

HANSAMATRIX

JOINT STOCK COMPANY

HANSAMATRIX

UNIFIED REGISTRATION NUMBER 40003454390

CONSOLIDATED AND PARENT COMPANY'S ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2020

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

Riga, 2021

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

CONTENT

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**
Major shareholders (over 5%) as at 31 December 2020 (end of the day)	**SIA MACRO RĪGA (34.07%)** **ZGI-4 AIF, KS (15.06%)** **Swedbank AS customer accounts (14.30%)** **Limited partnership BaltCap Latvia Venture Capital FundA (9.95%)** **Limited partnership FlyCap Investment Fund I AIF (9.61%)** **IPAS CBL Asset Management (6.56)** **Funds managed by Swedbank Ieguldījumu Pārvaldes Sabiedrība AS (5.10%)**
Subsidiaries	**SIA HansaMatrix Ventspils (100%)** **SIA HansaMatrix Innovation (100%)** **SIA HansaMatrix Pārogre (100%)** **SIA Zinātnes parks (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 2020**

Management Board

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

In accordance with the Articles of Association of the Company, the Chairperson of the Management Board has a right to represent the Company as a sole representative when entering into relationships with third parties or it can be done by two members of the Management Board acting jointly.

At the reporting date, the Management Board of the Company was composed of two members - the Chairperson of the Board and one Board Member.

Ilmārs Osmanis
Ilmārs Osmanis is the Chairman of the Management Board.
Appointment date: 30 December 2015

Positions held in other companies:
- Zinātnes parks, SIA – Chairman of the Management Board
- Macro Rīga, SIA – Management Board Member
- Lightspace Technologies, SIA – Chairman of the Management Board
- LEO Pētījumu centrs, SIA – Council Member
- LEITC, SIA – Council Member
- Latvian Electrical Engineering and Electronics Industry Association – Management Board Member
- Eurolcds, SIA – Management Board Member

Shares owned:
- Directly: 0
- Indirectly (through SIA, Macro Rīga): 623 198 shares (34.07%)

Share options owned: 2400 (as at 26 April, 2021)

Participation in other companies:
- SIA Macro Rīga (100%)
- Lightspace Technologies, SIA (12.77%)

Ilmārs Osmanis has full higher education in electrical engineering; later he was enrolled on the Executive MBA program which was not completed due to strong involvement in business projects. His entrepreneurial experience includes successful development of SIA MACRO RĪGA, an electronic components distribution business in the Baltic countries, a business that was subsequently successfully sold. During the last 15 years Ilmārs Osmanis was CEO of the Parent Company that has evolved into one of state-of- the art high tech manufacturing groups in the Nordic and Baltic countries with 240 employees in its 3 manufacturing plants. In 2014 Ilmārs Osmanis conducted a management buy-out, and in 2016 was successful in raising capital and getting the Parent Company listed on the Main List of the Nasdaq Baltic stock exchange.

Jānis Sams

Jānis Sams is a member of the Management Board and Chief Operating Officer of the Company.
Appointment date: 8 December 2020

Positions held in other companies:

- HansaMatrix Pārogre, SIA – Management Board Member
- HansaMatrix Ventspils, SIA – Management Board Member
- Latvian Electrical Engineering and Electronics Industry Association – Management Board Member

Shares owned: 0
Share options owned: 0

Participation in other companies: none

Prior to joining HansaMatrix, the professional activities of Jānis Sams were in the field of electronics manufacturing, taking the position of a functional manager in international companies. Currently, Jānis Sams is also on the Board of the Latvian Electrical Engineering and Electronics Industry Association. He holds a Master's degree in comprehensive quality management from the Technical University of Latvia as well as an engineering degree in production automation.

Māris Macijevskis

Māris Macijevskis is a member of the Management Board and CFO of the Company.
Appointment date: 16 February 2018

Positions held in other companies:

- Zinātnes parks, SIA – Management Board Member
- HansaMatrix Innovation, SIA – Management Board Member
- IQ Capital, SIA – Management Board Member
- Latvian Squash Federation – Chairman of the Management Board
- FTG, SIA – Management Board Member

Shares owned: 300
Share options owned: 3500 (as at 26 April, 2021)

Participation in other companies:

- IQ Capital SIA (100%)
- FTG, SIA (33.33%)

Māris Macijevskis has been working for the Company since 2017. He has 15 years' previous experience in the banking sector; he has been the Head of Corporate Client Service Department at Citadele banka AS. Māris Macijevskis holds a Bachelor of Science degree in Economics and Business Administration from the Stockholm School of Economics in Riga, a Master of Science degree in International Economics from the University of Latvia and is a CFA charterholder.

Changes in the Management Board:
On 24 November 2020, the Supervisory Board of HansaMatrix decided to make changes in the composition of the Management Board, appointing as a Board member the Chief Operating Officer (COO) Jānis Sams in addition to the Chairman of the Board Ilmārs Osmanis and the Board Member, Chief Financial Officer (CFO) Māris Macijevskis.

Supervisory Board

The Supervisory Board of the Company is a collegial body exercising supervision over the key activities of the Company and, where appropriate, decision making by the Management Board. At the reporting date, the Supervisory Board consisted of five members, elected at the shareholders' meeting for the maximum term of office of five years. The members of the Supervisory Board elect from amongst themselves the Chairperson and one Deputy Chairperson of the Supervisory Board.

At the reporting date, the Company's Supervisory Board was composed of 5 members: Chairperson, Deputy Chairperson and three members of the Supervisory Board.

Andris Bērziņš

is the Chairman of the Supervisory Board of the Company.
Appointment date: 22 May 2020
Term of office: 21 May 2025
Positions held in other companies:

- RIGA EVANGELICAL PARISH – Chairman of the Management Board
- TechHub Riga, foundation – Management Board Member
- KBZ, SIA – Chairman of the Management Board
- TechChill, foundation – Management Board Member
- Sonarworks, SIA – Council Member
- Nordigen Solutions, SIA – Chairman of the Management Board

Shares owned: 0
Andris Bērziņš is an independent member of the Supervisory Board.

Participation in other companies:

- KBZ, SIA (100%)
- TechChill, foundation (beneficial owner)

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.

Normunds Igolnieks

Normunds Igolnieks is a member of the Supervisory Board of the Company.
Appointment date: 22 May 2020
Term of office: 21 May 2025

Represents 275 562 shares owned by ZGI-4, venture growth capital fund managed by ZGI Capital-4.
Shares owned: 0

Positions held in other companies:

- KOOL LATVIJA, SIA – Council member
- Mārupes Metālmeistars, AS – Chairman of Council
- ZGI Capital, SIA – Chairman of the Management Board
- I factor, SIA – Management Board Member

Participation in other companies:

- ZGI Capital, SIA (26%)
- I factor, SIA (100%)
- KOOL CONSTRUCTION, SIA (beneficial owner)

Since 2011, Normunds Igolnieks has been the Chairman of the Board and partner of ZGI Capital, which is one of the most experienced venture capital fund managers in the Baltics. From 2001 to 2011, Normunds Igolnieks was the Chairman of the Board of the asset management company SEB Investment Management as well as held several other positions related to the financial sector.

Dagnis Dreimanis

Dagnis Dreimanis is a member of the Supervisory Board of the Company.
Appointment date: 22 May 2020
Term of office: 21 May 2025

Shares owned: 0
Dagnis Dreimanis represents the interests of minority institutional shareholders and the interests of BaltCap investment fund in SIA Lightspace Technologies.

Positions held in other companies:
- DD Ventures SIA – Management Board Member
- UPRENT group, SIA – Council member
- Vika Wood, SIA – Council Member
- BaltCap AIFP SIA – Chairman of the Board
- SOLVINA SIA – Management Board Member
- Latvian Capital Ventures SIA – Management Board Member
- Coffee Address Holding, SIA – Council Member

Participation in other companies:
- DD Ventures SIA (100%)
- Latvian Capital Ventures SIA (57,5%)

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

Ingrīda Blūma

Ingrīda Blūma is a member of the Supervisory Board of the Company.
Appointment date: 22 May 2020
Term of office: 21 May 2025
Positions held in other companies:
- RĪGAS PIENA KOMBINĀTS, AS – Council Member
- i-bloom, SIA – Management Board Member
- PN Project, AS – Council Member

Shares owned: 0
Ingrīda Blūma is an independent member of the Supervisory Board.

Participation in other companies:
- i-bloom, SIA (100%)

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

Baiba Anda Rubesa

Baiba Anda Rubesa is a member of the Supervisory Board of the Company.
Appointment date: 22 May 2020
Term of office: 21 May 2025
Positions held in other companies:

- Stockholm School of Economics, Riga, foundation – Management Board Member
- Novatore, SIA – Management Board Member
- RF Factor, – Management Board Member
- Coffee Address Holding, SIA – Council Member

Shares owned: 0
Baiba Rubesa is an independent member of the Supervisory Board.

Participation in other companies:

- RFactor, SIA (100%)

Baiba Anda Rubesa is an experienced international company manager with extensive experience in corporate governance, leadership skills and sustainability requirements and a significant addition to the Company's Management Board in the areas of management, leadership and public relations, acting as an independent member of the Supervisory Board.

Baiba Rubesa works as a consultant and since 2019 has been appointed to the Supervisory Board of the Stockholm School of Economics in Riga. From 2016 to 2019, Baiba Rubesa was a member of the Human Resources Committee of the Supervisory Board of the Latvian electricity company Latvenergo. From 2015 to 2018, Baiba Rubesa was the Chairperson of the Management Board and the Executive Director of the joint venture RB Rail, which implements the largest railway infrastructure project of the European Union in the Baltics, *Rail Baltica*. Since 2014, she has been the owner of the consulting company RFactor. Prior to that, from 2010 to 2013, she was engaged for the Vice President Corporate Social Responsibility job at Statoil ASA, while from 2008 to 2010 Baiba Rubesa was the Director of Cooperation with Public Authorities at Statoil Azerbaijan. From 2011 to 2013, Baiba Rubesa was a member of the Supervisory Board of EITI (Extractive Industries Transparency Initiative) and from 2012 to 2015 - a member of the Supervisory Board of Citadele banka. From 2004 to 2007, she chaired the Foreign Investors' Council in Latvia as well as was the Vice President of the Chamber of Commerce and Industry in Latvia. From 2002 to 2009, Baiba Rubesa was a member of the Supervisory Board of DnB Nord Bank, prior to that, from 2001 to 2008 – the Executive Director of Statoil Latvia, and from 1996 to 2000 – the Marketing and Public Relations Director of Statoil Baltic States.

Changes in the Supervisory Board of the Company:
On 22 May 2020, the HansaMatrix annual shareholders' meeting elected a new Supervisory Board wherein to the existing members Andris Bērziņš, Ingrīda Blūma and Dagnis Dreimanis, new members – Normunds Igolnieks and Baiba Anda Rubesa – were elected. The decision came into effect at the date of its adoption. Ivars Ķirsons has left the Supervisory Board of HansaMatrix where he represented the interests of the growth venture capital fund ZGI-4 managed by ZGI Capital. Ivars Ķirsons was on the Supervisory Board of HansaMatrix from 29 October 2019.

