 587)	(293 678)
Profit before tax		**572 980**	**1 245 682**	**479 272**	**1 231 089**
Corporate income tax	10	(532)	(115 399)	-	(115 055)
Deferred corporate income tax	10	(21 251)	(47 886)	62 299	(61 737)
Net profit for the reporting period		**551 197**	**1 082 397**	**541 571**	**1 054 297**
Other comprehensive income for the reporting year after tax		-	-	-	-
Total comprehensive income for the reporting year after tax		**551 197**	**1 082 397**	**541 571**	**1 054 297**
Profit and comprehensive income attributable to:					
Equity holders of the Parent Company		551 197	1 082 397	541 571	1 054 297
Non-controlling interests		-	-	-	-
		551 197	**1 082 397**	**541 571**	**1 054 297**
Basic and diluted earnings per share, EUR	12	0.33	0.80		

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

Ilmārs Osmanis
Chairman of the Board

Vineta Grecka
Chief accountant

Statement of financial position

ASSETS

	Notes	Group		Parent Company	
		31.12.2016	**31.12.2015**	**31.12.2016**	**31.12.2015**
NON-CURRENT ASSETS		**EUR**	**EUR**	**EUR**	**EUR**
Intangible assets					
ODM assets		29 696	158 587	29 696	158 587
Other intangible assets		225 674	326 567	175 644	310 616
Total intangible assets	13	**255 370**	**485 154**	**205 340**	**469 203**
Property, plant and equipment					
Land and buildings		3 106 074	2 972 431	3 106 074	2 972 431
Equipment and machinery		3 908 704	4 137 533	2 497 784	2 779 182
Other fixtures and fittings, tools and equipment		506 238	527 040	243 883	271 100
Leasehold improvements		29 760	48 275	22 924	39 056
Construction in progress		549 453	7 543	332 619	7 543
Total property, plant and equipment	14	**8 100 229**	**7 692 822**	**6 203 284**	**6 069 312**
Non-current financial assets					
Investments in subsidiaries	15	-	-	449 662	449 662
Investments in associates	15	-	960	960	960
Investments in other companies	16	661 779	524 279	661 494	523 994
Other investment loans	17	871 023	-	886 700	-
Loans to shareholders	34	1 234 318	-	1 234 318	-
Other non-current receivables		15 800	-	15 800	-
Total non-current financial assets		**2 782 920**	**525 239**	**3 248 934**	**974 616**
TOTAL NON-CURRENT ASSETS		**11 138 519**	**8 703 215**	**9 657 558**	**7 513 131**
CURRENT ASSETS					
Inventories					
Raw materials and consumables		1 101 060	1 292 462	1 067 915	1 270 510
Work in progress		494 841	836 905	494 841	836 905
Total inventories	18	**1 595 901**	**2 129 367**	**1 562 756**	**2 107 415**
Receivables and prepayments					
Trade receivables and receivables from related companies	19	932 042	624 160	923 472	602 144
Prepayments for goods	20	120 071	95 525	417 558	440 047
Loans to shareholders	34	1 234 318	2 375 744	1 234 318	2 375 744
Prepaid expense		34 036	26 341	26 387	13 686
Corporate income tax	31	126 951	-	126 602	-
Other receivables	21	216 293	285 209	38 964	207 146
Total receivables and prepayments		**2 663 711**	**3 406 979**	**2 767 301**	**3 638 767**
Cash and cash equivalents	22	**381 891**	**255 402**	**380 598**	**251 445**
TOTAL CURRENT ASSETS		**4 641 503**	**5 791 748**	**4 710 655**	**5 997 627**
TOTAL ASSETS		**15 780 022**	**14 494 963**	**14 368 213**	**13 510 758**

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

Ilmārs Osmanis
Chairman of the Board
10 April 2017

Vineta Grecka
Chief accountant
10 April 2017

Statement of financial position

EQUITY AND LIABILITIES

	Notes	Group		Parent Company	
		31.12.2016	**31.12.2015**	**31.12.2016**	**31.12.2015**
EQUITY		**EUR**	**EUR**		**EUR**
Share capital	23	1 829 381	1 546 380	1 829 381	1 546 380
Share premium	23	2 435 579	1 094 987	2 435 579	1 094 987
Reserves	23	313	313	313	313
Non-current asset revaluation reserve	24	1 335 097	1 401 665	1 335 097	1 401 665
Retained earnings/ (accumulated loss):					
a) brought forward		(670 111)	(1 789 356)	(719 586)	(1 810 731)
b) for the period		551 197	1 082 397	541 571	1 054 297
TOTAL EQUITY		**5 481 456**	**3 336 386**	**5 422 355**	**3 286 911**
LIABILITIES					
Non-current liabilities					
Loans from credit institutions	25	3 624 391	4 727 849	3 624 391	4 727 849
Finance lease liabilities	26	142 299	47 723	113 256	39 780
Deferred income	27	742 282	911 861	464 041	583 029
Deferred income tax liabilities	10	686 656	665 405	548 314	610 613
Total non-current liabilities		**5 195 628**	**6 352 838**	**4 750 002**	**5 961 271**
Current liabilities					
Loans from credit institutions	25	1 636 007	1 177 130	1 636 007	1 177 130
Finance lease liabilities	26	56 915	18 100	42 196	13 414
Prepayments received from customers	28	440 531	817 775	440 531	817 775
Trade payables	29	2 035 078	1 797 062	1 525 306	1 549 279
Payables to related companies	34	-	-	103 676	-
Taxes payable	30	338 941	173 469	88 427	56 709
Corporate income tax	31	532	43 836	-	43 620
Other liabilities	32	226 829	431 202	125 235	367 571
Deferred income	27	169 578	169 577	118 987	118 987
Accrued liabilities	33	198 527	177 588	115 491	118 091
Total current liabilities		**5 102 938**	**4 805 739**	**4 195 856**	**4 262 576**
TOTAL LIABILITIES		**10 298 566**	**11 158 577**	**8 945 858**	**10 223 847**
TOTAL EQUITY AND LIABILITIES		**15 780 022**	**14 494 963**	**14 368 213**	**13 510 758**

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

Ilmārs Osmanis
Chairman of the Board
10 April 2017

Vineta Grecka
Chief accountant
10 April 2017

Statement of cash flows

	Notes	Group 2016 EUR	Group 2015 EUR	Parent Company 2016 EUR	Parent Company 2015 EUR
CASH FLOWS TO/ FROM OPERATING ACTIVITIES					
Profit before tax		572 980	1 245 682	479 272	1 231 089
Adjustments for:					
Depreciation and amortization	13,14	1 431 925	1 035 035	1 029 216	761 784
Depreciation included in the cost of work in progress		(5 594)	29 656	(5 594)	21 475
Interest expense	9	257 695	276 445	256 283	276 239
Interest income	34	(92 919)	(54 138)	(92 919)	(54 138)
Increase/ (decrease) in allowances for slow-moving items and receivables	18	(189 376)	155 521	(189 542)	155 446
Income from grant recognition	7	(169 578)	(156 624)	(118 988)	(95 757)
Gain on disposal of property, plant and equipment	7	(13 911)	(83)	(13 911)	(83)
Group's share of loss of an associate recognized in the statement of comprehensive income	15	16 637	-	-	-
Adjustments for:					
Decrease/ (increase) in inventories		722 842	(1 116 676)	734 201	(1 092 798)
Decrease/ (increase) in receivables		(287 007)	(267 671)	(157 155)	(486 501)
Increase in payables		(157 190)	1 305 327	(563 508)	1 305 327
Cash generated from operations, gross		**2 086 504**	**2 461 956**	**2 022 083**	**2 022 083**
Interest paid		(257 668)	(222 307)	(222 101)	(222 101)
Corporate income tax paid		(170 787)	(106 601)	(106 431)	(106 431)
Net cash flows to/ from operating activities		**1 658 049**	**2 133 048**	**981 623**	**1 693 551**
CASH FLOWS TO/ FROM INVESTING ACTIVITIES					
Purchase of intangible assets and property, plant and equipment	13,14	(1 606 196)	(3 320 240)	(1 109 813)	(2 048 234)
Proceeds from sale of property, plant and equipment		16 153	178 058	229 993	510
Investments in subsidiaries		-	-	-	(2 800)
Investments in and loans to other companies	15,16	(1 024 200)	(48 460)	(1 024 200)	(48 460)
Net cash flows to/ from investing activities		**(2 614 243)**	**(3 190 642)**	**(1 904 020)**	**(2 098 984)**
CASH FLOWS TO/ FROM FINANCING ACTIVITIES					
Dividends paid		(29 720)	-	(29 720)	-
Increase in share capital		1 623 593	599 680	1 623 593	599 680
Grants received from the Investment and Development Agency of Latvia		-	808 612	-	403 895
Loans received from credit institutions		546 462	980 000	546 462	980 000
Loans repaid to credit institutions		(1 191 043)	(1 156 589)	(1 191 043)	(1 156 589)
Loans from lease companies		335 717	-	265 479	-
Loans repaid to lease companies		(202 326)	(12 233)	(163 221)	(9 817)
Loans to related companies		-	-	-	(251 318)
Net cash flows to/ from financing activities		**1 082 683**	**1 219 470**	**1 051 550**	**565 851**
Change in cash and cash equivalents for the year		**126 489**	**161 876**	**129 153**	**160 418**
Cash and cash equivalents at the beginning of the year	22	**255 402**	**93 526**	**251 445**	**91 027**
Cash and cash equivalents at the end of the year	22	**381 891**	**255 402**	**380 598**	**251 445**

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

Ilmārs Osmanis
Chairman of the Board
10 April 2017

Vineta Grecka
Chief accountant
10 April 2017

Statement of changes in equity

Group

	Share capital EUR	Share premium EUR	Other reserves EUR	Non-current asset revaluation reserve EUR	Retained earnings/ (accumulated loss) EUR	Total EUR
Balance as at 31 December 2014	**1 280 272**	**761 415**	**313**	**1 468 231**	**(1 866 827)**	**1 643 404**
Profit for the reporting year	-	-	-	-	1 082 397	1 082 397
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	1 082 397	1 082 397
Share capital increase	266 108	333 572	-	-	-	599 680
Depreciation of revalued items of property, plant and equipment	-	-	-	(78 314)	78 314	-
Deferred corporate income tax related to revalued items of property, plant and equipment	-	-	-	11 748	(11 748)	-
Transfer to retained earnings	-	-	-	-	10 905	10 905
Balance as at 31 December 2015	**1 546 380**	**1 094 987**	**313**	**1 401 665**	**(706 959)**	**3 336 386**
Profit for the reporting year	-	-	-	-	551 197	551 197
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	551 197	551 197
Share capital increase	283 001	1 564 996	-	-	-	1 847 997
Share issue costs	-	(224 404)	-	-	-	(224 404)
Depreciation of revalued items of property, plant and equipment	-	-	-	(78 315)	78 315	-
Deferred corporate income tax related to revalued items of property, plant and equipment	-	-	-	11 747	(11 747)	-
Dividends paid	-	-	-	-	(29 720)	(29 720)
Balance as at 31 December 2016	**1 829 381**	**2 435 579**	**313**	**1 335 097**	**(118 914)**	**5 481 456**

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

Ilmārs Osmanis
Chairman of the Board
10 April 2017

Vineta Grecka
Chief accountant
10 April 2017

Statement of changes in equity (cont'd)

Parent Company

	Share capital EUR	Share premium EUR	Other reserves EUR	Non-current asset revaluation reserve EUR	Retained earnings/ (accumulated loss) EUR	Total EUR
Balance as at 31 December 2014	**1 280 272**	**761 415**	**313**	**1 468 231**	**(1 877 297)**	**1 632 934**
Profit for the reporting year	-	-	-	-	1 054 297	1 054 297
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	1 054 297	1 054 297
Share capital denomination	266 108	333 572	-	-	-	599 680
Depreciation of revalued items of property, plant and equipment	-	-	-	(78 314)	78 314	-
Deferred corporate income tax related to revalued items of property, plant and equipment	-	-	-	11 748	(11 748)	-
Balance as at 31 December 2015	**1 546 380**	**1 094 987**	**313**	**1 401 665**	**(756 434)**	**3 286 911**
Profit for the reporting year	-	-	-	-	541 571	541 571
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	541 571	541 571
Share capital increase	283 001	1 564 996	-	-	-	1 847 997
Share issue costs		(224 404)	-	-	-	(224 404)
Depreciation of revalued items of property, plant and equipment	-	-	-	(78 315)	78 315	-
Deferred corporate income tax related to revalued items of property, plant and equipment	-	-	-	11 747	(11 747)	-
Dividends paid	-	-	-	-	(29 720)	(29 720)
Balance as at 31 December 2016	**1 829 381**	**2 435 579**	**313**	**1 335 097**	**(178 015)**	**5 422 355**

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

Ilmārs Osmanis
Chairman of the Board
10 April 2017

Vineta Grecka
Chief accountant
10 April 2017

Notes to the financial statements

1. Corporate information

AS HansaMatrix (hereinafter – the Parent Company) was registered with the Republic of Latvia Enterprise Register on 30 July 1999 and re-registered with the Republic of Latvia Commercial Register on 27 December 2002 under unified registration number 40003454390. The registered office of the Parent Company is at Akmeņu iela 72, Ogre. The reorganization of the Parent Company was completed on 30 December 2015; as a result, the Parent Company's name and status have been changed from the limited liability company Hanzas Elektronika to the joint stock company HansaMatrix. The HansaMatrix Group (hereinafter – the Group) is a leading Baltic electronic system product developer and manufacturer. Information on the Group's structure and other related party relationships of the Group and the Parent company is provided in Note 15 and Note 34 on related parties disclosures.

The major shareholder of the Parent Company is SIA MACRO RĪGA which owns 64.83% of the Parent Company's shares (in 2015: 82.8%). The sole shareholder of SIA MACRO RĪGA and owner of 64.83% (in 2015: 82.8%) of the parent Company's shares is Ilmārs Osmanis.

Financial statements for the year ended 31 December 2016 were approved by a decision of the Parent company's Board on 10 April 2017.

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

2. Summary of significant accounting policies

2.1. Basis of preparation

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

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

The consolidated financial statements are presented in euros (EUR). The consolidated financial statements cover the period 1 January 2016 through 31 December 2016.