Information on shares and dividends

Information on the shares of the Parent Company:

ISIN code	LV0000101590
Listed	Nasdaq Riga Baltic Main List
Exchange code	HMX1R
Type of shares	100% ordinary shares
Rights attached to the shares	Right to receive dividends and liquidation quotas and right to vote at the shareholders' meeting
Rights resulting from one share	One share has 1 vote.
Par value of a share	EUR 1
Total number of shares	1 829 381
Number of shareholders	272 (as at 31 December 2020)
Dividends per share	EUR 0 EUR for year 2019
Dividends/ Normalized earnings	0% (year ended 31 December 2019)
P/E ratio	-30.01 (as at 31 December 2020)

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

As at 31 December 2020 (end of the day), the following were the major shareholders of the Company:

Major shareholders (above 5%)	**Number of shares and votes**	**Equity interest**
SIA Macro Rīga	623 198	34.07%
ZGI-4 AIF KS	275 562	15.06%
Swedbank AS client accounts	259 943	14.30%
KS BaltCap Latvia Venture Capital Fund	182 000	9.95%
KS FlyCap Investment Fund I AIF	175 738	9.61%
Funds managed by IPAS CBL Asset Management	120 000	6.56%
Funds managed by Swedbank Ieguldījumu Pārvaldes Sabiedrība AS	93 369	5.10%
Other (below 5%)	99 571	5.35%
TOTAL:	**1 829 381**	**100.00%**

Management report

Introduction

The joint stock company HansaMatrix (hereinafter – HansaMatrix or the Parent Company) is a leading Baltic electronic system product developer and manufacturer, listed on the Nasdaq Baltic Main List. HansaMatrix Group (hereinafter – the Group) includes the following 100% subsidiaries: SIA HansaMatrix Pārogre, SIA HansaMatrix Ventspils, SIA HansaMatrix Innovation and SIA Zinātnes parks. The Parent Company actively operates in industrial systems, data network infrastructure, the Internet of Things, medical and several other B2B (business-to-business) market sectors. HansaMatrix advances knowledge-based business, product development competencies, engineering teams and an innovation platform for future business development. HansaMatrix has 21-years of experience in electronics manufacturing and its business mission is to develop global technology products and to assist its customers be competitive on global markets.

Business environment

Year 2020 started with Chinese year holiday extended by 2 weeks and full lockdown in some China provinces due to COVID-19 crisis. From February, 2020 it started to affect supply chains and some of customers. Several customers put on hold their orders. On supply chain side our Asian suppliers started to operate with several weeks delay and not fully staffed. Transportation networks started to limit weight per day to be shipped for one address.

Latvian Government on March 11, declared emergency situation and introduced number of restrictions to contain the spread of corona virus infection. HansaMatrix at its manufacturing sites introduced recommended health and safety measures and continued to operate the facilities.

Factors influencing the year on year decrease in revenue in the first half of year are related to COVID-19 global spread and were the following: personnel safety issues, supply chain disruptions, and customer demand weakening.

After initial decrease over all business situation changed in a middle of year 2020. Demand from data transmission network market sector along with telecom network products experienced strong growth which resulted in increase in order book of data network products market sector.

At Q4 2020 the ongoing worsening of COVID-19 epidemiologic situation was observed in EU and particularly in Latvia. Despite being one of lowest infection rates in EU, Latvia reached infection rates that required more measures to reduce infection speed. Latvian Government declared emergency situation starting November 9 that was afterwards extended into Year 2021.

In 2021 COVID-19 restrictions also limited the new business development due to travel limitations to/from the countries where HasaMatrix target clients are located.

HansaMatrix has adopted employee isolation, distancing protocols and measures, and continuing manufacturing operation without serious interruption. At Q4 of 2020 new negative trends started in global transportation networks – deficit of transportation capacity as well as newly started deficit of semiconductor manufacturing capacity which resulted in increased lead time to majority of semiconductor components used in manufacturing of electronic systems. Company has experienced few cases of deficit that required to partially stop manufacturing process for short – 1…2 week standby.

Forward looking management expects new business trend towards more technology penetrated economy (more data bandwidths, more robotics and automation, more remote work, increased EU independence in manufacturing) when recovering from COVID-19 pandemic and preparing to be ready for higher market demand and faster business growth afterwards. It needs to be expected that during next 6-12 months infection situation still can interfere normal business operation and disrupt business operation. Such risk needs to be taken in account until COVID-19 pandemic has been taken under control.

Performance of the Group

The HansaMatrix Group closed the year 2020 with a revenue from contracts with customers (hereinafter – revenue, sales or turnover) of EUR 22.59 million, decreasing by 8.21% compared to the EUR 24.61 million turnover reported in 2019.

In the reporting period, the Group EBITDA was EUR 3.081 million, showing a 18.08% decrease in comparison with EUR 3.761 million in 2019; the net profit was negative EUR 0.552 million in comparison with the net profit of EUR 0.208 million in 2019.

Revenue and EBITDA result in 2020 was influenced by COVID-19 global spread impacting and creating challenges in such business environment factors as personnel safety issues, supply chain disruptions, and transportation network disruptions. COVID-19 has influenced the Company performance already starting with the second half of January, 2020 when the virus gained momentum in China and Asia creating significant disruptions in the Company supply chain from this region. Some of the Company's clients, mostly in industrial, IoT and other sectors were influenced by the pandemic situation, but at the same time the positive market trend that started in 2020 Q3 continues - increased demand in the data network and medical device sectors.

In 2020, the R&D turnover reached EUR 1.645 million, decreasing by 27.74% compared to EUR 2.278 million achieved in 2019. In 2020, the R&D turnover represented 7.3% of the total consolidated sales.

The decrease in the R&D sales in 2020 resulted from the decrease in the R&D services provided in optics and photonics and from the decrease in manufacturing volume of hi-tech optics and photonics products influenced by COVID-19 extraordinary situation, decreasing R&D spending budgets in the industry.

In 2020, the net profit margin was influenced by the decreased revenue and the level of fixed cost base, by the interest payment provisions for the European Investment Bank financing, by the share of losses from the associate company and by EIB warrant value change cost increase due to increasing HansaMatrix stock market price.

Ratios uses in this paragraph and further in the text are explained in the Note "Definitions of alternative performance measures" under the section "Other notes to the financial statements".

Performance of the Parent Company

The Parent Company closed the year 2020 with a net turnover of EUR 21.39 million, decreasing by 7.27% compared to the EUR 23.06 million revenue reported in the previous period. During the reporting period, the Parent Company reported EBITDA of EUR 1.172 million, decreasing by 27.97% compared to EUR 1.627 million in 2019; the net profit was negative EUR 0.656 million, compared to the net profit of EUR 0.324 million in 2019.

Performance of the associated company

In 2020, SIA Lightspace Technologies consolidated revenue reached EUR 0.49 million (in 2019: EUR 0.69 million) and the reporting year was finished with a net loss of EUR 0.82 million, a significant improvement as compared to 2019 net loss result of EUR 1.67 million. As at 31 December 2020, its total assets amounted to EUR 11.2 million against EUR 10.2 million at the end of the previous year.

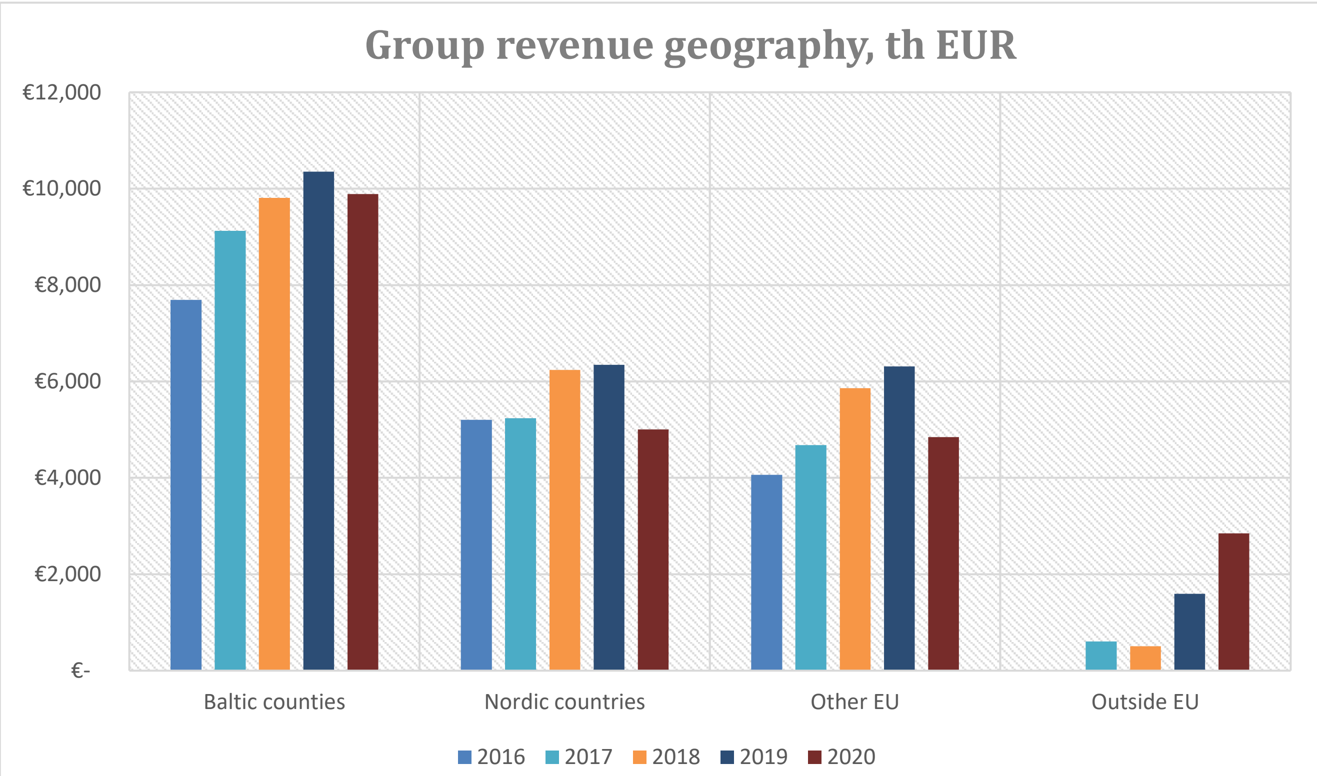
SIA Lightspace technologies will cover the loss for the current and previous reporting periods by attracting new investments for product development and from future profits.

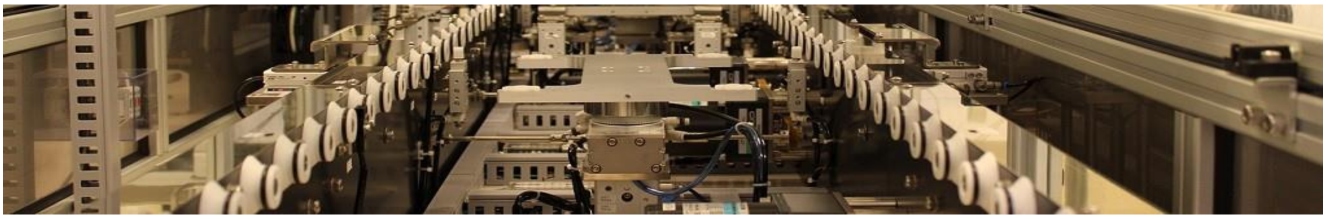
Group revenue from contracts with customers in the reporting period

Most of HansaMatrix's total revenue from contracts with customers (hereinafter – revenue, sales or turnover) comes from business clients in the Baltics (44%), Nordic countries (22%) and other EU countries (21%). In 2020 revenue growth was observed in outside EU countries, all the other geographic regions contracted.

In 2020, the revenue generated outside EU countries grew by 79% in comparison to 2019, explained by attracting new business clients, mostly in the developed countries outside the EU. In 2020 compared to 2019 the decrease in the other EU, the Baltic and Nordic countries amounted respectively to 23%, 21% and 4%.

Revenue of the Group, EUR'000	**2016**	**2017**	**2018**	**2019**	**2020**
Baltic region	7 689	9 125	9 462	10 355	9 890
Nordic countries	5 206	5 238	5 841	6 348	5 007
Other EU countries	4 066	4 679	5 777	6 315	5 844
Outside EU		608	508	1 593	2 849

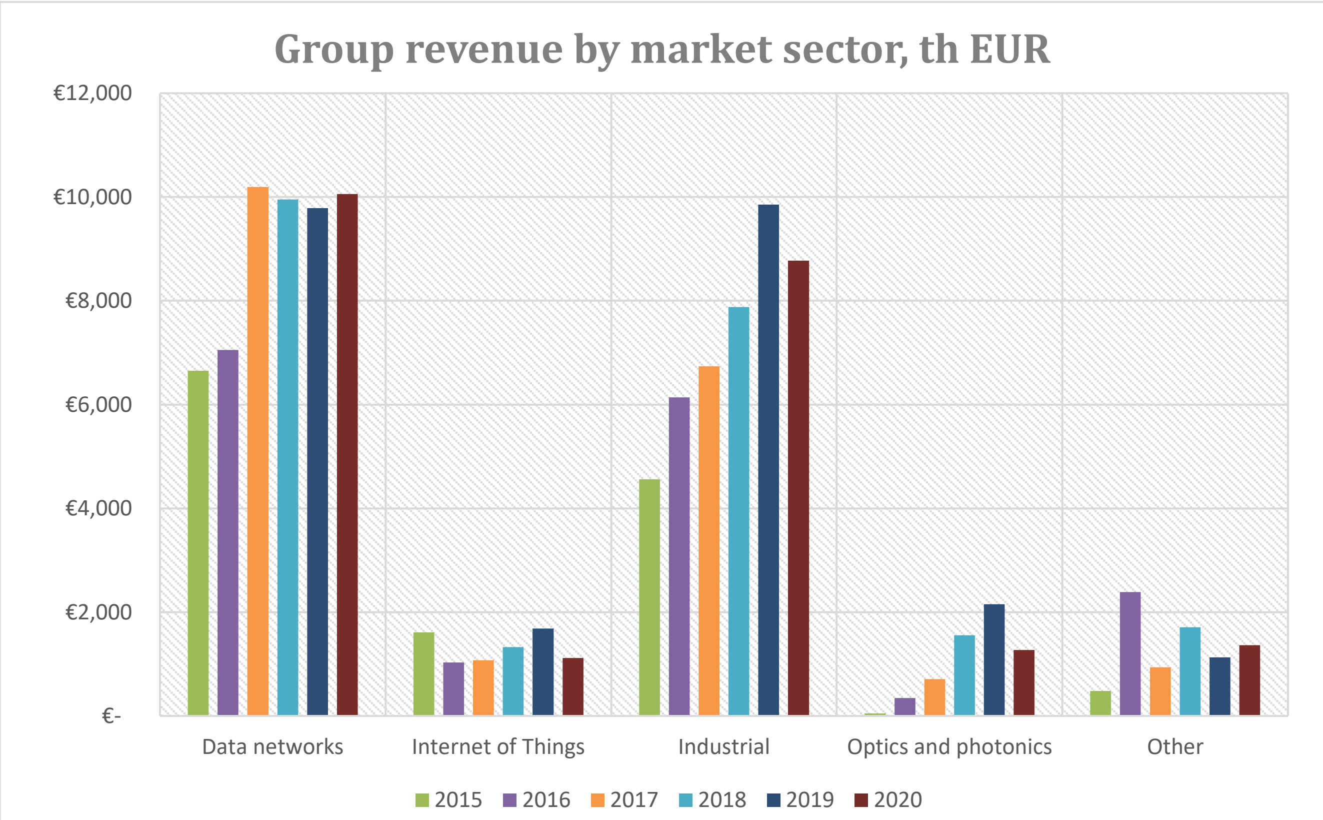




HansaMatrix' revenue is derived in five major market sectors: data network infrastructure products, the Internet of Things, industrial products, optics and photonics products, and other products. In Q1 2019, the Company started to report revenue from a new market sector, namely optics and photonics products, by separating it from that of the other products market sectors. In previous years, sales results by market sectors have been restated by separating the optics and photonics sector from other products revenue.

In 2020, the two largest market sectors were data network infrastructure clients and industrial clients, accounting for 45% and 39% of revenue respectively. Data networks sector revenue in 2020 exhibited 3% growth, other product sector revenue also increased by 21%. The industrial sector, the optics and photonics and the Internet of Things sectors revenue decreased in 2020 by respectively 11%, 41% and 34% compared to 2019.

Revenue of the Group, EUR'000	**2016**	**2017**	**2018**	**2019**	**2020**
Data network infrastructure	7 055	10 191	9 884	9 788	10 060
Internet of Things	1 031	1 075	1 314	1 686	1 117
Industrial products	6 141	6 737	7 462	9 856	8 777
Optics and photonics	347	707	1 429	2 153	1 272
Other products	2 388	940	1 498	1 128	1 364



Investments

In 2020, HansaMatrix invested EUR 0.84 million in production capacity increase, research instruments, test systems and the development of new products.

In the reporting period HansaMatrix continued investing in the technological equipment and the realization of European Regional Development Fund (ERDF) funded project “Development of experimental production of 3D volumetric imaging equipment and its components” under ERDF “Operational Program “Growth and Jobs” 1.2.1 Specific Support Objective “Increase Private Investment in R&D” measure 1.2.1.4. “Support for Introduction of New Products in Production”. Total and eligible costs of the aforementioned project amount to EUR 2.9 million, with the planned ERDF funding EUR 1 million, or 35% of the eligible project costs.

Investments in associates

SIA Lightspace Technologies is a 3D photonics and optical solutions company, which has become a global technology leader in multi focal AR VR near-eye displays and future glasses-free 3D image display technologies with main uses in medicine, science, defense industry as well as in gaming, entertainment and media.

In 2020, HansaMatrix invested EUR 0.5 million in SIA Lightspace Technologies in the form of a convertible loan. At the end of the reporting period, HansaMatrix's investments (at the Group level) in SIA Lightspace Technologies amounted to EUR 7.191 million, consisting of a convertible loan of EUR 4.962 million and share capital investment balance sheet recognized value – EUR 2.229 million.

The shareholding structure of SIA Lightspace Technologies is as follows: HansaMatrix - 49.86%, KP BaltCap Latvia Venture Capital Fund - 27.07%, Ilmārs Osmanis - 12.77%, KS AIF Imprimatur Capital Technology Venture Fund - 7.8%, KS AIF Imprimatur Capital Seed Fund - 2.5%.

The purpose of the convertible loan is to develop optically deep 3D images display technology and innovative products based thereon. SIA Lightspace Technologies fully (100%) owns Lightspace Technologies, Inc., a company registered in Delaware, which holds approximately ten patents for multi-layer (volumetric) 3D image displays, protecting the invention in most parts of the world, including the United States, Europe, China, Korea, and other territories.

It is also part of implementing the product investment-based development strategy of HansaMatrix, which envisages investing in companies that can realize synergies with the integrated production services of AS HansaMatrix and the use of engineering and knowledge resources of SIA HansaMatrix Innovation and that can ensure the start of production of new high value-added products within one to two years.

Investments in subsidiaries

SIA Zinātnes parks develops an industrial real estate project, located in the Riga airport area.

On 25 September 2020, HansaMatrix acquired 25.33% of the shares of SIA Zinātnes parks for EUR 5 thousand and SIA Zinātnes parks became a 100% subsidiary of HansaMatrix.

In 2020, HansaMatrix invested additional EUR 243 thousand in SIA Zinātnes parks in the form of a convertible loan, which was mainly used for the lease of a land plot from VAS Starptautiskā lidosta Rīga (Riga International Airport), technical design of the buildings of the industrial park and loan payments to AS SEB banka.

At the end of the reporting period, the total Parent Company’s investment in Zinātnes parks amounted to EUR 1.87 million, consisting of a convertible loan of EUR 1.066 million and paid up capital of EUR 0.805 million.

Research and development

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

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

In 2020 The Group was involved in R&D in 4 different European Union institution co-financed R&D technology development projects that are in more detail described in Note 8 Other operating income in relation to income from research grant recognition.

The largest share of SIA HansaMatrix Innovation R&D revenue is related to the associated company SIA Lightspace Technologies.

Business development overview of associated company - Lightspace Technologies

The Lightspace Technologies' cross-functional optical systems development team recently accomplished the AR headset project IG1000. It was shown to the public for the first time at SPIE AR MR VR 2020 conference and exhibition in San Francisco, 3-4 February 2020. In one exhibition hall with all the top AR products, incl. Microsoft Hololens 2, Magic Leap ML1 etc., LightSpace IG1000 demonstrated its image benefits and quality.

What's different - IG1000 is the first multifocal image headset that provides a real 3D image accommodation (focusing distance). Prolonged use of headset IG1000 does not cause eye strain, brain stress, headache and other symptoms associated with the so called vergence-accommodation conflict. Besides, the display demonstrates an improved perception of 3D objects, even small details can be seen perfectly.

LightSpace has partnered with two medical device market leaders and two car manufacturers and hopes to launch ready-made products for these market sectors in 2021/2022.

LightSpace is in the process of commercializing the IG1000/IG2000 product and plans to complete its design and industrialization by Q3 2020 and start production in 2021/2022.

Multifocal image AR VR headsets are considered a critical technology for near range 3D visualization in high performance 3D graphics, digital and smart manufacturing, digital and image guided medicine, training and simulations in realistic 3D environments.

On 28 July 2020, the HansaMatrix associate LightSpace Technologies signed grant agreement No 960828 with the European Commission to receive EUR 2.25 million from the European Union research and innovation program Horizon 2020.

In addition, the European Innovation Council Equity Fund (EIC Fund) is expected to finalize the decision process and carry out a capital injection of up to EUR 1.7 million to LightSpace Technologies through a separate investment agreement, providing mixed funding.

The company has also announced the invention of a technology suitable for the development of multifocal consumer augmented reality (AR) glasses.

SIA Lightspace Technologies is a 3D photonics and optical solutions company that has become a global technology leader in the development of AR VR multifocal head-mounted displays and future 3D image display technologies, with applications in medicine, science, defense industry, as well as in the areas of gaming, entertainment and multi-media. The technological advantages are based on several key enabling photonics technologies invented by the company, one of which is a fast-switching liquid crystal optical diffuser technology.

LightSpace holds 15 global patents and has filed four new patent applications in the last 12 months.

SIA Lightspace Technologies fully (100%) owns the corporation Lightspace Technologies, Inc., registered in Delaware (USA), as well as the majority in and control over EUROLCDS SIA (83.81%).

Key Growth and Financial Ratios

As at 31 December 2020, the Group's compound annual growth rate (CAGR) for the last five years was 6%, while EBITDA over the same period has demonstrated the compound annual growth of 7%. Year 2020 financial results were significantly influenced by COVID-19 global pandemic situation as described in more detail in the management report section Performance of the Group.