2.2. Basis of consolidation (the Group)

The consolidated financial statements comprise the financial statements of AS HansaMatrix and entities controlled by the Parent company (its subsidiaries) as at 31 December 2016. The financial statements of the subsidiaries are prepared for the same reporting period as for the Parent Company, using consistent accounting policies.

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

The financial statements of the Parent Company and its subsidiaries are consolidated in the Group's consolidated financial statements by adding together like items of assets and liabilities as well as income and expense. All intercompany transactions, balances and unrealized gains and losses on transactions between members of the Group are eliminated in full on consolidation.

2.3. Summary of significant accounting policies

Fair value

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

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:
- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

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

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

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

Fair value (cont'd)

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

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

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities

- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

Intangible assets

Intangible non-current assets are stated at cost and amortized over their estimated useful lives on a straight-line basis. The carrying values of intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Losses from impairment are recognized where the carrying value of intangible non-current assets exceeds their recoverable amount.

After initial recognition, development expenditure is recognized as intangible assets at cost less accumulated amortization and any accumulated impairment losses. Assets are amortized over their expected useful lives. At each reporting date, it is analysed whether there is any indication that the asset may be impaired. When computer software is an integral element of hardware that cannot operate without that specific software, computer software is treated as property, plant and equipment.

Other intangible assets are comprised of software and licences. Amortization is calculated on straight line basis. Other intangible assets have a useful life of 3 – 5 years.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of comprehensive income when the asset is derecognised.

ODM (Original Design Manufacturing) assets

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

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

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

When recognizing an ODM asset, the Group determines the amortization charge of each ODM asset per one unit of a product associated with the use of the ODM asset and the total number of units of the product by which the accrued value will be fully amortized. Expected amortization period of ODM assets is 3 years. The selling price per unit of the ODM asset included in the price of delivery of the product may be higher than its amortization expense. ODM assets may be applied to a larger quantity of units, as may be necessary for amortization purposes.

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

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

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

Research and development expenditure

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

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

Property, plant and equipment

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

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

Depreciation starts when the asset is ready for its intended use. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. To the extent that the Group depreciates separately some parts of property, plant and equipment, it also depreciates separately the remainder of the item. The remainder consists of the parts that are individually insignificant. The depreciation for the remainder is determined using approximation techniques to faithfully represent its useful life.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the higher of an asset's fair value less costs to sell and its value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the cost of sales caption.

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

The Group revalue real estate – land and buildings.

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

Construction in progress represents property, plant and equipment under construction and is stated at historical cost. This includes the cost of construction and other direct expenses. Construction in progress is not depreciated as long as the respective assets are not completed and available for use.

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

Revaluation of property, plant and equipment

Revaluations have been made with sufficient regularity (not less frequently than every 5 years) to ensure that the carrying amount of property, plant and equipment items subject to valuation does not differ materially from that which would be determined using fair value at the end of reporting period. Real estate (land and buildings) is revalued. The revaluation is performed by certified valuators.

Increase in the carrying amount arising on revaluation net of deferred tax is credited to the 'Other comprehensive income' as "Property, plant and equipment revaluation reserve" in shareholders' equity. Decreases that offset previous increases of the same asset are charged in 'Other comprehensive income' and debited against the revaluation reserve directly in equity; all other decreases are charged to the current year's Statement of Profit or Loss. Any gross carrying amounts and accumulated depreciation at the date of revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after the revaluation equals its revalued amount. Property, plant and equipment revaluation reserve is decreased over the useful life of the asset. Revaluation reserve cannot be distributed in dividends, used for indemnity, reinvested in other reserves, or used for other purposes.

Investments in subsidiaries and associates (Parent company)

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

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

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

Investment in associates (Group)

The Group's investments in its associates are accounted for using equity method. Under the equity method, the investment is initially recognised at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the associate since the acquisition date. Group's share in the associates is recognized in the Statement of comprehensive income.

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

At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, then recognises the loss as 'Loss from investment in an associate' in the statement of comprehensive income.

Financial assets

Financial assets within the scope of IAS 39 are recognized according to IAS 39. Investments in other entities where the Parent Company holds less than 20% of the share capital are classified as financial assets. After the initial recognition, the financial assets subsequently are measured at cost less any impairment loss, if the financial assets have no active market.

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

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

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

Financial assets (cont'd)

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

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

Loans and borrowings

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

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

Trade and other receivables

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

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

Factoring

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

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand and short-term deposits with an original maturity of three months or less. The statement cash flows has been prepared according to the indirect method by making adjustments to reconcile operating profit with cash flows from operating, investing, and financing activities.

Inventories

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

Costs incurred in bringing each product to its present location and condition are accounted for as follows:
- raw materials – purchase cost on a first-in, first-out basis;
- finished goods and work in progress – cost of direct materials and labor and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. Net realizable value is disclosed at the purchase (production) cost less allowances made.

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

Provisions

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

Contingencies

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

Leases

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

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

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

Grants

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

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

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

Revenue

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

Sale of goods

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

Rendering of services

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

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

Revenue (cont'd)

Interest

For all financial instruments measured at amortized cost and interest bearing financial assets classified as available for sale, interest income or expense is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in financial income in the statement of comprehensive income.

Segments

Reportable segments are operating segments or their aggregation which meet certain criteria. Operating segments are units of the Group, on which separate financial information is available, which is regularly assessed for the purpose of making decisions about resource allocation and performance assessment. The Group and the Parent Company have one business segment, which is manufacturing services.

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.

The principal temporary timing differences arise from differing rates of accounting and tax amortization 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.

Foreign currency translation

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

Related parties

The parties are considered related when one party has a possibility to control the other one or has significant influence over the other party in making financial and operating decisions. Related parties of the Parent company are associates and shareholders who could control or who have significant influence over the Parent company in accepting operating business decisions, key management personnel of the Parent company including members of Supervisory body – Audit committee and close family members of any above-mentioned persons, as well as entities over which those persons have a control or significant influence. Related parties of the Group does not include subsidiaries.

Earnings per share

Earnings per share are calculated by dividing the net profit after taxation for the year by the average number of ordinary shares in issue during the year. The average number of shares in issue during the year is weighted to take into account the timing of the issue of new shares.

Subsequent events

Post-year-end events that provide additional information about the Group's and Parent company's position at the balance sheet date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

2.4. Significant accounting judgments, estimates and assumptions

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses, and disclosure of contingencies. The significant areas of judgement used in the preparation of the financial statements relate to capitalization of development costs. Judgements and estimates include depreciation, allowances for doubtful receivables and inventories, and impairment evaluation. Although these estimates are based on the management's best knowledge of current events and actions, the actual results may ultimately differ from those estimates.

The following are the critical judgments and key estimates concerning the future, and other key sources of estimation uncertainty which exist at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities during the next reporting period:

Carrying amounts of property, plant and equipment
The Group's management reviews the carrying amounts of property, plant and equipment and assesses whether any indications exist that the assets' recoverable amounts are lower than their carrying amounts. The Group's management calculates and records an impairment loss on property, plant and equipment based on the estimates related to the expected future use, planned disposal or sale of the assets. Taking into consideration the Group's planned level of activities and the estimated market value of the assets, the Group's management considers that no significant adjustments to the carrying values of property, plant and equipment are necessary (Note 14).

Recoverability of deferred tax asset
The Group assesses the extent of taxable profits during the period of utilization of tax losses. At each reporting date, the Group's management analyses the recoverability of deferred tax and reduces the deferred tax asset if it is no longer probable that during the period of utilization of tax losses future taxable profits will be available against which unused tax losses can be utilize (Note 10).

Net realizable value of inventories
The Group's management evaluates the net realizable value of inventories based upon the expected sales prices and selling costs and assesses the physical condition of inventories during the annual stock count. If the net realizable value of inventories is lower than the cost of inventories, an allowance is recorded. The Group's management has evaluated the net realizable value of inventories and considers that it is not necessary to make an additional significant allowance as at 31 December 2016 (Note 18).

Allowances for doubtful and bad receivables
The Company's management evaluates the carrying amounts of receivables and assesses their recoverability, making an allowance for doubtful and bad receivables, if necessary. The Company's management has evaluated the receivables and considers that it is not necessary to make an additional significant allowance as at 31 December 2016 (Note 19).

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

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

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

2.5. Changes in accounting policies and disclosures

The accounting policies are consistent with those followed in the preparation of the Group's and the Parent company's annual financial statement for the previous periods, except the following new and amended IFRSs and IFRICs which have been adopted by the Group and the Parent company as of 1 January 2016:

Amendments to IAS 1 *Presentation of financial statements: Disclosure Initiative*
The amendments aim at clarifying IAS 1 to address perceived impediments to preparers exercising their judgment in presenting their financial reports. The amendments are effective for annual periods beginning on or after 1 January 2016. Management has not made use of this amendment.

Amendments to IAS 16 *Property, Plant & Equipment and IAS 38 Intangible assets: Clarification of Acceptable Methods of Depreciation and Amortization*
The amendment is effective for annual periods beginning on or after 1 January 2016 and provides additional guidance on how the depreciation or amortization of property, plant and equipment and intangible assets should be calculated. It is clarified that a revenue-based method is not considered to be an appropriate manifestation of consumption. Management has not made use of this assessment.

Amendments to IAS 16 Property, Plant & Equipment and IAS 41 *Agriculture: Bearer Plants*
The amendment is effective for annual periods beginning on or after 1 January 2016. Bearer plants are now within the scope of IAS 16 Property, Plant and Equipment and are subject to all of the requirements therein. The implementation of these amendments had no effect on the financial statements of the Group and the Parent company.

Amendments to IAS 19 *Employee Benefits*
The amendment is effective for annual periods beginning on or after 1 February 2015. The amendment addresses accounting for the employee contributions to a defined benefit plan. The objective of the amendment is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. The Group does not have any plans that fall within the scope of this amendment.

Amendments to IAS 27 *Equity method in separate financial statements*
The amendment is effective for annual periods beginning on or after 1 January 2016. The amendments reinstate the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements. Management has not made use of this amendment.

Amendment to IFRS 11 *Joint arrangements: Accounting for Acquisitions of Interests in Joint Operations*
The amendment is effective for annual periods beginning on or after 1 January 2016. IFRS 11 addresses the accounting for interests in joint ventures and joint operations. The amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business in accordance with IFRS and specifies the appropriate accounting treatment for such acquisitions. The Group had no transactions in scope of this amendment.

Amendments to IFRS 10, IFRS 12 and IAS 28 - *Investment Entities: Applying the consolidation exception*
The amendments address three issues arising in practice in the application of the investment entities consolidation exception. The amendments are effective for annual periods beginning on or after 1 January 2016. The amendments clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. Also, the amendments clarify that only a subsidiary that is not an investment entity itself and provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. Finally, the amendments to IAS 28 Investments in Associates and Joint Ventures allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. The Group had no transactions in scope of this amendment.

The IASB has issued the **Annual Improvements to IFRSs 2010 – 2012 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 February 2015. None of these had an effect on the Group's and Parent company's financial statements
IFRS 2 *Share-based Payment*;
IFRS 3 *Business Combinations*;
IFRS 8 *Operating Segments;*
IFRS 13 *Fair value Measurement;*
IAS 16 *Property, Plant and Equipment*;

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

IAS 24 *Related Party Disclosures;*
IAS 38 *Intangible Assets.*

The IASB has issued the **Annual Improvements to IFRSs 2012 – 2014 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2016. None of these had an effect on the Group's and Parent company's financial statements:
IFRS 5 *Non-current Assets Held for Sale and Discontinued Operation*;
IFRS 7 *Financial Instruments: Disclosures*;
IAS 19 *Employee Benefits*;
IAS 34 *Interim Financial Reporting*.

Standards issued but not yet effective

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

IFRS 9 *Financial Instruments* (effective for financial years beginning on or after 1 January 2018)
IFRS 9 replaces IAS 39 and introduces new requirements for classification and measurement, impairment and hedge accounting.

Impact
Based on preliminary assessment made by the Management, implementation of the standard is expect to have limited or no impact because the Group and Parent company has only the type of financial instruments for which classification and measurement is not expected to change, mainly trade receivables and payables, issued loans and bank loans taken. Considering that historically there have been very rare cases of impairments of receivables transferring from incurred credit loss model to expected credit loss model is considered to have limited or no impact to the Group's and Parent company's financial statements. Implementation of the standard can have an effect on convertible loans, more detailed assessment will be made in 2017.

IFRS 15 *Revenue from Contracts with Customers (*effective for financial years beginning on or after 1 January 2018)
IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer, regardless of the type of revenue transaction or the industry. Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates.

Impact
The Group and Parent company plans to adopt the standard for the financial year beginning as of 1 January 2018 retrospectively, i.e. the comparable period will be presented in accordance with IFRS 15.

Currently, it is expected that changes in the total amount of revenue to be recognized for a customer contract, as well as timing of revenue recognition, will be minimal. Based on the preliminary analyses performed, the Group and Parent company does not expect significant impacts on its Consolidated and Parent's Separate Financial Statements as the Group and Parent company does not have long-term contracts with multi-element arrangements, no take-or-pay agreements, no sales incentives are provided, no contract costs are generally incurred or upfront payments made (excluding ODM assets), contract modifications are rare etc. Detailed analysis on implementation of the standard will be made in 2017.

IFRS 15: *Revenue from Contracts with Customers (Clarifications)* (effective for annual periods beginning on or after 1 January 2018, once endorsed by the EU).
The objective of the Clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 *Revenue from Contracts with Customers*, particularly the accounting of identifying performance obligations amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The Clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach. Detailed analysis on implementation of IFRS 15 and its clarifications will be made in 2017.

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

IFRS 16 ***Leases*** *(*effective for financial years beginning on or after 1 January 2019, once endorsed by the EU)
IFRS 16 replaces IAS 17 and specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessor accounting is substantially unchanged.

Impact
Based on preliminary assessment made by the Management, implementation of the standard is expect to have an effect on the Group's and Parent's financial statements because the Group and Parent has a number of lease agreements signed (note 36). These lease agreements have currently been classified as operating leases. Upon implementation of IFRS 16, among other considerations, the Group and Parent company will make an assessment on the identified lease assets, non-cancellable lease terms (including the extension and termination options) and lease payments (including fixed and variable payments, termination option penalties etc). It is expected that right of use assets and lease liabilities will be recognized in the consolidated statement of financial position, significantly increasing the total assets. Detailed analysis on implementation of IFRS 16 will be made in 2017 and 2018.