Ratio, EUR'000	**2016**	**2017**	**2018**	**2019**	**2020**	***CAGR***
Revenue	16 961	19 649	21 587	24 611	22 589	6%
EBIT (operating profit)	783	1 877	1 395	1 316	703	*-2%*
EBIT (operating profit) margin	4.62%	9.55%	6.46%	5.35%	3.11%	
EBITDA	2 215	3 660	3 259	3 719	3 081	*7%*
EBITDA margin	13,06%	18,63%	15,10%	15,11%	13.64%	
Normalized earnings	551	1 228	781	208	-552	
Net profit margin	3.25%	6.25%	3.62%	0.84%	-2.44%	
ROA	3.49%	6.58%	3.08%	0.70%	-1.91%	
ROE	10.06%	15.09%	8.91%	2.30%	-6.51%	
Liquidity ratio	0.91	0.69	1.02	0.85	0.79	
Return on Capital Employed (ROCE)	5.16%	10.20%	4.3%	0.98%	-2.73%	

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

Stock and Securities Market

In 2020, the share price of HansaMatrix increased, reaching its highest level in December 2020, the share price increased by 39%, and as at 31 December 2020, the price of one HansaMatrix share amounted to EUR 9.05, which was the highest share price observed during the year and also historically, while the lowest was EUR 5.00.

Securities trading history is summarized in the following table:

Price	2016	2017	2018	2019	2020
First	6.950	7.950	8.14	6.5	6,25
Max	8.150	8.830	8.5	6.65	9,05
Min	6.950	6.900	6.05	5.93	5,00
Most recent transaction	7.950	8.140	6.5	6.25	9,05
Number	19 574	72 941	137 505	32 591	38 141
Turnover (millions)	EUR 0.15	0.51 EUR	EUR 0.94	EUR 0.20	EUR 0.26
Capitalization (millions)	EUR 14.54	EUR 14.89	EUR 11.89	EUR 11.43	EUR 16.56

Exposure to risks

The Group and Parent Company's activities expose them to a variety of risks: market risk, credit risk, liquidity risk and cash flow risk, geopolitical risk, foreign currency risk as well as interest rate risk.

The Group and the Parent Company, operating in a highly competitive international market, are subject to market risk. The Parent Company manages risk according to its business development strategy, which foresees the development of a highly automated and technologically developed manufacturing process, operating in diversified market sectors with a growth tendency. Continued efforts are made for attracting new clients. In 2020, the top 5 clients on the Parent Company accounted for 60% of the total revenue, the remaining 40% were generated by 30 clients. Most of the top clients of the Company have been working with AS HansaMatrix as their manufacturer for at least 10 years.

The Group and the Parent Company are exposed to ***credit risk*** through its trade receivables. The Parent Company has introduced various procedures to mitigate the risk of unrecoverable debts. Most trade credits are insured using non-recourse factoring. In accordance with Note 21 to the financial statements, as at 31 December 2020, 61% of all trade receivables were insured. Clients, whose trade credits for any reason are not or cannot be insured, are subject to shortened payment schedules, advance payments, credit limits and other risk hedging conditions. The credit history of customers is also assessed on an ongoing basis and credit limits and terms are changed on an individual basis as applicable.

The Group and the Parent Company are subject to ***liquidity and cash flow risks***. Liquidity is affected by inventories and the volume of work in progress, the amount of trade credits granted to clients, amount of prepayments received, suppliers' terms of payment and the working capital available to the Group and the Parent Company. Liquidity strains can also influence the ability to carry out loan and lease payments. To mitigate liquidity risk, the Parent Company employs financial and operational management procedures. The amount of inventories is monitored on a regular basis, orders and deliveries from suppliers are rescheduled, as are the sequence and volume of planned manufacturing in order to speed up the inventory turnover. Working capital is also monitored regularly which leads to planning of the availability of credit resources and financing instruments and the amount and repayment schedules thereof.

Income from sales outside the European Union represents a small part of the Group's turnover (approximately 5% of the revenue), which gives rise to ***geopolitical risk***. The global market of electronic manufacturing services is mainly affected by the US-China "trade war". The manufacturers of electronic systems in Eastern Europe benefit from higher US import tariffs on Chinese electronics products on the US market. On the other hand, the "trade war" has a dampening effect on the economy and reduces investments in infrastructure. The situation is not stable and may change at any time. The suspended raising of import duties has calmed down the market and stabilized it.

The Group and the Parent Company are subject to ***foreign currency risk***. The financial assets and liabilities, which are exposed to foreign currency risk, comprise cash and cash equivalents, trade receivables and trade payables. The Group and the Parent Company are mainly exposed to foreign currency risk of the USD and EUR. To mitigate foreign currency risk, the Parent Company effectively employs foreign exchange hedging procedures, for example, by using pricing policy, regularly adjusting sales prices to reflect the changes in the prices of raw materials caused by currency rate fluctuations, or planning supplies and sales in the main currencies used – EUR and USD.

The Group and the Parent Company are also subject to ***interest rate*** risks arising from the fluctuations of the interbank money market rate for the euro (EURIBOR), mostly relating to the possible increase in the ECB base rate and resulting in EURIBOR rate increase for long-term floating rate loans. The sensitivity of the pre-tax profit of the Group and the Parent Company to possible changes in the EURIBOR rates is comparably insignificant; for example, a 1% increase in the EURIBOR rate leads to a decrease in the net profit by less than 10%.

Impact of COVID-19

Despite COVID – 19 situations, most of European leading Electronic Manufacturing Services (EMS) companies experience growth. Nevertheless, the electronics industry is facing significant component deficit explained by the growth in upstream demand in data networks, automotive, medicine and IoT business sectors. The existing global component manufacturing capacity was not sufficient for development of new technologies and the demand driven by COVID-19 pandemic global outbreak.

The ongoing COVID-19 pandemic may have a negative impact on the Group performance in the short term in the following areas: customer demand weakening, personnel safety issues and supply chain disruptions.

All business units of the Group, including Pārogre and Ventspils manufacturing plants, metal parts and optics product unit in Mārupe and head office in Mārupe are fully operational. HansaMatrix ensures safe working conditions to workers present at all plants and offices of the Company and ensures remote work from home for employees where it is possible and effective. All requirements of self-isolation and quarantine stipulated by law are supported and enforced when necessary.

In response to the emergency situation HansaMatrix has introduced internal code of emergency aimed to ensure safeguarding and maintaining good health of the employees in the Group. New internal regulations and business practices have been introduced and are being regularly followed up and improved.

COVID-19 situation is impacting some of the risks to which the Group is exposed.

Market risk. The Group manages market risk according to its business development strategy, which foresees the development of a highly automated and technologically developed manufacturing process, operating in diversified market sectors with a growth tendency. Continued efforts are made for attracting new clients. In 2020, the top 5 clients on the Parent Company accounted for 60% of the total revenue, the remaining 40% were generated by 30 clients. Most of the top clients of the Company have been working with AS HansaMatrix as their manufacturer for at least 10 years.

COVID-19 impact on the sectors where the Group operates is different and balances out – in data networks and medical sectors the demand is increasing, however the demand is decreasing or stagnating for products in other sectors, e.g. not first necessity electronic products, products related to aviation and tourism industries.

Credit risk. The Group and the Parent Company are exposed to credit risk through its trade receivables. The Parent Company has introduced various procedures to mitigate the risk of unrecoverable debts. Most trade credits are insured using non-recourse factoring. As at 31 December 2020, 60% of all trade receivables outstanding were insured. Clients, whose trade credits for any reason are not or cannot be insured, are subject to shortened payment schedules, advance payments, credit limits and other risk hedging conditions. The credit history of customers is also assessed on an ongoing basis and credit limits and terms are changed on an individual basis as applicable.

For example, COVID-19 situation due to delays in investment attraction has influenced the payment schedule execution for one of the Group's IoT sector client's debt in amount of 90 thousand EUR towards HansaMatrix. The Group has booked provisions for this outstanding debt according to accounting policy and is actively seeking solutions for the debt repayment.

HansaMatrix continues to work closely with customers to better identify and understand the potential impact the COVID-19 situation may have on the manufacturing order book. Customers, located in the affected countries, are continuing the operations and are taking the virus spread and contraction precautionary measures. The manufacturing order volume can be influenced by potential decisions by businesses to postpone investments and by consumers to decrease expenditures and also by international travel restrictions preventing customers from promptly accepting the executed orders, which potentially can be mitigated by online solutions.

Liquidity and cash flow risk. Liquidity is affected by inventories and the volume of work in progress, the amount of trade credits granted to clients, number of prepayments received, suppliers' terms of payment and the working capital available to the Group and the Parent Company. Liquidity strains can also influence the ability to carry out loan and lease payments. To mitigate liquidity risk, the Parent Company employs financial and operational management procedures. The level of inventories is monitored on a regular basis, orders and deliveries from suppliers are rescheduled, as are the sequence and volume of planned manufacturing in order to speed up the inventory turnover. Working capital is also monitored regularly which leads to planning of the availability of credit resources and financing instruments and the amount and repayment schedules thereof.

COVID-19 situation has slowed inventory turnover for some of the Group Clients due to demand decrease and also in some cases due to supply chain disruptions. The electronic component supply chain disruptions due to coronavirus are expected to impact HansaMatrix manufacturing order execution, potentially shifting fulfillment times, and could increase component sourcing costs.

To mitigate COVID-19 impact on liquidity, in addition to the regular procedures, the Group on ongoing basis closely monitors and utilizes the available government support for liquidity. Nevertheless, at the end of 2020 the Group successfully extended for 1 year the necessary working capital financing agreements with SEB banka in amount of EUR 4.56 million.

Subsequent Events

On 5 January 2021, HansaMatrix announced launching of operations in its second plant in Ventspils according to the manufacturing campus development plan. The Company has signed a 10-year lease agreement with the Freeport of Ventspils Authority to lease the newly constructed manufacturing building with a total area of 4600 square meters, located at Ventspils Augsto tehnoloģiju parks No 7, Ventspils. The new plant will complement the existing manufacturing capacity with new integrated manufacturing process in plastic parts production and in the assembly of final product that contains optical elements and systems. It will double the box build assembly capacity available on Ventspils manufacturing site.

On 22 March, 2021, HansaMatrix announced changes to its management to be carried out in the course of the second quarter 2021 by appointing Jānis Sams, Chief Operating Officer and Management Board member to the position of Chief Executive Officer, pending all regulatory requirements. HansaMatrix founder Ilmars Osmanis will continue to rapidly develop LightSpace Technologies as its founder and current CEO and will remain a significant shareholder in HansaMatrix and is expected to join the Supervisory Board of the Company after the planned Supervisory Board elections at the company's annual Shareholders' meeting on May 26, 2021.

The full impact of the COVID-19 pandemic on economic activity is still unknown and the situation is still developing. Depending on the duration of the Coronavirus disease (COVID-19) pandemic, and continued negative impact on economic activity in year 2021, the Group might experience negative results, and liquidity restraints and incur impairments on its assets. The exact impact on the Group's activities in 2021 and thereafter cannot be predicted. In the period since 31 December 2020 the Group has not incurred losses due to impairments recognized on outstanding receivables, write down of inventories and fair value decreases of securities/ commodities.

Further Development

In 2021, the Group and the Parent Company continue implementing their strategic development goals by raising the share of knowledge intensive product development and manufacturing.

Ilmārs Osmanis
Chairman of the Board
26 April 2021

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Statement of Management's Responsibility

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

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

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

For the Management Board of AS HansaMatrix:

Ilmārs Osmanis
Chairman of the Board
26 April 2021

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Financial statements
Statement of comprehensive income

	Notes	Group 2020	Group 2019	Parent Company 2020	Parent Company 2019
		EUR	EUR	EUR	EUR
Revenue from contracts with customers	4	22 588 982	24 610 615	21 386 718	23 064 083
Cost of sales	5	(20 016 243)	(20 972 071)	(20 843 512)	(21 776 711)
Gross profit		**2 572 739**	**3 638 544**	**543 206**	**1 287 372**
Distribution costs	6	(856 607)	(824 722)	(96 258)	(91 675)
Administrative expense	7	(1 738 345)	(1 805 635)	(965 407)	(788 883)
Other operating income	8	778 946	420 346	671 331	380 625
Other operating expense	9	(53 693)	(112 816)	(15 885)	(57 822)
Operating profit or (loss)		**703 040**	**1 315 717**	**136 987**	**729 617**
Loss from investments in associates	16	(325 146)	(623 202)	-	-
Finance income	38	10 290	32 585	31 096	32 585
Finance costs	10	(939 796)	(498 918)	(824 466)	(419 623)
Profit or loss before tax		**(551 612)**	**226 182**	**(656 383)**	**342 579**
Corporate income tax	11	-	(18 294)	-	(18 294)
Net profit or loss for the reporting period		**(551 612)**	**207 888**	**(656 383)**	**324 285**
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods, net of tax					
Other comprehensive income:		-	-	-	-
Total comprehensive income or (loss) for the year, net of tax		**(551 612)**	**207 888**	**(656 383)**	**324 285**
Profit or (loss) attributable to:					
Equity holders of the Parent Company		(550 322)	214 490	(656 383)	324 285
Non-controlling interests		(1 290)	(6 602)	-	-
		(551 612)	**207 888**	**(656 383)**	**324 285**
Comprehensive income or (loss) attributable to:					
Equity holders of the Parent Company		(550 322)	214 490	(656 383)	324 285
Non-controlling interests		(1 290)	(6 602)	-	-
		(551 612)	**207 888**	**(656 383)**	**324 285**
Basic and diluted earnings per share, EUR	13	(0.30)	0.12		

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

Ilmārs Osmanis
Chairman of the Management Board
26 April 2021

Vineta Grecka
Chief Accountant
26 April 2021

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Statement of financial position

ASSETS

	Notes	Group 31.12.2020	Group 31.12.2019	Parent Company 31.12.2020	Parent Company 31.12.2019
NON-CURRENT ASSETS		**EUR**	**EUR**	**EUR**	**EUR**
Intangible assets					
ODM assets		310 475	309 998	-	-
Other intangible assets		575 706	489 647	550 890	449 751
Goodwill		360 653	360 653	-	-
Total intangible assets	14	**1 246 834**	**1 160 298**	**550 890**	**449 751**
Property, plant and equipment					
Land and buildings		3 428 169	3 595 233	3 428 169	3 595 233
Equipment and machinery		4 201 035	4 826 532	2 765 033	3 231 361
Other fixtures and fittings, tools and equipment		558 352	702 687	89 887	72 743
Right-of-use assets		2 792 929	2 656 938	516 165	243 873
Leasehold improvements		90 110	65 660	-	149
Construction in progress		2 369 063	2 295 463	362 360	397 055
Total property, plant and equipment	15	**13 439 658**	**14 142 513**	**7 161 614**	**7 540 414**
Non-current financial assets					
Investments in subsidiaries	16	-	-	1 732 815	1 727 822
Investments in associates	16	2 229 852	2 554 998	3 709 889	3 709 889
Investments in other companies	17	42 086	37 754	41 801	37 469
Other investment loans	16	4 961 573	4 461 446	4 961 573	4 461 446
Loan to related company	19	-	-	916 876	-
Other financial assets	18	38 564	84 078	38 564	84 078
Other non-current receivables		61 048	63 709	17 412	18 544
Total non-current financial assets		**7 333 123**	**7 201 985**	**11 418 930**	**10 039 248**
TOTAL NON-CURRENT ASSETS		**22 019 615**	**22 504 796**	**19 131 434**	**18 029 413**
CURRENT ASSETS					
Raw materials and consumables	20	1 972 306	3 051 606	1 567 036	2 455 500
Trade receivables from contracts with customers	21	755 890	957 492	269 907	388 353
Receivables from related companies from contracts with customers	22	-	-	97 757	247 685
Prepayments for goods	23	94 152	50 117	22 991	39 175
Prepayments to related companies	23	-	-	-	1 005 248
Loan to related company	19	-	-	1 066 200	823 700
Loan to shareholder	38	551 883	540 133	551 883	540 133
Prepaid expense		30 632	50 736	20 356	12 353
Corporate income tax	35	-	685	-	219
Contract assets		2 225 865	2 022 550	1 020 872	1 589 358
Other receivables	24	351 957	379 047	192 488	247 987
Cash and cash equivalents	25	830 243	254 480	751 733	245 926
TOTAL CURRENT ASSETS		**6 812 928**	**7 306 846**	**5 561 223**	**7 595 637**
TOTAL ASSETS		**28 832 543**	**29 811 642**	**24 692 657**	**25 625 050**

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

Ilmārs Osmanis
Chairman of the Management Board
26 April 2021

Vineta Grecka
Chief Accountant
26 April 2021

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Statement of financial position

EQUITY AND LIABILITIES

	Notes	Group 31.12.2020 EUR	Group 31.12.2019 EUR	Parent Company 31.12.2020 EUR	Parent Company 31.12.2019 EUR
EQUITY					
Share capital	26	1 829 381	1 829 381	1 829 381	1 829 381
Share premium	26	2 435 579	2 435 579	2 435 579	2 435 579
Reserves	26	1 973	688	1 973	688
Non-current asset revaluation reserve	27	1 914 956	2 038 647	1 914 956	2 038 647
Retained earnings:					
a) brought forward		2 842 621	2 392 385	2 206 689	1 758 713
b) for the period		(551 612)	214 490	(656 383)	324 285
Non-controlling interest		-	117 047	-	-
TOTAL EQUITY		**8 472 898**	**9 028 217**	**7 732 195**	**8 387 293**
LIABILITIES					
Non-current liabilities					
Loans from credit institutions	28	7 390 029	7 930 600	7 091 046	7 531 956
Lease liabilities	29	1 686 167	1 729 235	316 559	117 038
Other financial liabilities	18	1 652 485	1 345 930	1 652 485	1 345 930
Prepayments received from customers (contract liabilities)	32	-	149 845	-	149 845
Government grants	31	724 075	1 022 466	617 060	864 861
Taxes payables – non-current	34	273 417	-	-	-
Total non-current liabilities		**11 726 173**	**12 178 076**	**9 677 150**	**10 009 630**
Current liabilities					
Loans from credit institutions	28	1 829 071	1 874 479	1 629 749	1 675 157
Lease liabilities	29	960 475	826 058	145 583	90 148
Prepayments received under contracts with customers	32	788 670	1 042 633	694 030	928 279
Trade payables	33	3 496 960	3 724 298	1 757 396	2 219 533
Payables to related companies	38	-	-	2 728 287	2 166 204
Taxes payable	34	811 374	558 704	46 752	14 705
Corporate income tax	35	2 516	809	824	-
Other liabilities	36	251 387	239 734	35 194	23 797
Government grants	31	185 758	101 845	135 168	66 821
Accrued liabilities	37	307 261	236 789	110 329	43 483
Total current liabilities		**8 633 472**	**8 605 349**	**7 283 312**	**7 228 127**
TOTAL LIABILITIES		**20 359 645**	**20 783 425**	**16 960 462**	**17 237 757**
TOTAL EQUITY AND LIABILITIES		**28 832 543**	**29 811 642**	**24 692 657**	**25 625 050**

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

Ilmārs Osmanis
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Statement of cash flows

	Notes	Group 2020 EUR	Group 2019 EUR	Parent Company 2020 EUR	Parent Company 2019 EUR
CASH FLOWS TO/ FROM OPERATING ACTIVITIES					
Profit (loss) before tax		(551 612)	226 182	(656 383)	342 579
Adjustments for:					
Depreciation and amortization	14.15	2 282 643	2 403 390	1 035 408	896 955
Depreciation included in the cost of work in progress and in the cost of fixed assets		95 552	42 122	-	-
Interest expense	10	552 587	410 187	438 573	397 484
Interest income	38	(10 290)	(32 585)	(31 096)	(32 585)
Decrease in allowances for slow-moving items and receivables	19	(117 976)	121 868	(46 557)	130 024
Income from grant recognition	8	(227 078)	(101 846)	(192 054)	(66 822)
Gain on disposal of property, plant and equipment	8	(13 866)	(56 124)	(13 866)	-
Fair value adjustment for warrants	9	306 555	-	306 555	-
Share of loss of an associates	15	325 146	623 202	-	-
Adjustments for:					
(Increase)/ decrease in inventories		1 146 084	601 344	957 850	(382 142)
(Increase)/ decrease in receivables		(263 468)	(3 106 894)	1 098 188	(2 218 591)
Increase/ (decrease) in payables		(110 474)	1 439 844	(373 715)	2 575 214
Cash generated from operations, gross		**3 413 803**	**2 570 690**	**2 522 903**	**1 642 116**
Interest paid		(286 732)	(822 960)	(176 953)	(404 429)
Corporate income tax paid		-	(18 294)	-	(18 294)
Net cash flows to/ from operating activities		**3 127 071**	**1 729 436**	**2 345 950**	**1 219 393**
CASH FLOWS TO/ FROM INVESTING ACTIVITIES					
Purchase of intangible assets and property, plant and equipment	14.15	(840 546)	(3 502 064)	(519 408)	(2 234 585)
Proceeds from sale of property, plant and equipment		117 002	62 847	193 665	90 273
Investments in subsidiaries		-	-	(247 493)	(513 600)
Investments in other companies		(4 333)	(1 518 921)	(4 333)	(1 518 921)
Loans to other companies		(500 127)	(2 007 323)	(500 127)	(2 007 323)
Net cash flows to/ from investing activities		**(1 228 004)**	**(6 965 461)**	**(1 077 696)**	**(6 184 156)**
CASH FLOWS TO/ FROM FINANCING ACTIVITIES					
Dividends paid		-	(73 175)	-	(73 175)
Grants received		376 707	721 558	42 059	653 450
Loans received from credit institutions		-	2 770 473	-	2 650 042
Loans repaid to credit institutions		(849 205)	(2 243 364)	(749 544)	(2 230 913)
Loans from lease companies		-	398 014	-	-
Payment of principal portion of lease liabilities		(850 806)	(459 783)	(164 140)	(157 821)
Loans repaid by related companies		-	2 000 001	109 178	2 000 001
Net cash flows to/ from financing activities		**(1 323 304)**	**3 113 724**	**(762 447)**	**2 841 584**
Change in cash and cash equivalents for the year		**575 763**	**(2 122 301)**	**505 807**	**(2 123 179)**
Cash and cash equivalents at the beginning of the year	24	**254 480**	**2 376 781**	**245 926**	**2 369 105**
Cash and cash equivalents at the end of the year	24	**830 243**	**254 480**	**751 733**	**245 926**