Amendments to IAS 7 ***Statement of Cash Flows: Disclosure Initiative*** *(*effective for financial years beginning on or after 1 January 2017, once endorsed by the EU)
The amendments improve information provided to users of financial statements about an entity's financing activities. Entities are required to disclose changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes, for example, by providing reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities. The implementation of these amendments will not have any impact on the financial position or performance of the Group but may result in changes in disclosures.

Amendments to IAS 12 ***Income Taxes: Recognition of Deferred Tax Assets for Unrealized Losses*** *(*effective for financial years beginning on or after 1 January 2017, once endorsed by the EU)
The amendments clarify how to account for deferred tax assets for unrealized losses on debt instruments measured at fair value. The Group has not yet evaluated the impact of the implementation of this standard.

IFRS 2: ***Classification and Measurement of Share based Payment Transactions (Amendments)*** *(*effective for financial years beginning on or after 1 January 2018, once endorsed by the EU)
The Amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. These amendments will not have an impact on the Group or the Parent company.

Amendments to IFRS 10 and IAS 28 – ***Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*** *(*In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting.)
The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business and partial gain or loss is recognized when a transaction involves assets that do not constitute a business. The Group has not yet evaluated the impact of the implementation of this standard.

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

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

Amendments to IAS 40: Transfers to Investment Property (effective for financial years beginning on or after 1 January 2018, once endorsed by the EU)
The Amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The Amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The management has not yet evaluated the impact of the implementation of this standard.

IFRIC Interpretation 22: Foreign Currency Transactions and Advance Consideration (effective for financial years beginning on or after 1 January 2018, once endorsed by the EU)
The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The management has not yet evaluated the impact of the implementation of this standard.

The **IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2017 for IFRS 12 Disclosure of Interests in Other Entities and on or after 1 January 2018 for IFRS 1 First-time Adoption of International Financial Reporting Standards and for IAS 28 Investments in Associates and Joint Ventures. Earlier application is permitted for IAS 28 Investments in Associates and Joint Ventures. These annual improvements have not yet been endorsed by the EU. The management has not yet evaluated the impact of the implementation of these amendments.

- ***IFRS 1 First-time Adoption of International Financial Reporting Standards:*** This improvement deletes the short-term exemptions regarding disclosures about financial instruments, employee benefits and investment entities, applicable for first time adopters.
- ***IAS 28 Investments in Associates and Joint Ventures:*** The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.
- ***IFRS 12 Disclosure of Interests in Other Entities:*** The amendments clarify that the disclosure requirements in IFRS 12, other than those of summarized financial information for subsidiaries, joint ventures and associates, apply to an entity's interest in a subsidiary, a joint venture or an associate that is classified as held for sale, as held for distribution, or as discontinued operations in accordance with IFRS 5.

The Group and the parent Company plan to adopt the above mentioned standards and interpretations on their effectiveness date provided they are endorsed by the EU.

3. Net turnover

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

	Group		Parent Company	
	2016	**2015**	**2016**	**2015**
	EUR	**EUR**	**EUR**	**EUR**
Baltic states	7 689 421	5 359 001	7 689 421	5 359 001
Nordic countries	5 206 160	4 920 213	5 206 160	4 920 213
Other EU Member States	4 043 807	3 054 261	4 043 807	3 054 261
Other	21 689	19 362	138 196	132 220
TOTAL:	**16 961 077**	**13 352 837**	**17 077 584**	**13 465 695**

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

	Group		Parent Company	
	2016	**2015**	**2016**	**2015**
	EUR	**EUR**	**EUR**	**EUR**
Internet of Thing	7 054 521	6 651 274	7 054 521	6 651 274
Internet of Thing	1 031 146	1 608 394	1 031 146	1 608 394
Industrial products	6 140 715	4 561 569	6 140 715	4 561 569
Other products	2 713 006	508 458	2 713 006	508 458
Other	21 689	23 142	138 196	136 000
TOTAL:	**16 961 077**	**13 352 837**	**17 077 584**	**13 465 695**

The turnover of the engineering research group of SIA HansaMatrix Inovation amounts to 365 631 EUR in year 2016.

4. Cost of sales

	Group		Parent Company	
	2016	**2015**	**2016**	**2015**
	EUR	**EUR**	**EUR**	**EUR**
Costs of raw materials	8 812 181	5 891 674	9 046 664	6 017 462
Staff costs	1 778 650	2 114 626	946 818	1 483 867
Depreciation and amortisation (Notes 13 and 14)	1 090 555	830 362	798 596	605 673
Costs related to the production process*	1 501 490	591 160	3 804 455	2 309 772
Production facilities, land lease and utilities	677 299	561 585	188 480	157 189
Research costs**	597 682	222 683	248 185	84 231
including staff costs	*544 073*	*171 777*	*230 881*	*61 592*
including amortization and depreciation (Notes 13 and 14)	*25 154*	*8 181*	*7 417*	*8 181*
Allowances for slow-moving items (Note 18)	(189 376)	186 171	(189 542)	155 446
Transport and customs expense	174 961	104 645	161 389	104 645
Lease of equipment and premises	121 448	67 322	120 816	67 322
Low-value items	84 990	63 005	60 945	63 005
Repair and maintenance expense	32 183	48 201	32 183	48 201
Real estate tax	5 994	5 576	5 604	5 186
Other production costs	2 294	3 169	1 635	1 305
TOTAL:	**14 690 351**	**10 690 179**	**15 226 228**	**11 103 304**

4. Cost of sales (cont'd)

* Due to the increased volume of orders, in 2016 production services provided by SIA Quality Jobs were used.

** During the reporting period, a quality-focused research project under the title "Dependence of soldering-related manufacturing defects on the quality of solder" was carried out during the period 1 January 2016 through 30 November 2016; the eligible costs amounted to EUR 165 836. Several AS HansaMatrix engineers with appropriate education and competence were engaged in the project. The eligible costs of the project included remuneration paid to the respective employees and statutory social insurance contributions paid by the employer.

The aim of the research project was to analyze the impact of the application quality of solder paste on the quality of soldering of components, the assessment of the technological solutions of solder paste inspection and their applicability in the production for improving the quality of soldering by introducing a new quality assurance process and adapting the parameters of the existing technological process on the basis of the results obtained from inspecting the solder paste.

The research resulted in an introduction of a new solder paste inspection process within the quality assurance process and led to investments in the solder paste inspection equipment. The research outcome is the conclusion that such a type of solder paste inspection system should also be introduced in other production lines of the Company to minimize the costs related to the elimination of soldering defects, accelerate the production cycle and improve the product quality for the existing and potential customers.

5. Distribution costs

	Group		Parent Company	
	2016 EUR	2015 EUR	2016 EUR	2015 EUR
Staff costs	536 277	521 926	324 151	324 115
Marketing expense	17 912	23 252	17 382	14 160
Business trips	22 860	19 799	20 534	16 783
Transport expense	46 033	19 349	27 745	10 904
Communications expense	8 667	6 224	6 115	5 321
TOTAL:	**631 749**	**590 550**	**395 927**	**371 283**

6. Administrative expense

	Group		Parent Company	
	2016 EUR	2015 EUR	2016 EUR	2015 EUR
Staff costs	564 392	456 096	424 278	330 120
Amortization and depreciation (see Notes 13 and 14)	316 216	204 673	223 203	147 930
Provision of administrative functions *	81 990	-	81 990	-
Bank charges	73 410	56 146	71 961	54 185
Transport expense	33 889	51 291	22 559	34 210
Professional fees**	37 810	50 414	34 339	47 107
Office expense	25 212	25 234	15 538	17 406
Insurance	18 766	21 002	17 889	19 998
Non-operating expense	25 980	16 016	18 860	16 016
Staff recruitment and training	47 250	14 217	32 110	2 296
IT expense	16 459	10 424	12 899	9 804
Communications expense	9 408	8 399	4 734	3 087
Representation expense	8 298	6 766	5 437	4 558
Business trips	13 077	5 459	13 077	5 808
Other administrative expense	46 075	50 727	30 300	30 170
TOTAL:	**1 318 232**	**976 864**	**1 009 174**	**722 695**

* Due to the increased volume of orders, in 2016 production services provided by SIA Quality Jobs were used.

** Includes the total fee paid to the firm of certified auditors SIA Ernst & Young Baltic for the annual audit amounting to EUR 12 409 (2015: EUR 16 937).

7. Other operating income

	Group		Parent Company	
	2016	2015	2016	2015
	EUR	EUR	EUR	EUR
Income from research grant recognition	319 832	278 332	119 421	151 296
Income from EU grant recognition (accrued)*	169 578	156 624	118 987	95 757
Income from EU grant recognition (one-off)**	29 005	8 986	29 005	4 792
Gain on disposal of property, plant and equipment, net	13 911	83	13 911	83
Income from organization of training	6 800	-	6 800	-
Other income	9 070	56	9 170	405
TOTAL:	**548 196**	**444 081**	**297 294**	**252 333**

* Accrued income from EU grant recognition represents financing received for the acquisition of property, plant and equipment, which is taken to income over the useful life of the relevant asset.

** One-off income from EU grant recognition represents financing received for the implementation of specific projects during the reporting period.

8. Other operating expense

	Group		Parent Company	
	2016	2015	2016	2015
	EUR	EUR	EUR	EUR
Loss on disposal of property, plant and equipment, net	32 173	21 581	30 909	23 814
Penalties	28 473	19 246	16 160	13 483
Donations	25 540	12 970	25 540	12820
TOTAL:	**86 186**	**53 797**	**72 609**	**50 117**

9. Financial expense

	Group		Parent Company	
	2016	2015	2016	2015
	EUR	EUR	EUR	EUR
Interest expense	257 695	276 445	256 283	276 239
Directly attributable transaction costs	28 362	17 539	28 304	17 439
TOTAL:	**286 057**	**293 984**	**284 587**	**293 678**

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

10. Corporate income tax

	Group		Parent Company	
	2016	2015	2016	2015
	EUR	EUR	EUR	EUR
Current corporate income tax charge for the reporting year	532	115 399	-	115 055
Deferred corporate income tax due to changes in temporary differences	21 251	47 886	(62 299)	61 737
Total corporate income tax:	**21 783**	**163 285**	**(62 299)**	**176 792**

10. Corporate income tax (cont'd)

Current corporate income tax:

	Group		Parent Company	
	2016	**2015**	**2016**	**2015**
	EUR	**EUR**	**EUR**	**EUR**
Profit before tax	572 980	1 245 692	479 272	1 231 089
Theoretical tax at the applicable tax rate of 15%	85 947	186 852	71 891	184 663
Permanent differences, including:				
Non-operating expense	10 494	6 136	8 331	6 002
Other expense	34 670	80 386	16 217	22 866
Tax incentives on research and development expenses	(49 751)	-	(49 751)	-
Fixed assets tax depreciation coefficient effect	(89 887)	(173 340)	(34 839)	(99 990)
Tax rebate on donations	-	(10 897)	-	(10 897)
Within the period (used) previously unrecognized deferred tax assets	-	-	(74 148)	-
Valuation allowance for unrecognized deferred tax assets	30 310	74 148	-	74 148
Actual corporate income tax for the reporting year	**21 783**	**163 285**	**(62 299)**	**176 792**

Deferred corporate income tax:

Group

	Statement of financial position		Statement of profit and loss	
	31.12.2016	**31.12.2015**	**2016**	**2015**
Deferred corporate income tax liabilities				
Accelerated depreciation for tax purposes	744 275	746 166	(1 891)	106 936
Gross deferred corporate income tax liabilities	**744 275**	**746 166**	**(1 891)**	**106 936**
Deferred corporate income tax assets				
Tax loss carried forward	(232 691)	(182 880)	(49 811)	(59 298)
Vacation pay reserve	-	(14 236)	14 236	259
Allowances for slow-moving items	(45 809)	(74 216)	28 407	(74 159)
Valuation allowance for deferred tax assets	220 881	190 571	30 310	74 148
Gross deferred corporate income tax assets	**(57 619)**	**(80 761)**	**23 142**	**(59 050)**
Net deferred corporate income tax liabilities	**686 656**	**665 405**	**21 251**	**47 886**

10. Corporate income tax (cont'd)

Deferred corporate income tax (cont'd):

Parent company

	Statement of financial position		Statement of profit and loss	
	31.12.2016	**31.12.2015**	**2016**	**2015**
Deferred corporate income tax liabilities				
Accelerated depreciation for tax purposes	605 841	621 793	(15 952)	60 990
Other	-	-	-	-
Gross deferred corporate income tax liabilities	**605 841**	**621 793**	**(15 952)**	**60 990**
Deferred corporate income tax assets				
Tax loss carried forward	(11 810)	-	(11 810)	-
Vacation pay reserve	-	(11 180)	11 180	747
Allowances for slow-moving items	(45 717)	(74 148)	28 431	(74 148)
Valuation allowance for deferred tax assets	-	74 148	(74 148)	74 148
Gross deferred corporate income tax assets	**(57 527)**	**(11 180)**	**(46 347)**	**747**
Net deferred corporate income tax liabilities/(assets)	**548 314**	**610 613**	**(62 299)**	**61 737**

Tax loss carried forward may be utilized as follows:

	Tax loss Group	Tax loss Parent company	Expiry term
Tax loss for 2008	447 155	-	indefinite
Tax loss for 2009	281 270	-	indefinite
Tax loss for 2014	47 727	-	indefinite
Tax loss for 2015	443 049	-	indefinite
Tax loss for 2016	332 074	78 736	indefinite
TOTAL :	1 551 275	78 736	

Tax loss carried forward is mainly comprised of SIA HansaMatrix Ventspils. Due to precautionary purposes in Group level deferred tax asset arising from this tax loss is not recognized.