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

Ilmārs Osmanis
Chairman of the Management Board
26 April 2021

Vineta Grecka
Chief Accountant
26 April 2021

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Statement of changes in equity

Group

	Share capital	Share premium	Reserves	Non-current asset revaluation reserve	Retained earnings/ (accumulated loss)	Non-controlling interest	Total
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Balance as at 31 December 2018	**1 829 381**	**2 435 579**	**1 324**	**2 162 339**	**2 341 868**	**-**	**8 770 491**
Profit for the reporting year	-	-	-		214 490	(6 602)	207 888
Other comprehensive income	-	-	-		-		-
Total comprehensive income	-	-	-	-	214 490	(6 602)	207 888
Depreciation of revalued items of property, plant and equipment	-	-	-	(123 692)	123 692	-	-
Share option reserves	-	-	(636)	-	-	-	(636)
Dividends paid	-	-	-	-	(73 175)	-	(73 175)
Acquisition of subsidiaries	-	-	-	-	-	123 649	123 649
							-
Balance as at 31 December 2019	**1 829 381**	**2 435 579**	**688**	**2 038 647**	**2 606 875**	**117 047**	**9 028 217**
Loss for the reporting year	-	-	-	-	(550 322)	(1 290)	(551 612)
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive losses	-	-	-	-	(550 322)	(1 290)	(551 612)
Depreciation of revalued items of property, plant and equipment	-	-	-	(123 691)	123 691	-	-
Share option reserves	-	-	1 285	-	-	-	1 285
Acquisition of controlling interest	-	-	-	-	110 765	(115 757)	(4 992)
Balance as at 31 December 2020	**1 829 381**	**2 435 579**	**1 973**	**1 914 956**	**2 291 009**	**-**	**8 472 898**

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

Ilmārs Osmanis
Chairman of the Management Board
26 April 2021

Vineta Grecka
Chief Accountant
26 April 2021

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Statement of changes in equity (cont'd)

Parent Company

	Share capital	Share premium	Reserves	Non-current asset revaluation reserve	Retained earnings/ (accumulated loss)	Total
	EUR	EUR	EUR	EUR	EUR	EUR
Balance as at 31 December 2018	**1 829 381**	**2 435 579**	**1 324**	**2 162 339**	**1 708 196**	**8 136 819**
Profit for the reporting year	-	-	-	-	324 285	324 285
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	324 285	324 285
Depreciation of revalued items of property, plant and equipment	-	-	-	(123 692)	123 692	-
Share option reserves	-	-	(636)	-	-	(636)
Dividends paid	-	-	-	-	(73 175)	(73 175)
Balance as at 31 December 2019	**1 829 381**	**2 435 579**	**688**	**2 038 647**	**2 082 998**	**8 387 293**
Loss for the reporting year	-	-	-	-	(656 383)	(656 383)
Other comprehensive income	-	-	-	-	-	-
Total comprehensive loss	-	-	-	-	(656 383)	(656 383)
Depreciation of revalued items of property, plant and equipment	-	-	-	(123 691)	123 691	-
Share option reserves	-	-	1 285	-	-	1 285
Dividends paid	-	-	-	-	-	-
Balance as at 31 December 2020	**1 829 381**	**2 435 579**	**1 973**	**1 914 956**	**1 550 306**	**7 732 195**

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

Ilmārs Osmanis
Chairman of the Management Board
26 April 2021

Vineta Grecka
Chief Accountant
26 April 2021

THIS DOCUMENT IS SIGNED ELECTRONICALLY WITH A SAFE ELECTRONIC SIGNATURE AND CONTAINS A TIME STAMP

Notes to the financial statements

1. Corporate information

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

The HansaMatrix Group (hereinafter – the Group) is a leading Baltic electronic system product developer and manufacturer. Information on the Group's structure and other related party relationships of the Group and the Parent Company is provided in Notes 16 and Note 38.

The financial statements for the year ended 31 December 2020 were approved by a decision of the Parent Company's Board on 26 April 2021.

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

2. Significant accounting principles

2.1. Basis of preparation

The financial statements present the consolidated financial position of the AS HansaMatrix Group (i.e. AS HansaMatrix and its subsidiaries) and the financial position of AS HansaMatrix on a stand-alone basis.
The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and standard interpretations published by IFRS Interpretations Committee, i.e. IFRS IC (previously the International Financial Reporting Interpretations Committee, IFRIC) as adopted by the European Union. The consolidated financial statements are prepared on a historical cost basis, unless stated otherwise in the accounting policies described below.

The monetary unit used in the financial statements is the euro (EUR). The consolidated financial statements cover the period 1 January 2020 through 31 December 2020.

2.2. Basis of consolidation

2.2.1 Subsidiaries

The consolidated financial statements comprise the financial statements of AS HansaMatrix and entities controlled by the Parent Company (its subsidiaries) as at 31 December 2020. The financial statements of the subsidiaries are prepared for the same reporting period as for the Parent Company, using consistent accounting policies.

Subsidiaries are companies that are controlled by the Parent Company. Control is the power to govern the financial and operating policies of the company so as to obtain benefits from its activities. Control is deemed to be existing where the Group has a possibility to achieve or obtain the power of control over benefiting from its investments and where it can make a return by using its influence on the investment (valid rights that provide a present opportunity to control the company through the investment). Consolidation of a subsidiary begins when the Parent Company obtains control over the subsidiary and ceases when the Parent Company discontinues the control. Reporting periods and dates of the financial statements of the Parent Company and subsidiaries correspond to those of the consolidated financial statements. Accounting policies of the subsidiaries are changed to bring them in line with that of the Group.

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.

2.2.2. Associate

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.
Under the equity method, the investment in an associate or a joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment separately.
Unrealized gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

2.2. Basis of consolidation (cont'd)

2.2.2. Associate (cont'd)

The aggregate of the Group's share of profit or loss of an associate is shown on the face of the profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate. The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group. After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired.
If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and it carrying value, and then recognizes the loss within 'Share of profit of an associate' in the profit or loss. Upon loss of significant influence over the associate, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

2.2.3. Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses. When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree. Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as equity is not re-measured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments, is measured at fair value with the changes in fair value recognized in the statement of profit or loss in accordance with IFRS 9. Other contingent consideration that is not within the scope of IFRS 9 is measured at fair value at each reporting date with changes in fair value recognized in profit or loss. Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in profit or loss. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary are equity transactions (i.e. transactions with owners in their capacity as owners). When the proportion of the equity held by non-controlling interests' changes, the carrying amounts of the controlling and non-controlling interest's area adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the parent.

2.3. Foreign currency translation

The functional and presentation currency of the Group is the euro (EUR), the monetary unit of the Republic of Latvia. Transactions in foreign currencies are translated into the euro at the euro foreign exchange reference rate published by the European Central Bank at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the euro applying the euro foreign exchange reference rate published by the European Central Bank at the last day of the reporting year. The differences arising on settlements of transactions or on reporting foreign currency transactions at rates different from those at which these transactions have originally been recorded are netted in the statement of comprehensive income accounts. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. The non-monetary items are carried at historical cost and no further retranslation is performed.

Non-financial assets and liabilities

2.4. 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.

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

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

2.5. ODM (Original Design Manufacturing) assets

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

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

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

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

2.6. Research and development costs

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

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

2.7. 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 measured at revaluated amount less accumulated depreciation (of the buildings) and impairment losses recognized after date of revaluation. 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 10 years
Other property, plant and equipment	over 3 to 10 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 or in admirative expense 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.

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 until the respective assets are completed and available for use.

In cases 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.

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 recognized in the statement of comprehensive income as changes in the equity caption 'Property, plant and equipment revaluation reserve'. Decreases that offset previous increases of the same asset are charged in the statement of comprehensive income and debited against the revaluation reserve directly in equity; all other decreases are charged to the current year's profit or loss. Any gross carrying amounts and accumulated depreciation at the date of revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after the revaluation equals its revalued amount. Property, plant and equipment revaluation reserve is decreased over the useful life of the asset. Revaluation reserve cannot be distributed in dividends, used for indemnity, reinvested in other reserves, or used for other purposes.

2.8. 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 (FIFO) basis

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. Allowances are made for slow moving inventories which have not been sold or used in a 24-month period.

Net realizable value

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 2020 (Note 20).

2.9. Grants

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

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

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

2.10. Provisions

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

The Group manufactured products that malfunction, do not correspond to the specifications or have defects may be returned to the Group. The sole responsibility of the Group under the warranty is to repair or replace the non-confirming or damaged product. This warranty does not apply to:
- pilot products, prototypes, preproduction units, product testing batches;
- any products repaired by the seller or third party;
- any products used wrongfully due to misuse or negligence.

Warranty period is 1 to 2 years and set on an individual basis.

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

2.11. Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

2.11. Leases (cont'd)

Group as a lessee (cont'd)

Right-of-use assets

The Group recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

- Plant and machinery - 2 - 5 years
- Lease of land - up to 50 years
- Motor vehicles and other equipment - 2 to 5 years

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are also subject to impairment. If there are any indications of impairment, the carrying amount of the asset is written down to its recoverable which is the higher of the right-of -use asset's selling price and its value in use recognizing impairment loss as expense in the statement of profit or loss. Impairment test is carried out at the end of each reporting year.

Lease liabilities

At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate.

Variable lease payments that do not depend on an index or a rate are recognized as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included the profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Group and Parent Company as a lessor

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

Financial assets and liabilities

2.12. Financial assets

The Group classifies financial assets as follows:
- financial assets at amortized cost;
- equity investments at fair value through other comprehensive income (FVTOCI);
- financial assets at fair value through profit or loss (FVTPL),
- debt instruments at fair value through other comprehensive income (FVTOCI).

Financial assets at amortized cost

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

Equity investments at FVTOCI

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

Financial assets at FVTPL

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

Debt instruments at FVTOCI

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

2.13. Financial liabilities

The Group classifies financial liabilities as follows:
- financial liabilities at amortized cost;
- financial liabilities at fair value through profit or loss (FVTPL).

Financial liabilities at amortized cost

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

2.13. Financial liabilities (cont'd)

Financial liabilities at FVTPL

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

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

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

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the Group's and the Parents financial statement of financial position) when:
• The rights to receive cash flows from the asset have expired or
• The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.
Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2.14. Fair value measurement

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

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

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

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

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

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

2.14. Fair value measurement (cont'd)

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

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

2.15. Impairment of financial instruments and contract assets

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

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

For trade receivables and contract assets, the Group and the Parent Company apply a simplified approach – a loss allowance is always established equal to the amount of credit losses expected over the remaining life of the asset (lifetime ECLs).

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

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

2.16. 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 of 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.

2.17. Receivables

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

The Group and the Parent Company split trade receivable balances in two portfolios based on a business model.
- Trade receivables from contracts with customers within a business model with the objective to hold financial assets in order to collect contractual cash flows are accounted at amortized cost and reviewed for impairment;
- Trade receivables from contracts with customers held with the only objective of selling the financial assets are accounted for at FVTPL.

For receivables, the Group and the Parent Company measure the ECLs based on the historical data for the last 3 years, and where the historical data are not available, make assumptions.

2.17. Receivables (cont'd)

Factoring

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

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

2.18. Revenue recognition

The Group and the Parent Company have concluded that the performance obligation for provided services is exercised over time.

2.18.1. Sale of goods and services

The Group and the Parent Company recognizes revenue from sale of goods and services over time because the goods and services delivered to the clients are highly customized to fulfill the customer needs, and it would take significant rework for the asset to be used alternatively. Moreover, Group and the Parent Company are also entitled for payment of any products made to date. Trade receivables are generally due in 30 - 90 days after delivery.

Due to the specifics of the production cycle of the Group and the Parent Company it is impracticable to reasonably measure the progress towards complete satisfaction of the performance obligation. Therefore, the Group and the Parent Company are recognizing revenue to the extent of the costs incurred.

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

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

2.18.2. Volume rebates

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

2.18.3. Significant financing component

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

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

2.18.4. Principal versus agent consideration

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

2.18. Revenue recognition (cont'd)

2.18.5. Contract assets

A contract asset is initially recognized for revenue earned from services because the receipt of consideration is conditional on successful completion of the installation. Upon completion of the installation and acceptance by the customer, the amount recognized as contract assets is reclassified to trade receivables. Contract assets are subject to impairment assessment.

2.18.6. Contract liabilities (prepayments received under contracts with customers)

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

2.18.7. Income from investments

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

2.19. Distribution of dividends

Dividends payable to the shareholder of the Parent Company are recognized as a liability in the financial statements for the period the shareholder of the Parent Company has authorized thereof.

2.20. Taxes

2.20.1. Corporate income tax

Legal entities have not been required to pay income tax on earned profits starting from 1 January 2018 in accordance with amendments made to the Corporate Income Tax Law of the Republic of Latvia. Corporate income tax is paid on distributed profits and deemed profit distributions. Consequently, current and deferred tax assets and liabilities are measured at the tax rate applicable to undistributed profits. Starting from 1 January 2018, both distributed profits and deemed profit distributions have been subject to the tax rate of 20 per cent of their gross amount, or 20/80 of net expense. Corporate income tax on dividends is recognized in the consolidated profit or loss as expense in the reporting period when respective dividends are declared, while, as regards other deemed profit items, at the time when expense is incurred in the reporting year.
Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or other comprehensive income, in which case it is recognized in equity or other comprehensive income.

2.20.2. Deferred corporate income tax

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

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

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

2.20.3. Value added tax

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

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

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

2.21. 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 do not include subsidiaries**.**

2.22. 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 consider the timing of the issue of new shares.

2.23. Share-based payments

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

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

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

2.24. Subsequent events

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

2.25 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 judgment used in the preparation of the financial statements relate to capitalization of development costs. Estimates include depreciation, allowances for doubtful receivables and inventories and contract assets, 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 Group assessed the potential impact of COVID-19 pandemic situation, including the quarantine announced in Latvia in March 2020, on the financial statements, including the going concern assumption. The management believes that the situation will not affect the Group's ability to continue as a going concern because the Group neither has experienced nor expects to experience a significant business disruption due to this. Moreover, it has sufficient balance of cash and cash equivalents and liquid assets in order to manage a short-term volatility in the Group's cash flows if caused by the COVID-19 situation. The above circumstances might have a significant impact on these estimates in the next financial period that cannot be reasonably quantified at this stage by the management due to the great uncertainty associated with the further development of COVID-19 pandemic situation in the countries where the Group and its customers operate and the economy as the whole due to general business disruption caused by the circumstances.
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:

2.25.1. Carrying amounts of property, plant and equipment (at cost)

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. Group's management considers that no significant adjustments to the carrying values of property, plant and equipment are necessary (Note 15).

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

2.25.2. Revaluation of property, plant and equipment

Revaluation of certain items of the Group's property, plant and equipment (real estate – buildings and land plots) is performed by external certified valuators by using the amortized replacement cost method. The valuation is performed in accordance with property valuation standards and IAS 36 Impairment of Assets based on the highest and best use of the asset. As a result of the revaluation, the residual replacement cost of each item of property, plant and equipment is established. The residual replacement cost is the current market value of the asset considering its current use plus the replacement cost of related improvements in buildings, engineering structures and equipment less depreciation and other impairment. The real estate was revalued as at 31 December 2017 (Note 27) and next revaluation is planned in 2022.

2.25.3. Allowances for doubtful and bad receivables

For receivables, the Group and the Parent Company measure the ECLs based on the historical data for the last 3 years, and where the historical data are not available, make assumptions using the following matrix:

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

2.25.4. Other investment loans

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

2.25.5. Investments in other companies

Equity investments in non-listed companies have been classified and measured as equity instruments designated at fair value through OCI. The Group elected to classify irrevocably its non-listed equity investments under this category as it intends to hold these investments for the foreseeable future. The fair values of the non-listed equity investments have been estimated using a DCF-model. The valuation required management to make certain assumptions about the model inputs, including forecast cash flows, the discount rate, credit risk and volatility. The probabilities of the various estimates within the range can be reasonable assessed and are used in management's estimate of fair value for these non-listed equity investments (Note 43).

2.25.6. Deferred tax assets and liabilities

The management of the Group has decided not to distribute the subsidiaries' profit in dividends until 21 April 2024. The Group prepares high level development plan for the next 5 years, which does not provide for the payment of dividends in the foreseeable future. The Group's profit is intended to be used for repayment of credit liabilities and investments both for the renewal of the Group's production equipment and for the digitization of the processes. The Company controls the timing of the reversal of the temporary difference and believes that the latter will not reverse in the foreseeable future. Deferred tax liabilities arising from the subsidiaries profit are not recognized in the Group's financial statements. No deferred tax liability arises from investments in associate as up to the date there are no profits to be distributed.

2.25.7. Determination of lease term

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. In addition the Group applies its reasonable expectations to determine the period during which the underlying asset will be used, by considering: the broader economics of the contract, and not only contractual termination payments (e.g. if either party has an economic incentive not to terminate the lease such that it would incur a penalty on termination that is more than insignificant, the contract is enforceable beyond the date on which the contract can be terminated) and whether each of the parties has the right to terminate the lease without permission from the other party with no more than an insignificant penalty (if only one party has the right to terminate the lease without permission from the other party with no more than an insignificant penalty, the contract is enforceable beyond the date on which the contract can be terminated by that party).

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

2.25.8. Revenue recognition over time

As the Group and the Parent Company are manufacturing products that are highly customized to fulfill the customer needs, and it would take significant rework for the asset to be used alternatively, the performance creates an asset that the customer controls as the asset is created and finally the Group and the Parent Company are also entitled to payment for the performance completed; the revenue is recognized over time.

2.25.9 Development costs

The Group capitalizes costs for product development projects. Initial capitalization of costs is based on management's judgement that technological and economic feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model. In determining the amounts to be capitalized, management makes assumptions regarding the expected future cash generation of the project and the expected future benefits. At 31 December 2020, the carrying amount of capitalized development costs was EUR 0 (2019: 296 063 EUR).

2.25.10 Segments

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

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

2.25.11 Useful lives of intangible assets and property, plant and equipment

The residual value and the useful life of an asset is reviewed at least at each financial year-end and, if expectations differ from previous estimates, any change is accounted for prospectively as a change in estimate under IAS 8.
Considering the decrease in the production volume and intensity of the use of property, plant and equipment in recent years, in 2019 the Group reviewed the useful lives of the assets and concluded that part of fully depreciated assets is still in active use. A number of assets that have been fully depreciated are still in active use. Please see Note 15.

3. Changes in accounting policies and disclosures

(a) Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Group as of 1 January 2020:

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

- **IFRS 3: Business Combinations (Amendments)**
  The IASB issued amendments in Definition of a Business (Amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The Amendments are effective for business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, with earlier application permitted. The amendments do not have any material impact on the Group and Parent Company's financial statements.

- **IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of 'material' (Amendments)**
  The Amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The Amendments clarify the definition of material and how it should be applied. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'. In addition, the explanations accompanying the definition have been improved. The Amendments also ensure that the definition of material is consistent across all IFRS Standards. The amendments do not have any material impact on the Group and Parent Company's financial statements.

- **Interest Rate Benchmark Reform - IFRS 9, IAS 39 and IFRS 7 (Amendments)**
  In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7, which concludes phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. The amendments published, deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate and address the implications for specific hedge accounting requirements in IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement, which require forward-looking analysis. The amendments provide temporary reliefs, applicable to all hedging relationships that are directly affected by the interest rate benchmark reform, which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate. There are also amendments to IFRS 7 Financial Instruments: Disclosures regarding additional disclosures around uncertainty arising from the interest rate benchmark reform. The amendments are effective for annual periods beginning on or after 1 January 2020 and must be applied retrospectively. Phase two (ED) focuses on issues that could affect financial reporting when an existing interest rate benchmark is replaced with a risk-free interest rate (an RFR). The amendments do not have any material impact on the Group and Parent Company's financial statements.

(b) Standards issued but not yet effective and not early adopted

- **Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**
  The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU. The amendments do not have any material impact on the Group and Parent Company's financial statements.

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

(b) Standards issued but not yet effective and not early adopted (cont'd)

- **IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)**
  The amendments are effective for annual reporting periods beginning on or after January 1, 2022 with earlier application permitted. However, in response to the Covid-19 pandemic, the Board has deferred the effective date by one year, i.e. 1 January 2023, to provide companies with more time to implement any classification changes resulting from the amendments. The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current or non-current. The amendments affect the presentation of liabilities in the statement of financial position and do not change existing requirements around measurement or timing of recognition of any asset, liability, income or expenses, nor the information that entities disclose about those items. Also, the amendments clarify the classification requirements for debt which may be settled by the company issuing own equity instruments. These Amendments have not yet been endorsed by the EU. The amendments do not have any material impact on the Group and Parent Company's financial statements.

- **IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets as well as Annual Improvements 2018-2020 (Amendments)**
  The amendments are effective for annual periods beginning on or after 1 January 2022 with earlier application permitted. The IASB has issued narrow-scope amendments to the IFRS Standards as follows:
  - **IFRS 3 Business Combinations (Amendments)** update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.
  - **IAS 16 Property, Plant and Equipment (Amendments)** prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognize such sales proceeds and related cost in profit or loss.
  - **IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendments)** specify which costs a company includes in determining the cost of fulfilling a contract for the purpose of assessing whether a contract is onerous.
  - **Annual Improvements 2018-2020** make minor amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and the Illustrative Examples accompanying IFRS 16 Leases

  The amendments have not yet been endorsed by the EU. The amendments do not have any material impact on the Group and Parent Company's financial statements.

- **IFRS 16 Leases-Covid-19 Related Rent Concessions (Amendment)**
  The amendment applies, retrospectively, to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted, including in financial statements not yet authorized for issue at 28 May 2020. IASB amended the standard to provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. The amendment provides a practical expedient for the lessee to account for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change was not a lease modification, only if all of the following conditions are met:
  - The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change.
  - Any reduction in lease payments affects only payments originally due on or before 30 June 2021.
  - There is no substantive change to other terms and conditions of the lease.

  In February 2021 the IASB issued a proposal to extend the relief period by another year, i.e. to apply the practical expedient on rent concessions to a change in lease payments originally due on or before 30 June 2022 from 30 June 2021. The amendment is effective for annual periods beginning on or after 1 April 2021 with earlier application permitted. The amendment has not yet been endorsed by the EU. The amendments do not have any material impact on the Group and Parent Company's financial statements.