11. Staff costs and number of employees

	Group		Parent Company	
	2016	**2015**	**2016**	**2015**
	EUR	**EUR**	**EUR**	**EUR**
Wages and salaries *	2 748 088	2 622 847	1 550 598	1 769 922
Statutory social insurance contributions	639 834	602 727	358 130	403 287
Employee health insurance	34 752	37 638	16 990	25 655
Other staff costs	798	1 213	410	830
TOTAL:	**3 423 472**	**3 264 425**	**1 926 128**	**2 199 694**

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

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

Including key management personnel compensation

	Group		Parent Company	
	2016	**2015**	**2016**	**2015**
	EUR	**EUR**	**EUR**	**EUR**
Board				
Wages and salaries	229 096	74 698	229 096	189 472
Statutory social insurance contributions	51 213	10 467	51 213	34 394
Other staff costs	536	173	536	545
Council				
Wages and salaries	18 681	2 177	18 681	2 177
Statutory social insurance contributions	4 407	743	4 407	513
Other staff costs	9	1	9	1
TOTAL:	**303 942**	**88 259**	**303 942**	**227 102**

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

	Group		Parent Company	
	2016	**2015**	**2016**	**2015**
	EUR	**EUR**	**EUR**	**EUR**
Cost of sales (Note 4)	1 778 650	2 114 626	946 818	1 483 867
Cost of sales – under research costs (Note 4)	544 073	171 777	230 881	61 592
Distribution costs (Note 5)	536 277	521 926	324 151	324 115
Administrative expense (Note 6)	564 392	456 096	424 278	330 120
TOTAL:	**3 423 392**	**3 264 425**	**1 926 128**	**2 199 694**

	Group		Parent Company	
	2016	**2015**	**2016**	**2015**
Average number of employees during the reporting year	**207**	**237**	**94**	**148**

In 2016, as a result of splitting off the costs of Ogre manufacturing plant, part of the employees were transferred from the Parent Company AS HansaMatrix to the subsidiary SIA Campus Pārogre.

12. Basic and diluted earnings per share

Earnings per share are calculated by dividing the net result for the year after taxation attributable to shareholders by the weighted average number of shares in issue during the year. The table below presents the income and share data used in the computations of basic earnings per share for the Group:

	2016	**2015**
	EUR	**EUR**
Net profit attributable to shareholders	551 197	1 082 397
Weighted average number of shares	1 687 881	1 346 799
Earnings per share (EUR):	0.33	0.80

12. Basic and diluted earnings per share (cont'd)

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

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

2015	**Change**	**Actual number of shares after transaction**	**Number of shares used in calculating earnings per share**
Number of shares at the beginning of the year	-	9 016	1 280 272
Share capital increase ***	1 874	10 890	1 546 380
Change in par value ****	762 300	773 190	1 546 380
Number of shares at the beginning of the year	-	773 190	1 546 380
Weighted average number of shares:			**1 346 799**

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

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

*** In 2015, a new investor was attracted and the share capital was increased to EUR 1 546 380 by issuing 1874 new shares. The par value of each share is EUR 142.

*** In December 2015, the par value was changed from EUR 142 to EUR 2 per share. At the end of 2015, the share capital consisted of 773 190 shares. The par value of each share is EUR 2.

The Parent company has no potential dilutive ordinary shares; therefore, diluted earnings per share are the same as the basic earnings per share.

In the reporting year, the total amount of the dividends calculated and paid for the year 2015 was EUR 29 720.

13. Intangible assets

Group

	ODM assets	Other intangible assets	TOTAL
	EUR	**EUR**	**EUR**
ACQUISITION VALUE			
As at 31 December 2014	**-**	**503 474**	**503 474**
Additions	161 935	140 702	302 637
Reclassification	-	110 838	110 838
As at 31 December 2015	**161 935**	**755 014**	**916 949**
Additions	369 277	55 506	424 783
Reclassification*	(235 732)	-	(235 732)
Reclassification **	(264 587)	-	(264 587)
As at 31 December 2016	**30 893**	**810 520**	**841 413**
ACCUMULATED AMORTIZATION			
As at 31 December 2014	**-**	**330 814**	**330 814**
Charge for the year	3 348	97 643	100 991
Reclassification	-	(10)	(10)
As at 31 December 2015	**3 348**	**428 447**	**431 795**
Charge for the year	32 553	156 399	188 952
Disposals	(34 704)	-	(34 704)
As at 31 December 2016	**1 197**	**584 846**	**586 043**
NET CARRYING AMOUNT			
As at 31 December 2015	**158 587**	**326 567**	**485 154**
As at 31 December 2016	**29 696**	**225 674**	**255 370**

Parent Company

	ODM assets	Other intangible assets	TOTAL
	EUR	**EUR**	**EUR**
ACQUISITION VALUE			
As at 31 December 2014	**-**	**486 538**	**486 538**
Additions	161 935	124 604	286 539
Reclassification	-	111 020	111 020
As at 31 December 2015	**161 935**	**722 162**	**884 097**
Additions	369 277	8 667	377 944
Disposals	(235 732)	-	(235 732)
Reclassification *	(264 587)	-	(264 587)
As at 31 December 2016	**30 893**	**730 829**	**761 722**
ACCUMULATED AMORTIZATION			
As at 31 December 2014	**-**	**315 761**	**315 761**
Charge for the year	3 348	95 785	99 133
As at 31 December 2015	**3 348**	**411 546**	**414 894**
Charge for the year	32 553	143 639	176 192
Disposals	(34 704)	-	(34 704)
As at 31 December 2016	**1 197**	**555 185**	**556 382**
NET CARRYING AMOUNT			
As at 31 December 2015	**158 587**	**310 616**	**469 203**
As at 31 December 2016	**29 696**	**175 644**	**205 340**

13. Intangible assets (cont'd)

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

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

14. Property, plant and equipment

Group

	Land and buildings EUR	Equipment and machinery EUR	Other fixtures and fittings, tools and equipment EUR	Construction in progress EUR	Leasehold improvements EUR	Total EUR
ACQUISITION VALUE/ REVALUED AMOUNT						
As at 31 December 2014	**4 370 857**	**7 901 795**	**1 004 355**	**29 241**	**24 758**	**13 331 006**
Additions	-	2 396 609	423 094	51 551	35 329	2 906 583
Disposals	-	(325 655)	(10 582)	-	-	(336 237)
Reclassification	-	52 544	182	-	(52 544)	182
As at 31 December 2015	**4 370 857**	**10 025 293**	**1 417 049**	**80 792**	**7 543**	**15 901 534**
Additions	280 309	404 217	218 705	859	277 323	1 194 225
Disposals	-	(404 996)	(39 621)	-	-	(457 429)
Reclassification *	-	201 028	-	-	264 587	465 615
As at 31 December 2016	**4 651 166**	**10 225 542**	**1 596 133**	**81 651**	**549 453**	**17 103 945**
ACCUMULATED DEPRECIATION						
As at 31 December 2014	**1 251 542**	**5 379 852**	**746 654**	**25 216**	**-**	**7 403 264**
Charge for the year	146 884	655 830	153 685	7 301	-	963 700
Disposals	-	(147 922)	(10 340)	-	-	(158 262)
Reclassification	-	-	10	-	-	10
As at 31 December 2015	**1 398 426**	**5 887 760**	**890 009**	**32 517**	**-**	**8 208 712**
Charge for the year	146 666	834 074	237 265	19 374	-	1 237 379
Disposals	-	(404 996)	(37 379)	-	-	(442 375)
As at 31 December 2016	**1 545 092**	**6 316 838**	**1 089 895**	**51 891**	**-**	**9 003 716**
NET CARRYING AMOUNT						
As at 31 December 2015	**2 972 431**	**4 137 533**	**527 040**	**48 275**	**7 543**	**7 692 822**
As at 31 December 2016	**3 106 074**	**3 908 704**	**506 238**	**29 760**	**549 453**	**8 100 229**

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

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

Parent Company

	Land and buildings EUR	Equipment and machinery EUR	Other fixtures and fittings, tools and equipment EUR	Construction in progress EUR	Leasehold improvements EUR	Total EUR
ACQUISITION VALUE/ REVALUED AMOUNT						
As at 31 December 2014	**4 370 857**	**5 658 409**	**727 801**	**-**	**17 187**	**10 774 254**
Additions	-	1 373 607	214 228	43 733	19 107	1 650 675
Disposals	-	(114 710)	(10 582)	-	-	(125 292)
Reclassification	-	28 751		-	(28 751)	-
As at 31 December 2015	**4 370 857**	**6 946 057**	**931 447**	**43 733**	**7 543**	**12 299 637**
Additions	280 309	288 367	102 704	-	60 489	731 869
Disposals	-	(417 738)	(37 790)	-	-	(455 528)
Reclassification	-	-	-	-	264 587	264 587
As at 31 December 2016	**4 651 166**	**6 816 686**	**996 361**	**43 733**	**332 619**	**12 840 565**
ACCUMULATED DEPRECIATION						
As at 31 December 2014	**1 251 542**	**3 839 082**	**580 439**	**-**	**-**	**5 671 063**
Charge for the year	146 884	442 316	90 248	4 677	-	684 125
Disposals	-	(114 523)	(10 340)	-	-	(124 863)
As at 31 December 2015	**1 398 426**	**4 166 875**	**660 347**	**4 677**	**-**	**6 230 325**
Charge for the year	146 666	557 023	127 609	16 132	-	847 430
Disposals		(404 996)	(35 478)	-	-	(440 474)
As at 31 December 2016	**1 545 092**	**4 318 902**	**752 478**	**20 809**	**-**	**6 637 281**
NET CARRYING AMOUNT						
As at 31 December 2015	**2 972 431**	**2 779 182**	**271 100**	**39 056**	**7 543**	**6 069 312**
As at 31 December 2016	**3 106 074**	**2 497 784**	**243 883**	**22 924**	**332 619**	**6 203 284**

A number of assets that have been fully depreciated are still in active use. The total original cost value of these assets as at the end of the year was as follows:

	Group		**Parent Company**	
	31.12.2016 EUR	**31.12.2015 EUR**	**31.12.2016 EUR**	**31.12.2015 EUR**
Cost of leased assets	4 282 374	4 299 058	3 774 538	3 908 345

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

	Group		**Parent Company**	
	31.12.2016 EUR	**31.12.2015 EUR**	**31.12.2016 EUR**	**31.12.2015 EUR**
Equipment and machinery	222 358	-	182 604	-
Cars	46 916	60 220	40 150	49 135

Pledges and other restrictions on title

The Group has pledged its movable and immovable properties at Akmeņu street 72, Ogre, as security for all the loans granted by AS Citadele Banka (see Note 25).

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

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

	Group		Parent Company	
	2016	**2015**	**2016**	**2015**
	EUR	**EUR**	**EUR**	**EUR**
Cost of sales (Note 4)	1 090 555	830 362	798 596	605 673
Costs of research and product development (Note 4)	25 154	8 181	7 417	8 181
Administrative expense (Note 6)	316 216	204 673	223 203	147 930
SUBTOTAL:	**1 431 925**	**1 043 216**	**1 029 216**	**761 784**
Depreciation included in the cost of work in progress *	(5 594)	21 475	(5 594)	21 474
TOTAL:	**1 426 331**	**1 064 691**	**1 023 622**	**783 258**

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

15. Investments in subsidiaries and associates

			Parent Company's investment		Financial date of investee			
			31.12.2016	**31.12.2015**	**2016 Comprehensive income statement**	**31.12.2016 Equity**	**2015 Comprehensive income statement**	**31.12.2015 Equity**
Company	**Type of business**	**%**	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**
Subsidiaries								
SIA HansaMatrix Ventspils (Latvia)	Integrated production at Ventspils manufacturing plant	100	426 862	426 862	112 401	585 914	25 211	473 513
SIA HansaMatrix Innovation (Latvia)	New product development; creation and licensing of intellectual property; prototype production	100	20 000	20 000	49 990	72 825	2 900	22 835
SIA Campus Pārogre (Latvia)	Integrated production at Pārogre manufacturing plant	100	2 800	2 800	2 214	5 003	(11)	2 789
Total subsidiaries			**449 662**	**449 662**	**164 605**	**663 742**	**28 100**	**499 137**
Associates								
SIA Zinātnes parks (Latvia)	Development of infrastructure of high-tech industrial park in the territory of Riga airport	24	**960**	**960**	**(69 323)**	**(65 335)**	**(12)**	**3 988**
Total associates			**960**	**960**	**(69 323)**	**(65 335)**	**(12)**	**3 988**

Investmetns in subsidiaries (Parent company)

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

Currently the Ventspils manufacturing plant ensures integrated production services mostly for clients who require box build processes. The business model is to sell production services to the parent company, who manages the added value chain from raw materials and component sourcing to selling the final product to the client.

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

Investments in subsidiaries (continued)

As of 31 December 2016, SIA HansaMatrix Ventspils share capital was EUR 585 914 and the profit for 2016 amounted to EUR 112 401. The Parent company intends to increase its orders to the subsidiary, and to continue increasing its contracting to the subsidiary. The Company's equity exceeds the net carrying amount of the investment in the Parent company's balance sheet, which is EUR 426 862 as at 31 December 2016. The Parent company has no reservations about the recovery of investment.

SIA HansaMatrix Innovation (hereinafter– the Company) is a subsidiary, established on 6 August 2014 (until 26 April 2016 known as SIA Mārupes Elektronikas Tehnoloģijas). The company was established to develop new products, automation solutions and innovations, as well as to develop a rapid industrialization organization, including the manufacture of prototypes, offering a ''fast time to market'' solution for new products. Currently, a number of engineering groups have been established in the subsidiary, which are working on developing new electronics, optics, precision mechanics and robotics products.

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

SIA HansaMatrix Innovation share capital was EUR 72 825 as at 31 December 2016, and the profit for 2016 was EUR 49 990. The parent company intends to expand development of new products and technologies, and increase the volume of cooperation with the subsidiary. The company's equity exceeds the net carrying amount of the investment the parent company's balance sheet, which is EUR 20 000 as at 31 December 2016. The parent company has no reservations about the recovery of investment.

SIA Campus Pārogre is a subsidiary established on 30 September 2015. SIA Campus Pārogre was established as a result of a changing business model for the first Pārogre (Ogre) manufacturing plant, which separated out functions from the Parent company, to establish an affiliate undertaking.

The Pārogre manufacturing plant offers integrated manufacturing services mostly to those clients, who need high complexity manufacturing processes, such as printed circuit boards and miniaturized modules, or box build processes. The business model entails selling monthly manufacturing services to the parent company, who manages the added value chain from raw materials and component sourcing to selling the final product to the client.

SIA Campus Pārogre share capital was EUR 5 003 as at 31 December 2016, and the profit for 2016 was EUR 2 214. The parent company intends to expand orders to the subsidiary in the future, and make greater use of its capacities. SIA Campus Pārogre equity exceeds the net carrying amount of the investment in the parent company's balance sheet, which was EUR 2 800 as at 31 December 2016. The Parent company has no reservations about the recovery of investment.

Income from investments in subsidiaries

During the year 2015 and 2016 the Parent company received not dividends from its subsidiaries.

Investments in associates (the Group)

The Group's investments in associates as at 31 December 2016 includes an investment in SIA Zinātnes parks. The company was established on 21 May 2015 by four founders. AS HansaMatrix owns 24 of 100 shares in this company, and it exerts a significant influence.

SIA Zinātnes parks was established to develop hi-tech products for electronics and optics companies, as well as to develop infrastructure for an industrial park at the Riga airport. As a result, AS HansaMatrix intends to set up a research and development laboratory, and to house in this industrial park its new product development subsidiary SIA HansaMatrix Innovation, as well as to establish a third manufacturing plant specializing in prototype manufacturing and rapid piloting of new products.

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

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

Investments in associates (the Group) (cont'd)

	2016 EUR	2015 EUR
Current assets	232 568	106
Non-current assets	1 390 032	8 982
Current liabilities	235	-
Non-current liabilities	1 687 700	5 100
Equity	**(65 335)**	**3 988**
Proportion of the Group's ownership	24%	24%
Carrying amount of the investment	960	960
Revenue	77 500	-
Loss for the year	(69 323)	(12)
Group's share of loss of an associate recognized in the statement of comprehensive income	(16 637)	-
Attributed to investment	(960)	-
Attributed to investment loan	(15 677)	-
Recognized carrying amount of the investment	**-**	**960**

Investment loans to associates (see Note 17)

SIA Zinātnes Parks was granted a convertible zero-interest investment loan of EUR 686 700 for the purchase of a lease on a 4,51 hectare plot of land in the Riga Airport territory, a partially constructed building, design services, and a financial guarantee underpinning state funding. The terms of the loan foresee that the loan can be either repaid or re-financed in the future. AS HansaMatrix additionally reserves the right to request a conversion of the loan into share capital at par value.

	Group		Parent Company	
	2016 EUR	**2015 EUR**	**2016 EUR**	**2015 EUR**
Convertible loan to SIA Zinātnes parks	671 023	-	686 700	-

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

The SIA Zinātnes Parks business plan contains a cash flow projection whose net present value with a weighted average cost of capital value (WACC) of 8% is EUR 3,15 million and has an internal rate of return of 13,7%. The business plan has been submitted for bank financing, and has been accepted as realistic. Additionally, internationally recognized property valuators have done a feasibility study of the office space portion of the infrastructure development plan, and this has confirmed that the rental rates and occupancy percentages used in the business plan represent a fair market value.

16. Investments in other companies

		Group		Parent Company	
		31.12.2016	31.12.2015	31.12.2016	31.12.2015
	%	EUR	EUR	EUR	EUR
Investments					
SIA "Lightspace Technologies" (Latvia)	16.11	451	-	451	-
SIA "EUROLCDS" (Latvia)	16.11	645 403	508 354	645 403	508 354
SIA "LEO PĒTĪJUMU CENTRS" (Latvia)	10.0	996	996	711	711
SIA "LEITC" (Latvia)	3.95	14 929	14 929	14 929	14 929
	KOPĀ:	**661 779**	**524 279**	**661 494**	**523 994**

Strategic investments in new product development companies:

		Group		Parent Company	
		31.12.2016	31.12.2015	31.12.2016	31.12.2015
	%	EUR	EUR	EUR	EUR
Investments					
SIA Lightspace Technologies (Latvia)	16.11	451	-	451	-
SIA EUROLCDS (Latvia)	16.11	645 403	508 354	645 403	508 354
TOTAL:		**645 854**	**508 354**	**645 854**	**508 354**

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

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

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

SIA Lightspace Technologies was established on 12 February 2014, as a subsidiary of SIA EUROLCDS. In 2016, SIA EUROLCDS was restructured, separating SIA Lightspace Technologies into a separate company. As a result, AS HansaMatrix acquired 451 shares, or 16.11% of the share capital of SIA Lightspace Technologies, proportionate to its share capital in SIA EUROLCDS.

Investment loan to SIA Lightspace Technologies (Note 17)

	Group		Parent company	
	2016	2015	2016	2015
	EUR	EUR	EUR	EUR
Investment loan to SIA Lightspace Technologies	200 000	-	200 000	-
TOTAL:	**200 000**	**-**	**200 000**	**-**

16. Investments in other companies (cont'd)

A convertible zero interest investment loan of EUR 200 000 was issued to SIA Lightspace Technologies for product development in 3D imaging technologies. Investment loans on similar terms were also made by investment funds Imprimature Seed, Imprimature Venture Fund, BaltCap Jeremie, bringing the total investment to EUR 1 075 000.

Immediately following the reporting period – on 10 January 2017 the conversion of all 4 investment loans to shares was registered. Thereafter, AS HansaMatrix participation in SIA Lightspace Technologies grew to 866 shares representing 17,22% of the share capital.

The purpose of the investment in SIA Lightspace Technologies is the development of optically deep 3D image display technology, and based on this technology, innovative product development. One of Lightspace Technologies assets is the 100% owned Delaware registered SIA Lightspace Technologies, Inc., which in turn has approximately 10 patents on volumetric multi-planar 3D displays, which secures the intellectual property rights for this innovation in most of the world, including the USA, Europe, China, Korea and other areas.

Investing in new products is a part of AS HansaMatrix development strategy, which envisions equity investments in companies which have a synergy with AS HansaMatrix integrated manufacturing service and with SIA HansaMatrix Innovation engineering and knowledge resources, and which can lead to new, high value-added product manufacturing in a 3 to 5 year time-line.

Shortly after the reporting period – in 10 January 2017 a 4 investor loans were covered to company's equity shares; after the deal AS HansaMatrix share in SIA Lightspace Technologies increased to 866 shares or 17.22% of the share capital (see Note 40).

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

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

According to the preliminary data, SIA EUROLCDS equity at the end of the reporting period was EUR 2 387 259. The company closed the reporting period with a loss of EUR 811 582. AS HansaMatrix's share in the SIA EUROLCDS equity was EUR 384 587, but the carrying amount of the investment was EUR 645 403.

According to the preliminary data, SIA Lightspace Technologies' equity at the end of the reporting was EUR 768 362. The company closed the period with a loss of EUR 144 529. AS HansaMatrix's investment in the equity of SIA Lightspace Technologies was EUR 122 938, the carrying amount of the investment was EUR 451.

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

SIA Lightspace Technologies business plan contains a cash flow projection whose net present value with a weighted average cost of capital value (WACC) of 15% produces a present value of EUR 4,43 million. Additionally, by manufacturing SIA Lightspace products, AS HansaMatrix will have an additional EBITDA turnover, whose present value is EUR 3.5 million. With AS HansaMatrix ownership of 17.2% of the share capital of SIA Lightspace Technologies, the combined present value is EUR 4.25 million.

In addition, SIA Lightspace Technologies has signed a contract with one of the leading Baltic investment banks for a valuation of the company and assistance in attracting investors for the next phase. According to the assessment of the investment bank, SIA Lightspace Technologies' weighted average post-money present value exceeds the business plan projections by a factor of 3.

According to the preliminary data, the share capital of both companies as at 31 December 2016 was EUR 507 525, which is slightly below the combined carrying amount of EUR 645 854. The present value of the projected turnover, which has been confirmed by the analysis made by the investment bank, is approximately EUR 4 250 000, which greatly exceeds the carrying amount.

As a result of this assessment, AS HansaMatrix considers that no impairment loss should be recognized in relation to the investments as at 31 December 2016, because there is no doubt about the recoverability of the investment at the net carrying amount, for both the investment value, and the value of the convertible loan.

16. Investments in other companies (cont'd)

Strategic investments in service organizations:

		Group		Parent company	
		31.12.2016	**31.12.2015**	**31.12.2016**	**31.12.2015**
	%	**EUR**	**EUR**	**EUR**	**EUR**
Investments					
SIA LEO PĒTĪJUMU CENTRS (Latvia)	10	-	-	711	711
SIA LEO PĒTĪJUMU CENTRS (Latvia)	14	996	996	-	-
SIA LEITC (Latvia)	3.95	14 929	14 929	14 929	14 929
TOTAL:		**15 925**	**15 925**	**15 640**	**15 640**

SIA LEO PĒTĪJUMU CENTRS was established on 27 July 2010 by 20 companies and research institutions in the Latvian Electronics and Optics cluster. AS HansaMatrix owns 711 of 7102 shares, representing 10% of the total shares. SIA HansaMatrix Ventspils owns 284 of 7 102 shares, or 4%. Together investments by the Group in SIA "LEO PĒTĪJUMU CENTRS" total 995 shares, representing 14% of the total 7 102 shares in the company.

SIA LEO PĒTĪJUMU CENTRS was established to administer projects for the competence center for companies working in the electronics and optics sector. AS HansaMatrix and SIA HansaMatrix Innovation participate in grant programs managed by SIA LEO PĒTĪJUMU CENTRS.

According to the preliminary data, the company's equity as at 31 December 2016 was EUR 164 544, significantly exceeding the net carrying amount of EUR 996. AS HansaMatrix has no reservations about the recoverability of the investment.

SIA LEITC was established on 14 July 2011. On 12 September 2012, in exchange for writing off a EUR 14 929 zero-interest loan to the Latvian Electrical Engineering and Electronics Industry Association, AS HansaMatrix acquired 79 shares in SIA LEITC, representing 3.95% of the share capital.

The company was established in cooperation with other industry partners, to create and manage the only accredited electromagnetic compatibility testing laboratory in the Baltics, which significantly speeds up the compliance process for CE and FCC normatives during the development of new products.

According to the preliminary data, LEITC's equity as at 31 December 2016 was EUR 294 751; the profit for the reporting period amounted to EUR 14 375. AS HansaMatrix shareholding represents 3.95% of the total share capital, which is EUR 11 790, slightly less than the net carrying amount. However, LEITC has demonstrated an increasing turnover for the past 2 years, as well as an increase in its equity. It has also provided accessible services to AS HansaMatrix and other companies in the cluster, including AS HansaMatrix clients. AS HansaMatrix has no reservations about the recoverability of the investment at carrying amount of EUR 14 929.

17. Other investment loans

	Group		Parent Company	
	2016	**2015**	**2016**	**2015**
	EUR	**EUR**	**EUR**	**EUR**
Convertible loan to SIA Lightspace Technologies	200 000	-	200 000	-
Convertible loan to SIA Zinātnes parks	686 700	-	686 700	-
Decrease in value	(15 677)	-	-	-
TOTAL:	**871 023**	**-**	**886 700**	**-**

The convertible interest-free investment loan of EUR 200 000 was issued to **SIA Lightspace Technologies** for 3D volumetric imaging product development. The loan was issued together with and under the same conditions as the loans granted by the investment funds Imprimature Seed, Imprimature Venture Fundand BaltCap Jeremie. The total amount of the funding is EUR 1 075 000.

17. Other investment loans

Shortly after the end of the reporting period, on 10 January 2017, the conversion of the loan was registered. As a result the AS HansaMatrix investment in SIA Lightspace Technologies increased to 866 shares or 17.22% of the share capital (Note 40).

SIA Zinātnes Parks was granted a convertible zero-interest investment loan of EUR 686 700 for the purchase of a lease on a 4,51 hectare plot of land in the Riga Airport territory, a partially constructed building, design services, and a financial guarantee underpinning state funding. The terms of the loan foresee that the loan can be either repaid or re-financed in the future. AS HansaMatrix additionally reserves the right to request a conversion of the loan into share capital at par value.

Recoverability assessment is disclosed in Note 16.

18. Inventories

	Group		Parent Company	
	31.12.2016	**31.12.2015**	**31.12.2016**	**31.12.2015**
	EUR	**EUR**	**EUR**	**EUR**
Raw materials and consumables (at cost)	1 406 447	1 787 225	1 372 692	1 764 829
Work in progress (at cost of materials)	369 465	675 534	369 465	675 534
Work in progress (overheads)	125 376	161 371	125 376	161 371
TOTAL:	**1 901 288**	**2 624 130**	**1 867 533**	**2 601 734**
Allowances for raw materials and consumables	(305 387)	(494 763)	(304 777)	(494 319)
TOTAL:	**(305 387)**	**(494 763)**	**(304 777)**	**(494 319)**
TOTAL:	**1 595 901**	**2 129 367**	**1 562 756**	**2 107 415**

Movement of allowances for slow-moving items:

	Group		Parent Company	
	2016	**2015**	**2016**	**2015**
	EUR	**EUR**	**EUR**	**EUR**
At the beginning of the year	**(494 763)**	**(339 242)**	**(494 319)**	**(338 873)**
Release of allowances	262 246	30 650	262 246	30 650
Allowances established in the reporting year	(72 870)	(186 171)	(72 704)	(186 096)
At the end of the year	**(305 387)**	**(494 763)**	**(304 777)**	**(494 319)**

Changes in the provision are recognized in cost of sales (Note 2).

The Group has pledged its inventories as security for all the loans granted by AS Citadele Banka (see Note 26).

19. Trade receivables

	Group		Parent Company	
	31.12.2016	**31.12.2015**	**31.12.2016**	**31.12.2015**
	EUR	**EUR**	**EUR**	**EUR**
Trade receivables without factoring	671 737	495 956	663 167	473 940
Trade receivables with factoring	1 369 834	850 978	1 369 834	850 978
Advance factoring payment	(1 109 529)	(722 774)	(1 109 529)	(722 774)
TOTAL:	**932 042**	**624 160**	**923 472**	**602 144**

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

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

19. Trade receivables (cont'd)

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

	Total	Neither past due nor impaired	Past due but not impaired				
			<30	30-60	60-90	90-120	>120
Group	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**
2015	1 346 934	1 013 726	194 980	55 208	30 385	16 866	35 769
2016	2 041 571	1 553 786	259 666	97 561	36 436	31 097	63 025
Parent Company							
2015	1 324 918	1 009 135	189 705	51 629	23 087	16 866	34 496
2016	2 033 001	1 545 216	259 666	97 561	36 436	31 097	63 25

20. Prepayments for goods

	Group		Parent Company	
	31.12.2016	**31.12.2015**	**31.12.2016**	**31.12.2015**
	EUR	**EUR**	**EUR**	**EUR**
Prepayments to related companies	-	-	324 037	344 522
Prepayments to suppliers	120 071	92 525	93 521	95 525
TOTAL:	**120 071**	**92 525**	**417 558**	**440 047**

Prepayments to related companies are specified in Note 34.

21. Other receivables

	Group		Parent Company	
	31.12.2016	**31.12.2015**	**31.12.2016**	**31.12.2015**
	EUR	**EUR**	**EUR**	**EUR**
Interim payment for a project	158 194	71 543	-	-
Accrued income	50 594	1 200	35 976	1 200
Security deposit	7 200	7 145	2 988	2 988
Overpayment of VAT	255	25 624	-	25 624
Accrued input tax	-	137 880	-	137 880
Other loans	-	18 350	-	18 350
Funding for marketing activities	-	4 476	-	2 188
Other receivables	50	18 991	-	18 916
TOTAL:	**216 293**	**285 209**	**38 964**	**207 146**

22. Cash and cash equivalents

	Group		Parent Company	
	31.12.2016	**31.12.2015**	**31.12.2016**	**31.12.2015**
	EUR	**EUR**	**EUR**	**EUR**
Cash at bank	381 891	255 402	380 598	251 445
TOTAL:	**381 891**	**255 402**	**380 598**	**251 445**

22. Cash and cash equivalents (cont'd)

Cash and cash equivalents by currency profile:

	Group		Parent Company	
	31.12.2016	**31.12.2015**	**31.12.2016**	**31.12.2015**
	EUR	**EUR**	**EUR**	**EUR**
USD	237 945	561	237 945	561
EUR	143 946	254 841	142 653	250 884
TOTAL:	**381 891**	**255 402**	**380 598**	**251 445**

23. Share capital

The share capital of the Parent Company as at 31 December 2016 is EUR1 829 381 (31.12.2015: 1 546 380 EUR), par value of one share is 1 EUR (31.12.2015: 2 EUR). All shares are paid in full.

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

	Number of shares	Par value, EUR	Share capital, EUR	Share premium, EUR
01.01.2015	**9 016**	**142**	**1 280 272**	**761 415**
07.10.2015 – share capital increase	10 890	142	15 463 880	1 094 987
28.12.2015 – change in par value	773 190	2	1 546 380	1 094 987
01.01.2016	**773 190**	**2**	**1 546 380**	**1 094 987**
14.04.2016 - change in par value	1 546 380	1	1 546 380	1 094 987
20.06.2016 - share capital increase	1 829 381	1	1 829 381	2 659 983
12.07.2016 – share issue	1 829 381	1	1 829 381	2 659 983
Share issue costs	-	-	-	*(224 404)*
31.12.2016	**1 829 381**	**1**	**1 829 381**	**2 435 579**

In 2014 difference of 313 EUR arising from share capital denomination in EUR was recognized in reserves.

Major shareholders (over 5% of equity interest) of the Parent company are as follows:

	31.12.2016		31.12.2015	
Major shareholders (over 5% of equity interest) **Shareholder**	**Number of shares**	**Equity interest**	**Number of shares**	**Equity interest**
SIA MACRO RĪGA	1 185 938	64.83%	640 136	82.79%
Limited partnership FlyCap Investment Fund I AIF	403 933	22.08%	133 054	17.21%
Swedbank AS customer accounts (former customers o AS Swedbank Estonia AS Swedbank Lithuania)	140 616	7.69%	-	-
Other	98 894	5.40%	-	-
TOTAL:	**239 510**	**100.00%**	**773 190**	**100.00%**

24. Non-current asset revaluation reserve

Real estate was revalued in 2007 and 2012 by certified appraisers. Revaluation is performed on a regular basis, which is at least every five years. Land and buildings are stated at their revalued amount, which is equal to the fair value at the date of revaluation less any subsequent accumulated depreciation and impairment.

As a result, the carrying amount was increased by EUR 1 989 062 in 2007 and by EUR 237 251 in 2012. The revaluation reserve made for the building is taken to income over the useful life of the asset. The revaluation reserve made for the land remains unchanged.

	Group		**Parent Company**	
	31.12.2016	**31.12.2015**	**31.12.2016**	**31.12.2015**
	EUR	**EUR**	**EUR**	**EUR**
Revaluation reserve (building)	1 355 571	1 433 886	1 355 571	1 433 886
Revaluation reserve (land)	215 131	215 131	215 131	215 131
Deferred tax related to non-current asset revaluation reserve	(235 605)	(247 352)	(235 605)	(247 352)
TOTAL:	**1 335 097**	**1 401 665**	**1 335 097**	**1 401 665**

25. Loans from credit institutions

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

Initial loan amount	Interest rate	Maturity	**Group** 31.12.2016 EUR	**Group** 31.12.2015 EUR	**Parent Company** 31.12.2016 EUR	**Parent Company** 31.12.2015 EUR
EUR 2 773 083	6m EURIBOR+3.5%	06.08.2019	1 367 226	1 766 993	1 367 226	1 766 993
EUR 2 214 362	6m EURIBOR+3.5%	06.08.2020	1 025 610	1 384 814	1 025 610	1 384 814
EUR 1 500 000	6m EURIBOR+5.0%	24.08.2019	674 528	870 429	674 528	870 429
EUR 980 000	6m EURIBOR+4.0%	29.04.2021	595 625	758 866	595 625	758 866
		Non-current loans from credit institutions:	**3 662 989**	**4 781 102**	**3 662 989**	**4 781 102**
		Expense related to the conclusion of loan agreements – non-current portion:	(38 598)	(53 253)	(38 598)	(53 253)
		TOTAL:	**3 624 391**	**4 727 849**	**3 624 391**	**4 727 849**
Current						
EUR 2 773 083	6m EURIBOR+3.5%	06.08.2019	401 005	387 960	401 005	387 960
EUR 2 214 362	6m EURIBOR+3.5%	06.08.2020	360 407	348 856	360 407	348 856
EUR 1 500 000	6m EURIBOR+5.0%	24.08.2019	329 012	288 597	329 012	288 597
EUR 980 000	6m EURIBOR+4.0%	29.04.2021	163 652	157 445	163 652	157 445
EUR 600 000	6m EURIBOR+4.0%	30.11.2018	392 462	-	392 462	-
		Current loans from credit institutions:	**1 646 538**	**1 182 858**	**1 646 538**	**1 182 858**
		Accrued interest to Citadele Banka:	**9 517**	**11 520**	**9 517**	**11 520**
		Expense related to the conclusion of loan agreements – non-current portion:	(20 048)	(17 248)	(20 048)	(17 248)
		TOTAL:	**1 636 007**	**1 177 130**	**1 636 007**	**1 177 130**

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

	Group		**Parent Company**	
	31.12.2016	**31.12.2015**	**31.12.2016**	**31.12.2015**
	EUR	**EUR**	**EUR**	**EUR**
Payable:				
In less than one year	1 646 538	1 182 858	1 646 538	1 182 858
Between one and five years	3 662 989	4 718 102	3 662 989	4 718 102
In more than five years	-	63 000	-	63 000
TOTAL:	**5 309 527**	**5 963 960**	**5 309 527**	**5 963 960**

25. Loans from credit institutions (cont'd)

As at 31 December 2016, the unused credit line amount available to the Group and the Parent Company was EUR 207 538 (31 December 2015: 0 EUR). As at 31 December 2015 and 2016, all the Group's and Parent Company's property, plant and equipment and current assets were pledged as security for all the loans received. Pledge agreements are registered in in the Commercial Pledge register.

26. Finance lease liabilities

	Group				Parent Company			
	31.12.2016	31.12.2016	31.12.2015	31.12.2015	31.12.2016	31.12.2016	31.12.2015	31.12.2015
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Lessor	Current	Non-current	Current	Non-current	Current	Non-current	Current	Non-current
Nordea Finance Latvia, SIA	17 405	30 276	18 100	47 723	13 274	26 474	13 414	39 780
Citadele līzings un faktorings, SIA	39 714	112 582	-	-	29 126	87 341	-	-
	57 119	**142 858**	**18 100**	**47 723**	**42 400**	**113 815**	**13 414**	**39 780**
Costs relating to signing lease agreements	(204)	(559)	-	-	(204)	(559)	-	-
TOTAL:	**56 915**	**142 299**	**18 100**	**47 723**	**42 196**	**113 256**	**13 414**	**39 780**

The interest rate on the finance leases ranges from 3m EURIBOR+2.5% to 3.5%. Interest rate is normally revised quarterly throughout the financial year. The net carrying amount of the property, plant and equipment held under finance lease and sale and leaseback arrangements is disclosed in Note 14.

Future minimum lease payments for the above finance leases can be specified as follows:

	Group				Parent Company			
	31.12.2016	31.12.2016	31.12.2015	31.12.2015	31.12.2016	31.12.2016	31.12.2015	31.12.2015
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
	Minimum payments	Present value of payments	Minimum payments	Present value of payments	Minimum payments	Present value of payments	Minimum payments	Present value of payments
Within one year	62 866	57 119	19 601	18 100	46 908	42 400	14 635	13 414
Between one and five years	149 579	142 858	49 501	47 723	119 431	113 815	41 354	39 780
Total minimum lease payments	212 445	199 977	69 102	65 823	166 339	156 215	55 989	53 194
Less finance charges	(12 468)	-	(3 279)	-	(10 124)	-	(2 795)	-
Present value of minimum lease payments	**199 977**	**199 977**	**65 823**	**65 823**	**156 215**	**156 215**	**53 194**	**53 194**

27. Deferred income

	Group		Parent Company	
	2016	2015	2016	2015
	EUR	EUR	EUR	EUR
Balance at the beginning of the year	**1 081 438**	**429 450**	**702 015**	**393 878**
Grants received	-	808 612	-	403 895
Attributed to income (Note 7)	(169 578)	(156 624)	(118 987)	(95 757)
Balance at the end of the year	**911 860**	**1 081 438**	**583 028**	**702 016**

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

	Group		Parent Company	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
	EUR	EUR	EUR	EUR
Non-current portion	742 282	911 861	464 041	583 029
Current portion	169 578	169 577	118 987	118 987
TOTAL:	**911 860**	**1 081 438**	**583 028**	**702 016**

27. Deferred income (cont'd)

Participation of the Parent Company in EU projects

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

On 15 May 2014, the Parent Company entered into an agreement on the implementation of the project "Set-up of the Robotic Printed Circuit Board Assembly and Production Line" with the Investment and Development Agency of Latvia. The Parent Company fulfilled all the conditions set out in the agreement and acquired production equipment under the project for a total amount of EUR 660 546. After the conditions of project implementation had been assessed, on 16 September 2015 the Parent Company received a grant of EUR 298 582.

On 18 September 2014, the Parent Company entered into an agreement on the implementation of the project "Launch of the Production of Precision Metal Parts of the Volumetric 3D Display System at SIA Hanzas Elektronika" with the Investment and Development Agency of Latvia. The Parent Company fulfilled all the conditions set out in the agreement and acquired production equipment under the project for a total amount of EUR 232 913. After the conditions of project implementation had been assessed, on 8 October 2015 the Parent Company received a grant of EUR 105 313.

Participation of SIA HansaMatrix Ventspils in EU projects

On 4 October 2006, the subsidiary SIA HansaMatrix Ventspils entered into a grant agreement associated with the implementation of the state aid program. SIA HansaMatrix Ventspils fulfilled all the conditions set out in the agreement signed between SIA HansaMatrix Ventspils and the Investment and Development Agency of Latvia. Under the project, the subsidiary set up a production facility and acquired production equipment for a total amount of EUR 1 635 105. After the conditions of project implementation had been assessed, on 29 August 2007 the subsidiary received a grant of EUR 853 723. This amount had been recognized as income by 30 April 2015

On 15 May 2014, SIA HansaMatrix Ventspils entered into an agreement on the implementation of the project "Acquisition of Printed Circuit Component Surface Mount Modules" associated with the implementation of the state aid programme. SIA HansaMatrix Ventspils fulfilled all the conditions set out in the agreement signed between SIA HansaMatrix Ventspils and the Investment and Development Agency of Latvia. The subsidiary acquired production equipment under the project for a total amount of EUR 895 347. After the conditions of project implementation had been assessed, on 14 September 2015 the subsidiary received a grant of EUR 404 717.

28. Prepayments received from customers

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

29. Trade payables

	Group		Parent Company	
	31.12.2016	**31.12.2015**	**31.12.2016**	**31.12.2015**
	EUR	**EUR**	**EUR**	**EUR**
Trade payables, EUR	1 667 373	1 089 008	1 161 123	1 220 028
Trade payables, USD	367 705	638 359	364 183	294 554
Trade payables, JPY	-	69 695	-	34 697
TOTAL:	**2 035 078**	**1 797 062**	**1 525 306**	**1 549 279**

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

30. Taxes payable

The Group's and the Parent Company's taxes payable to the State budget as at 31 December 2016 and 2015 may be specified as follows:

	Group		Parent Company	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
	EUR	EUR	EUR	EUR
Statutory social insurance contributions	(118 897)	(64 567)	(36 810)	(35 859)
Personal income tax	(40 270)	(36 573)	(19 461)	(20 558)
Value added tax – payable	(179 167)	(71 892)	(31 856)	-
Value added tax – receivable	255	25 624	-	25 624
Natural resource tax	(522)	(361)	(263)	(254)
Real estate tax	(11)	(3)	(11)	(3)
Unemployment risk duty	(74)	(73)	(26)	(35)
TOTAL:	**(338 686)**	**(147 845)**	**(88 427)**	**(31 085)**
TOTAL PAYABLE:	**(338 941)**	**(173 469)**	**(88 427)**	**(56 709)**
TOTAL RECEIVABLE (Note 21):	**255**	**25 624**	**-**	**25 624**

31. Corporate income tax

	Group		Parent Company	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
	EUR	EUR	EUR	EUR
Corporate income tax -payable	(532)	(43 836)	-	(43 620)
Corporate income tax –receivable	126 951	-	126 602	-

Calculated corporate income tax is disclosed in Note 10.

32. Other liabilities

	Group		Parent Company	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
	EUR	EUR	EUR	EUR
Salaries	179 055	148 079	77 838	84 626
Unpaid shares in SIA EUROLCDS	40 500	282 500	40 500	282 500
Balances due to employees	2 223	229	2 148	200
Credit cards	2 031	117	2 031	117
LMT agreements	2 718	-	2 718	-
Other liabilities	302	277	-	128
TOTAL:	**226 829**	**431 202**	**125 235**	**367 571**

33. Accrued liabilities

	Group		Parent Company	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
	EUR	EUR	EUR	EUR
Vacation pay reserve	145 334	111 290	87 146	74 532
Other accrued liabilities	53 193	66 298	28 345	43 559
TOTAL:	**198 527**	**177 588**	**115 491**	**118 091**

34. Related party disclosures

The major shareholder of the Parent Company is SIA MACRO RĪGA, which owns 64.83% (2015: 82.8%) of the Parent Company's shares. The table below summarises transactions of the Group and the Parent Company with related parties for the relevant financial year.

			Goods and services delivered to/ loans issued to related parties		Goods and services received from / loans received from related parties		Amounts owed by related parties (gross)		Amounts owed to related parties (gross)	
Related party	**Type of services**		**Group**	**Parent Company**	**Group**	**Parent Company**	**Group**	**Parent Company**	**Group**	**Parent Company**
			EUR	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**
1. Associates										
SIA Zinātnes parks * (AS HansaMatrix share: 24%)	Loan, contribution in share capital	31.12.2015	6 060	6 060	-	-	5 100	5 100	-	-
		31.12.2016	681 600	681 600	-	-	686 700	686 700	-	-
	TOTAL	**31.12.2015**	**6 060**	**6 060**	**-**	**-**	**5 100**	**5 100**	**-**	**-**
	TOTAL	**31.12.2016**	**681 600**	**681 600**	**-**	**-**	**686 700**	**686 700**	**-**	**-**
2. Entities with significant influence over the Parent Company										
SIA MACRO RĪGA (shareholder)	Loan	31.12.2015	2 554 098	2 554 098	-	-	2 375 744	2 375 744	-	-
		31.12.2016	92 892	92 892	-	-	2 468 636	2 468 636	-	-
	Purchase of services, spare parts; sale of materials	31.12.2015	590	590	289 374	289 374	-	-	-	-
		31.12.2016	-	-	-	-	-	-	-	-
	TOTAL	**31.12.2015**	**2 554 688**	**2 554 688**	**289 374**	**289 374**	**2 375 744**	**2 375 744**	**-**	**-**
	TOTAL	**31.12.2016**	**-**	**92 892**	**-**	**-**	**2 468 636**	**2 468 636**	**-**	**-**
3. Subsidiaries										
SIA HansaMatrix Ventspils" AS (HansaMatrix share 100%)	Production services, material supplies	31.12.2015	-	115 444	-	2 311 480	-	309 192	-	-
		31.12.2016	-	12 167	-	2 834 003	-	167 516	-	-
SIA "HansaMatrix Innovation" AS (HansaMatrix share 100%)	Services, material supplies	31.12.2015	-	4 216	-	204 900	-	35 330	-	-
		31.12.2016	-	52 574	-	486 380	-	156 521	-	-
SIA Campus Pārogre (AS HansaMatrix share 100%)	Services, loan	31.12.2015	-	-	-	-	-	-	-	-
		31.12.2016	-	-	-	146 154	-	-	-	103 676
	TOTAL	**31.12.2015**	**-**	**119 660**	**-**	**2 516 380**	**-**	**344 522**	**-**	**-**
	TOTAL	**31.12.2016**	**-**	**64 741**	**-**	**3 466 537**	**-**	**324 037**	**-**	**103 676**
4. Other related companies										
	Loans issued	31.12.2015	12 000	12 000	-	-	-	-	-	-
		31.12.2016	188 500	188 500	-	-	-	-	-	-
	Services, material supplies, sale of materials	31.12.2015	157 290	157 290	2 535	2 535	93 410	93 410	740	740
		31.12.2016	379 396	379 396	82 790	82 790	265 777	265 777	605	605
	TOTAL	**31.12.2015**	**169 290**	**169 290**	**2 535**	**2 535**	**93 410**	**93 410**	**740**	**740**
	TOTAL	**31.12.2016**	**567 896**	**567 896**	**82 790**	**82 790**	**265 777**	**265 777**	**605**	**605**

* Includes Group's share of loss of an associate recognized in the statement of comprehensive income (Note 15).

The outstanding balances owed by related parties contain a loan issued by the Parent company to its major shareholder SIA MACRO RĪGA.

		Interest charged		Amounts owed by related parties			
		2016	2015	31.12.2016		31.12.2015	
				EUR	EUR	EUR	EUR
Interest rate	Maturity			Non-current	Current	Non-current	Current
3.91	30.12.2018	92 892	54 098	1 234 318	1 234 318	-	2 375 744

Shareholder loan's to SIA MACRO RĪGA recoverability is based on the shareholder's provided prognosis of the planned sales of its owned Parent company's shares proceeds of which will be used to settle these loan liabilities. After the reporting period in the 1st quarter of 2017 there has been 2 successful share sales transactions, thus till the date of signing the annual report, 100 thousand EUR of loan repayment has been received (see Note 40).

34. Related party disclosures (cont'd)

Terms and conditions of transactions with related parties

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

35. Off-balance sheet items

In the ordinary course of business, the Group receives raw materials from customers. Such raw materials are processed and delivered back to the respective customers. Raw materials are owned by customers and the Group accepts them only for processing. As at 31 December 2016, the total value of these materials was EUR 15 199 169 (31 December 2015: EUR 12 317 448)

36. Commitments and contingencies

Pledges and other restrictions on title

The Parent Company has pledged its real estate at Akmeņu iela 72, Ogre, and movable property as security for all the loans granted by AS Citadele Banka (Note 26).

Surety

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

Commitments under operating leases

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

Lease commitments

SIA HansaMatrix Ventspils has entered into an agreement on the lease of production facilities and land at Ventspils Augsto Tehnoloģiju Parks - 1, Ventspils, with the foundation Ventspils Augsto tehnoloģiju parks (Ventspils High Technology Park). The production facilities were commissioned on 1 December 2006. The total amount of lease expenses (including utilities) was EUR 272 572 (including VAT at 21%) in 2016 and EUR 242 572 (including VAT at 21%) in 2015.

The minimum lease payment (without utilities) due to the foundation Ventspils Augsto tehnoloģiju parks (Ventspils High Technology Park) in 2017 under the real estate lease agreement is EUR 142 775 (including VAT at 21%). The lease expires on 30 April 2021.

In 2015, SIA HansaMatrix Ventspils entered into an agreement on the lease of additional production facilities and land at Ventspils Augsto Tehnoloģiju Parks - 1, Ventspils, with the Freeport of Ventspils Authority. The production facilities were commissioned on 15 June 2015. The total amount of lease expenses (including utilities) was EUR 113 494 (including VAT at 21%) in 2016 and 2015.

The minimum lease payment (without utilities) due to the Freeport of Ventspils Authority in 2017 under the real estate lease agreement is EUR 197 635 (including VAT at 21%). The lease expires on 1 August 2019.

The future aggregate minimum lease payments are as follows:

	Group		**Parent Company**	
	31.12.2016	**31.12.2015**	**31.12.2016**	**31.12.2015**
	EUR	**EUR**	**EUR**	**EUR**
Payable:				
In less than one year	365 298	369 262	23 257	23 960
Between one and five years	827 427	1 130 172	22 118	30 414
TOTAL:	**1 192 725**	**1 499 434**	**45 375**	**54 374**

37. Financial risk management

The Group's and the Parent Company's principal financial instruments comprise loans from credit institutions, finance leases, cash and short-term deposits. The main purpose of these financial instruments is to ensure financing for the Group's and the Parent Company's operations. The Group and the Parent Company have various other financial instruments such as trade and other receivables and trade and other payables, which arise directly from its operations. The main financial risks arising from the Group's and the Parent Company's financial instruments are foreign currency risk, interest rate risk, liquidity risk, and credit risk.

Foreign currency risk

The Group's financial assets and liabilities, which are exposed to foreign currency risk, comprise cash and cash equivalents, trade receivables and trade payables. The Group is mainly exposed to foreign currency risk of the U.S. dollar. In order to control foreign currency risk, trade receivables which can be potentially exposed to this risk are managed in accordance with the appropriate pricing policy. The Group is mainly exposed to foreign currency risk of the U.S. dollar (USD). The Group's currency risk as at 31 December 2016 may be specified as follows:

Group		USD EUR	JPY EUR	EUR EUR	TOTAL EUR
Trade receivables	2016	269 105	-	783 008	1 052 113
	2015	156 532	-	560 153	716 685
Cash	2016	237 945	-	143 946	381 891
	2015	561	-	254 841	255 402
Total financial assets, EUR	2016	507 050	-	926 954	1 434 004
	2015	157 093	-	814 994	972 087
Trade payables and other liabilities	2016	744 504	-	1 731 105	2 475 609
	2015	1 456 134	69 695	1 456 134	2 981 963
Total financial liabilities, EUR	2016	744 504	-	1 731 105	2 475 609
	2015	1 456 134	69 695	1 456 134	2 981 963
Net assets / (liabilities), EUR	2016	**(237 454)**	**-**	**(804 151)**	**(1 041 605)**
	2015	**(1 299 041)**	**(69 695)**	**(641 140)**	**(2 009 876)**

Parent Company		USD EUR	JPY EUR	EUR EUR	TOTAL EUR
Trade receivables	2016	269 105	-	1 071 924	1 341 029
	2015	156 532	-	885 659	1 042 191
Cash	2016	237 945	-	142 653	380 598
	2015	561	-	250 884	251 445
Total financial assets, EUR	2016	507 050	-	1 214 577	1 721 627
	2015	157 093	-	1 136 543	1 293 636
Trade payables and other liabilities	2016	740 982	-	1 328 622	2 069 604
	2015	1 112 329	34 697	1 220 028	2 367 054
Total financial liabilities, EUR	2016	740 982	-	1 328 622	2 069 604
	2015	1 112 329	34 697	1 220 028	2 367 054
Net assets / (liabilities), EUR	2016	**(233 932)**	**-**	**(114 045)**	**(347 977)**
	2015	**(955 236)**	**(34 697)**	**(83 485)**	**(1 073 418)**

The Company has evaluated the potential effect of USD currency exchange rate fluctuations on profit before tax as at 31 December 2016. The effect on equity would include the effect on profit adjusted by corporate income tax of 15%.

37. Financial risk management (cont'd)

Foreign currency risk (cont'd)

Group Exchange rate change		Potential net effect from the USD exchange rate change	Potential net effect from the JPY exchange rate change	Total, EUR
		EUR	EUR	EUR
+10%	2016	21 587	-	21 587
	2015	118 095	6 336	124 431
+5%	2016	11 307	-	11 307
	2015	61 859	3 319	65 178
-5%	2016	(12 498)	-	(12 498)
	2015	(68 371)	(3 668)	(72 039)
-10%	2016	(26 384)	-	(26 384)
	2015	(144 338)	(7 744)	(152 082)

Parent Company Exchange rate change		Potential net effect from the USD exchange rate change	Potential net effect from the JPY exchange rate change	Total, EUR
		EUR	EUR	EUR
+10%	2016	21 267	-	21 267
	2015	86 840	3 154	89 994
+5%	2016	11 140	-	11 140
	2015	45 487	1 652	47 139
-5%	2016	(12 312)	-	(12 312)
	2015	(50 276)	(1 826)	(52 102)
-10%	2016	(25 992)	-	(25 992)
	2015	(106 137)	(3 855)	(109 992)

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the market interest rates. The Group's exposure to the risk of changes in the market interest rates relates primarily to the Group's non-current borrowings with floating interest rates.

The Group is exposed to interest rate risk mainly through its current and non-current borrowings. The average interest rate payable on the Group's borrowings is disclosed in Note 25.

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

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

Year	EURIBOR rate	Effect on profit before tax EUR
2016	+0.5%	23 693
2015		27 131
2016	+1.0%	47 387
2016		54 263
2016	-0.5%	-23 693
2015		-27 131

37. Financial risk management (cont'd)

Liquidity risk

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

The table below summarizes the maturity profile of the Group's financial liabilities as at 31 December 2016 based on contractual undiscounted payments.

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

		Group		Parent Company	
		2016	**2015**	**2016**	**2015**
		EUR	**EUR**	**EUR**	**EUR**
EBITDA	EUR	2 214 680	2 520 563	1 700 156	2 232 413
EBITDA	%	13	19	10	17

EBITDA - earnings before interest, tax and depreciation/amortization,

% - EBITDA / net turnover x 100

Group

		Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	TOTAL
Interest bearing borrowings	2016	360 210	1 077 746	4 318 379	-	**5 756 335**
	2015	348 474	1 045 420	5 153 758	65 520	**6 613 172**
Other financial liabilities	2016	15 716	47 150	149 579	-	**212 445**
	2015	4 900	14 701	49 501	-	**69 102**
Trade payables and other liabilities	2016	2 035 078	440 531	-	-	**2 475 609**
	2015	1 797 062	817 775	-	-	**2 614 837**
TOTAL	**2016**	**2 411 004**	**1 565 427**	**4 467 958**	**-**	**8 444 389**
	2015	**2 150 436**	**1 877 896**	**5 203 259**	**65 520**	**9 297 111**

Parent Company

		Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	TOTAL
Interest bearing borrowings	2016	360 210	1 077 746	4 318 379	-	**5 756 335**
	2015	348 474	1 045 420	5 153 758	65 520	**6 613 172**
Other financial liabilities	2016	11 727	35 181	119 431	-	**166 339**
	2015	3 659	10 976	41 354	-	**55 989**
Trade payables and other liabilities	2016	1 628 982	440 531	-	-	**2 069 513**
	2015	1 549 279	817 775	-	-	**2 367 054**
TOTAL	**2016**	**2 000 919**	**1 553 458**	**4 437 810**	**-**	**7 992 187**
	2015	**1 901 412**	**1 874 171**	**5 195 112**	**65 520**	**9 036 215**

37. Financial risk management (cont'd)

Credit risk

The Group is exposed to credit risk through its trade receivables and cash. The Group manages its credit risk by continuously assessing the credit history of customers and assigning trade credit limits and terms on an individual basis. In addition, receivable balances are monitored on an ongoing basis to ensure that the Group's exposure to bad debts is minimized. Moreover, the Group enters into insured factoring contracts to minimize this risk. The Group's counterparties in money transactions are local financial institutions.

Group and Parent Company		31.12.2016 EUR	31.12.2015 EUR
Trade receivables – non-insured		756 687	569 465
Insured trade receivables (factoring)		1 369 834	850 978
	TOTAL:	**2 126 521**	**1 420 443**
Factoring prepayment made		(1 109 529)	(722 774)
		1 016 992	**697 669**

Capital management

The primary objective of the Group's capital management is to ensure that the Group maintains a strong credit rating and healthy capital ratios to support its business and increase the shareholder value. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions.

From time to time, the management controls capital using the equity/assets ratio as following:

Group	31.12.2016 EUR	31.12.2015 EUR
Equity	5 481 456	3 336 386
Total assets	15 780 022	14 494 963
Equity to total assets	**35%**	**23%**

Parent Company	31.12.2016 EUR	31.12.2015 EUR
Equity	5 422 355	3 286 911
Total assets	14 368 213	13 510 758
Equity to total assets	**38%**	**24%**

During the reporting period, both the equity level and the equity/assets ratio grew significantly. The existing equity level is sufficient for smooth operations of the Company and meets bank covenants with a good margin. It is also sufficient to obtain new bank loans, if necessary.

38. Fair value

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

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities at 31 December 2016.

38. Fair value (cont'd)

Group

Assets and liabilities for which FV is disclosed	Total at carrying amount	Total at fair value	Fair value measurement using: quoted prices in active markets (level 1)	significant observable inputs (level 2)	significant unobservable inputs (level 3)
	EUR	EUR	EUR	EUR	EUR
Loans to shareholders	2 468 636	2 468 636	-	-	2 468 636
Finance lease liabilities	199 977	199 977	-	199 977	-
Borrowings with floating interest rate	5 309 527	5 309 527	-	5 309 527	-
Convertible loan to SIA Lightspace Technologies	200 000	200 000	-	200 000	-
Convertible loan to SIA Zinātnes parks	686 700	686 700	-	686 700	-

Parent Company

Assets and liabilities for which FV is disclosed	Total at carrying amount	Total at fair value	Fair value measurement using: quoted prices in active markets (level 1)	significant observable inputs (level 2)	significant unobservable inputs (level 3)
	EUR	EUR	EUR	EUR	EUR
Loans to shareholders	2 468 636	2 468 636	-	-	2 468 636
Finance lease liabilities	156 215	156 216	-	156 215	-
Borrowings with floating interest rate	5 309 527	5 309 527	-	5 309 527	-
Convertible loan to SIA Lightspace Technologies	200 000	200 000	-	200 000	-
Convertible loan to SIA Zinātnes parks	686 700	686 700	-	686 700	-

Assets measured at fair value are revalued property, plant and equipment (Note 14), which are revalued on non-recurring basis (once every five years) and would be classified under Level 3.

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

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

39. Going concern

As at 31 December 2016, the Group's current assets exceeded its current liabilities by EUR 461 435. The Group's working capital ensures at least 4 inventory cycles in a 12-month period which guarantees sufficient liquidity for meeting its current liabilities.

Based on a set of assumptions, the Group's management has prepared the 2017 budget and cash flow projection that ensure adequate resources for financing the Group's operating activities as well as the expected investment flows.

The key assumptions are as follows:

- No significant changes occur either in the business environment or the market both in the EU and Latvia;
- The Group continues increasing its business volume; in 2018, its net turnover exceeds EUR 20 million;
- The Group continues investing in property, plant and equipment by increasing production capacity and process automation;
- The Group continues attracting financing from banks at least at the loan and lease amortization level:
  - For investments in property, plant and equipment, medium-term loans and leases are used;
  - As in previous 5 years, the factoring agreement is extended for the current period of one year;
  - In 2018, the working capital is increased by additional loan facilities of EUR 200 thousand or by using some other financial instrument;

39. Going concern (cont'd)

- The Group continues investing in strategic development projects and for financing the investments, the Group uses the repayments of the loan issued to the shareholder.
- The shareholder SIA MACRO RĪGA continues repaying the loan by a 50% loan repayment (Note 34) in 2017.

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

40. Subsequent events

In early 2017 the Group restructured the operational model of the Ogre manufacturing plant. The team of employees of the plant were transferred from the Parent Company to the subsidiary SIA Campus Pārogre. The Parent Company AS HansaMatrix will in the future purchase manufacturing services from the subsidiary SIA Campus Pārogre. This change will allow the Group to more precisely define management responsibilities, offer more flexibility in the development of the organization, and to further expand the manufacturing plant in Pārogre.

At 4 January 2017 shareholder SIA MACRO RĪGA sold 56 100 shares of AS HansaMatrix (HMX1R) at a price of EUR 6.85 per share. The seller is deemed an insider under EU legal acts and local securities law and was granted a consent under the Lock-up Agreement (dated 16 May 2016) it had entered into. As a result of the transaction the free float of AS HansaMatrix has increased by 3.07%.

At 10 January 2017 the SIA Lightspace Technologies investment loan was converted to shares. After the conversion of the Company's investment of EUR 200 000 to shares, the Company now holds 17.21% of SIA Lightspace Technologies shares.

At 25 January 2017 the subsidiary SIA HansaMatrix Innovation created a new manufacturing division, and started production of a new product – in optics, including the development and limited series production of lenses.

At 16 February 2017 a lease agreement with building rights (for Akmeņu street 74, Ogre) was signed between AS HansaMatrix and the Ogre local government. The Ogre local government development plan for the years 2014-2020 and investment plan for the years 2014-2017 foresees the construction of a manufacturing facility of 8 000 m^2 to 10 000 m^2 on the leased site within the Pārogre Industrial Park.

At 23 February 2017 the President of Latvia Raimonds Vējonis participated in the opening ceremony of a new surface mount assembly line at the SIA HansaMatrix Ventspils manufacturing plant. This is the fifth production line for the company. Total project costs were approximately EUR 1 million, of which EUR 380 000 is investment in new equipment, financed using 30% own investment and 70% with a leaseback arrangement from the bank.

At 14 March 2017 Lightspace Technologies opened a technology demonstration office in Silicon Valley, San Jose, California, USA.

The Parent company has provided a letter of financial support to SIA HansaMatrix Ventspils dated 24 March 2017 to the extent that is required for SIA HansaMatrix Ventspils to meet its obligations as they fall due 12 months after the issuance of SIA HansaMatrix Ventspils financial statements.

At 29 March 2017 SIA MACRO RĪGA sold in a public offering 24 971 shares of AS HansaMatrix (HMX1R) at a price of EUR 6.90 per share. The seller is deemed an insider under EU legal acts and local securities law and was granted a consent under the Lock-up Agreement (dated 16 May 2016) it had entered into. As a result of the transaction the free float of AS HansaMatrix has increased by 1.36%. Following this transaction SIA MACRO RĪGA has repaid EUR 100 thousand of its shareholder loan.

Ilmārs Osmanis	Vineta Grecka
Chairman of the Board	Chief accountant
10 April 2017	10 April 2017

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working world

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of HansaMatrix AS

Opinion

We have audited the accompanying consolidated financial statements of HansaMatrix AS and its subsidiaries (the Group) and the accompanying financial statements of HansaMatrix AS (the Parent Company) set out on pages 17 to 65 of the accompanying annual report, which comprise the statements of financial position as at 31 December 2016 and statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements of the Group and the Parent Company give a true and fair view of the financial position of the Group and the Parent Company as at 31 December 2016 and of its financial performance of the Group and the Parent Company and cash flows of the Group and the Parent Company for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Group and the Parent Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the independence requirements included in the Law on Audit Services of Republic of Latvia that are relevant to our audit of the financial statements in the Republic of Latvia. We have fulfilled our other ethical responsibilities in accordance with the Law on Audit Services of Republic of Latvia and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the Group and the Parent Company of the current period. These matters were addressed in the context of our audit of the financial statements of the Group and the Parent Company as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements of the Group and the Parent Company. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements of the Group and the Parent Company.

Key audit matter	How we addressed the key audit matter
Accounting of work in progress (the Group and the Parent Company)	
Work in progress of the Group and the Parent Company amount to 494 841 EUR as at 31 December 2016 as disclosed in *Note 18*. Work in progress amount is based on customer orders which are accounted through a series of customer order completion stages. Accounting of work in progress is relatively complex process due to specifics of contract manufacturing industry and requires continual operating effectiveness of controls involved in the process, including IT-dependent manual controls.	We performed the following procedures, among others: • we gained an understanding of the manufacturing cycle and work in progress accounting process; • we performed a test of controls for work in progress accounting process, including test of IT-dependent manual controls; • we observed year-end stock count for work in progress, counted a sample of work in progress items and compared

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

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

- we tested a sample of work in progress items at the financial year end for appropriate completion stage and accounting period;
- we assessed the principles of allocation of production overheads to work in progress as at year-end and compared the amounts allocated to the relevant expense accounts.

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

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

The Group's and the Parent Company's investments in other companies as at 31 December 2016 amounts to 661 779 EUR and 661 494 EUR, respectively (*Note 16*). Furthermore, other loans in the statements of financial position of the Group and the Parent Company amount to 871 023 EUR and 686 700 EUR as at 31 December 2016 (*Note 17*). Investments in other companies and other loans are measured at cost less impairment in the Group's and the Parent Company's financial statements.

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

Determining whether an impairment for any of these investments and loans should be recognized requires the Group's management to make significant assumptions and judgements. As a result of Group's management's impairment assessment, no impairment charge has been recognized in year 2016.

Due to the above circumstances, we considered impairment assessment of these investments and loans to be a key audit matter.

We obtained impairment assessment prepared by the Group's management and identified the key assumptions used. We involved internal valuation specialists to assist us in performing our audit procedures and assessing the key assumptions made by the Group's management.

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

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

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

As disclosed in *Note 34*, the Parent Company has issued a loan to the shareholder amounting to 2 468 636 EUR, out of which 1 234 318 EUR is shown under current assets in the Group's and the Parent Company's statements of financial position as at 31 December 2016. Loan to the shareholder corresponds to 16% and 17% of the Group's and the Parent Company's assets, respectively.

The Group's and the Parent Company's ability to collect the shareholder loan, especially in the short term, depends on the majority shareholder's ability to obtain sufficient funds for its settlement. As disclosed in *Note 34*, short term portion of the loan to the shareholder is expected to be recovered from the proceeds generated by the majority shareholder via the sale of their shares in the Parent Company though public offering within year 2017. Long term portion of the loan is expected to be settled via further sales of these shares in the Parent Company.

We assessed the management's assumptions used in the recoverability of the loan to the shareholder and discussed with the majority shareholder's management the feasibility of planned share sales, particularly in year 2017, in light of historical transactions, obtaining supporting evidence where appropriate. Furthermore, we obtained a non-binding share sales plan provided to us by the majority shareholder's banker.

We also evaluated the results of the majority shareholder's share sales subsequent to the year end, as disclosed in *Note 40*. We considered the impact of these subsequent events in the recoverability of the loan to the shareholder as at 31 December 2016.

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

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

Monitoring of liquidity position (the Group)

As explained in *Note 39*, as at 31 December 2016 the Group's current liabilities exceed its current assets by 461 435 EUR.

The Group has to manage its liquidity risk by sustaining sufficient working capital, which, among others, includes ensuring that the Group is able to continue the use of trade receivables factoring facilities (*Note 19*) and continuing the use of overdraft facilities (*Note 25*).

Due to the nature of the business and active expansion of the Group's activities, additional funding might be required, as reflected in the *Note 39*. The management's ability to generate adequate funds to ensure sufficient liquidity is based on several management assumptions, including prolongation of trade receivables factoring agreements, which expire within year 2017, and proceeds to be obtained from the repayment of the loan issued to the shareholder (*Note 34*).

This matter is important aspect to our audit since liquidity position and ability to secure continuing factoring and overdraft facilities can have an impact on the going concern assumption, on the basis of which the financial statements of the Group are prepared.

We obtained the liquidity forecasts prepared by the Group's management and evaluated the underlying assumptions, including assumptions related to the prolongation of trade receivables factoring facilities, continuing the use of overdraft facilities and shareholder's repayment of the loan issued. We evaluated the significant assumptions made by the Group's management in the context of liquidity forecasts. We performed this evaluation with reference to the approved budgets and the supporting documents, where appropriate.

Regarding financial forecasts, we compared the estimates made by the Group's management in the budget with the actual trends. Furthermore, we evaluated the actual financial results for the first months of year 2017 and compared against the budgeted results. We also reviewed the financing available to the Group subsequently to the financial year end.

We also assessed the adequacy of related disclosures contained in *Note 39*.

Other information included in the 2016 Annual Report

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

- the Management Report as set out on pages 9 to 15 of the accompanying annual report and
- the Statement of Corporate Governance for the year 2016, set out in separate statement provided by HansaMatrix AS management and available on the HansaMatrix AS website http://www.hansamatrix.com,

but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, except as described in the *Other reporting responsibilities in accordance with the legislation of the Republic of Latvia* section of our report.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed and in light of the knowledge and understanding of the Group and the Parent Company and their environment obtained in the course of our audit, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard. We have nothing to report in this regard.

Other reporting responsibilities in accordance with the legislation of the Republic of Latvia

We have other reporting responsibilities in accordance with the Law on Audit Services of the Republic of Latvia with respect to the Management Report. These additional reporting responsibilities are beyond those required under the ISAs.

Our responsibility is to consider whether the Management Report is prepared in accordance with the requirements of the Law on Annual Reports and Consolidated Annual Reports of the Republic of Latvia.

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Based solely on the work required to be undertaken in the course of our audit, in our opinion:

- information given in the Management Report for the financial year for which the financial statements are prepared is consistent with the financial statements, and
- the Management Report has been prepared in accordance with the requirements of the Law on Annual Reports and Consolidated Annual Reports of the Republic of Latvia.

In addition, in accordance with the Law on Audit Services of the Republic of Latvia with respect to the Statement of Corporate Governance, our responsibility is to consider whether the corporate governance report includes the information required in the clause 56.[1] first paragraph clauses 3, 4, 6, 8 and 9 and the section 56[2] second paragraph clause 5 of the Law on Financial Instruments Market of the Republic of Latvia.

In our opinion, the Statement of Corporate Governance includes the information required in the 56.[1] first paragraph clauses 3, 4, 6, 8 and 9 and the section 56[2] second paragraph clause 5 of the Law on Financial Instruments Market of the Republic of Latvia.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group and the Parent Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's and the Parent Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and Parent Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Parent Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report is Diāna Krišjāne.

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Licence No 17

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

Riga, 10 April 2017