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

(b) Standards issued but not yet effective and not early adopted (cont'd)

- **Interest Rate Benchmark Reform – Phase 2 – IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (Amendments)**
  In August 2020, the IASB published Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, completing its work in response to IBOR reform. The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). In particular, the amendments provide for a practical expedient when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, to require the effective interest rate to be adjusted, equivalent to a movement in a market rate of interest. Also, the amendments introduce reliefs from discontinuing hedge relationships including a temporary relief from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component. Furthermore, the amendments to IFRS 4 are designed to allow insurers who are still applying IAS 39 to obtain the same reliefs as those provided by the amendments made to IFRS 9. There are also amendments to IFRS 7 Financial Instruments: Disclosures to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. The amendments are effective for annual periods beginning on or after 1 January 2021 with earlier application permitted. While application is retrospective, an entity is not required to restate prior periods. The amendments have not yet been endorsed by the EU. The amendments do not have any material impact on the Group and Parent Company's financial statements.

- **IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (Amendments):**

The Amendments are effective for annual periods beginning on or after January 1, 2023 with earlier application permitted. The amendments provide guidance on the application of materiality judgements to accounting policy disclosures. In particular, the amendments to IAS 1 replace the requirement to disclose 'significant' accounting policies with a requirement to disclose 'material' accounting policies. Also, guidance and illustrative examples are added in the Practice Statement to assist in the application of the materiality concept when making judgements about accounting policy disclosures. The Amendments have not yet been endorsed by the EU. The amendments do not have any material impact on the Group and Parent Company's financial statements.

- **IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (Amendments):**

The amendments become effective for annual reporting periods beginning on or after January 1, 2023 with earlier application permitted and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. The amendments introduce a new definition of accounting estimates, defined as monetary amounts in financial statements that are subject to measurement uncertainty. Also, the amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors. The Amendments have not yet been endorsed by the EU. The amendments do not have any material impact on the Group and Parent Company's financial statements.

4. Revenue from contracts with customers

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

	Group		Parent Company	
	2020	**2019**	**2020**	**2019**
	EUR	**EUR**	**EUR**	**EUR**
Baltic countries	9 889 574	10 354 872	9 709 990	8 886 996
Nordic countries	5 006 841	6 347 965	4 511 844	6 467 946
Other EU Member States	4 843 685	6 315 206	4 390 556	6 189 251
Other	2 848 882	1 592 572	2 774 328	1 519 890
TOTAL:	**22 588 982**	**24 610 615**	**21 386 718**	**23 064 083**

Sales efforts of AS HansaMatrix are focused on the five main product types, market sectors: data network infrastructure, the Internet of Things, industrial products, optics and photonics and other. The revenue breakdown by product types is as follows:

	Group		Parent Company	
	2020	**2019**	**2020**	**2019**
	EUR	**EUR**	**EUR**	**EUR**
Data network infrastructure	10 059 685	9 787 947	9 957 510	9 859 602
Industrial products	8 776 888	9 856 370	8 433 544	8 536 676
Internet of Things	1 116 571	1 686 184	1 124 017	1 629 762
Optics and photonics	1 272 027	2 152 809	575 727	985 551
Other products	1 363 811	1 127 305	1 295 920	2 052 492
TOTAL:	**22 588 982**	**24 610 615**	**21 386 718**	**23 064 083**

All revenue constitutes one operating segment. Revenue from contracts with customers is also disclosed in Note 8 (Revenue from contracts with customers - organization of training).

4.1 Contract balances

	Group		Parent Company	
	2020	**2019**	**2020**	**2019**
	EUR	**EUR**	**EUR**	**EUR**
Trade receivables	755 890	957 492	367 664	286 860
Contract assets	2 225 865	2 022 550	1 020 872	1 589 358
Contract liabilities	788 670	1 192 478	694 030	1 078 124
TOTAL:	3 770 425	4 172 520	2 082 566	2 954 342

Contract assets relate to revenue earned from current production services, depending on the volume of current production services at the end of the year.
Contract liabilities include advances received to secure the purchase of certain materials to support the production process.

The amount of revenue recognized from contract liabilities in Note 32.

The consideration is recognized as a separate asset, but only when the consideration is virtually certain. The Group's uses IFRS 15.121 practical expedient and not disclose the remaining performance obligation for contracts with original expected duration of less than one year.

5. Cost of sales

	Group		Parent Company	
	2020	**2019**	**2020**	**2019**
	EUR	**EUR**	**EUR**	**EUR**
Costs of raw materials	10 072 050	10 545 149	8 914 802	10 303 074
Production process management costs	3 695 699	3 745 113	10 609 808	10 227 826
Staff costs (Note 12)	2 632 521	2 288 700	41 766	78 076
Depreciation and amortization (Notes 14 and 15)	1 891 521	1 969 699	856 717	787 662
Research costs	858 832	1 684 522	285 575	47 945
including staff costs (Note 12)	*368 315*	*972 964*	-	-
including amortization and depreciation (Notes 14 and 15)	*44 389*	*155 712*	-	-
Production facilities utilities	452 088	220 348	32 211	30 461
Transport expense	249 437	203 324	133 802	177 180
Low-value inventory	116 528	91 293	15 586	2 213
Repair and maintenance expense	53 648	63 434	12 816	7 130
Real estate tax	10 390	7 794	8 505	5 732
Change in allowances for slow-moving items (See Note 20)	(66 784)	109 030	(68 425)	109 030
Other production costs	50 313	43 665	349	382
TOTAL:	**20 016 243**	**20 972 071**	**20 843 512**	**21 776 711**

6. Distribution costs

	Group		Parent Company	
	2020	**2019**	**2020**	**2019**
	EUR	**EUR**	**EUR**	**EUR**
Staff costs (Note 12)	733 943	648 129	56 297	37 664
Transport expense	59 536	54 620	9 268	38 402
Marketing expense	31 663	68 948	29 122	7 909
Communications expense	9 608	10 343	401	374
Business trips	2 468	31 901	1 170	7 326
Other sales-related costs	19 389	10 781	-	-
TOTAL:	**856 607**	**824 722**	**96 258**	**91 675**

7. Administrative expense

	Group		Parent Company	
	2020 EUR	2019 EUR	2020 EUR	2019 EUR
Staff costs (Note 12)	947 878	781 657	509 761	314 583
Amortization and depreciation (Notes 14 and 15)	346 733	277 979	178 691	109 293
Professional fees*	74 991	64 178	53 643	50 122
Bank charges	74 342	96 984	70 481	81 589
Provision of administrative functions	59 440	84 083	59 440	91 993
Staff training	53 180	116 398	1 730	7 850
Transport expense	39 731	50 641	16 063	11 844
Representation expense	36 740	28 617	861	2 048
Office expense	33 153	45 233	60 734	590
Insurance	29 217	27 842	26 158	24 651
IT expense	13 768	30 089	1 314	3 313
Communications expense	10 409	11 759	4 269	3 282
Non-operating expense	8 346	18 921	1 047	2 893
Business trips	6 223	4 887	6 044	4 760
Allowances for doubtful receivables (reversal of allowances)	(27 426)	45 268	(30 525)	63 287
Other administrative expense	31 620	121 099	5 696	16 785
TOTAL:	**1 738 345**	**1 805 635**	**965 407**	**788 883**

* Includes the total fee paid to the firm of certified auditors SIA Ernst & Young Baltic for the annual audit amounting to EUR 38 600 (2019: EUR 35 500).

8. Other operating income

	Group		Parent Company	
	2020 EUR	2019 EUR	2020 EUR	2019 EUR
Income from research grant recognition*	312 776	186 530	-	-
Income from EU grant recognition (deferred income)**	227 078	101 846	192 054	66 822
Income from EU grant recognition (one-off)***	22 130	29 960	258	8 127
Income from LIAA remuneration support	29 201	-	29 201	-
Currency exchange gain, net	113 916	458	113 916	-
Lease of premises and machinery	15 619	19 976	314 847	291 677
Gain on disposal of property, plant and equipment, net	13 866	50 814	13 866	-
Revenue from contracts with customers - organization of training	3 287	7 650	-	7 650
Other income	41 073	23 112	7 189	6 349
TOTAL:	**778 946**	**420 346**	**671 331**	**380 625**

8. Other operating income (cont'd)

* In year 2020, in cooperation with "Lightspace technologies", the company continued to implement the CFLA supervised research project "Development of a compact, high-brightness laser image projection system for application in volumetric 3D displays" measure "Practical orientation research" financed by the European Regional Development Fund (ERDF). Project implementation period from April 1, 2019 to March 31, 2021. The total anticipated cost of the project is 830 530 EUR, consisting of 553 000 EUR ERDF funding. The aim of the project is to develop a compact, high-brightness laser image projection system. In 2020 the company received 51 thousand EUR funding from ERDF regarding the project mentioned above.
In the reporting period HansaMatrix Innovation started realization of SIA LEO petijumu centrs and Ministry of Economics managed applied research project: research No.1.2. "Development of electronics for multifocal augmented and virtual reality displays" project No. 1.2.1.1/18/A/006 "Latvian electrical and optical equipment industry competence centre" which is implemented in the measure "Support for the development of new products and technologies in the system of competence centres". The project is carried out in cooperation with one partner, SIA HansaMatrix Ventspils and duration of the project is 19 months, starting on May 1st, 2020. The total planned costs of the project is 407 272.73 EUR (SIA "HansaMatrix Innovation"- 305 453.73 EUR, SIA "HansaMatrix Ventspils"- 101 819 EUR), including ERDF funding 279 999.80 EUR (SIA "HansaMatrix Innovation"- 229 090.30 EUR, SIA "HansaMatrix Ventspils" – 50 909.50 EUR). In 2020 the company received ERDF funding 53 thousand EUR regarding research no. 1.2.
In 2020, in cooperation with SIA "Lightspace technologies" the company started realization of SIA "LEO petijumu centrs" and Ministry of Economics managed applied research project: research no 1.16. "Development of integrated electronics for head position tracking and remote assistance functionality" project No. 1.2.1.1/18/A/006 "Latvian electrical and optical equipment industry competence center" which is implemented in the measure "Support for the development of new products and technologies in the system of competence centers". The foreseen duration of the project is 20 months, starting on November 1st, 2020. The total planned cost of the project is 318 001.61 EUR (SIA "HansaMatrix Innovation"-145 021.16 EUR, SIA "Lightspace Technologies"- 172 980.46 EUR). In 2020 the Company has not received the ERDF funding yet.
In 2020, SIA "HansaMatrix Innovation" participated as the third party in the Horizon-2020 project "Next Generation Enhanced Augmented Reality 3D Glasses for medical education, pre-procedural planning, intra-procedural visualization, and patient rehabilitation — NGEAR 3D" (hereinafter- NGEAR).". The foreseen duration of the project is 24 months, starting on July 1st, 2020. The total planned cost of the project is 145 625 EUR, including the European Commission support funding 101 837.50 EUR. In 2020 the company received as pre-financing 61 162.50 EUR regarding NGEAR project.
In recent years, SIA "HansaMatrix Innovation" R&D Engineering and research teams have developed world-class competencies in a variety if electro-optics, such as AR/VR (virtual and augmented reality) devices, optical systems for glass-projected image displays, high-speed image and structured light projection systems and computer vision equipment. The development of medical products in accordance with ISO13485 quality management systems and EN60601-1 safety standards has also been started. Gained experience in more new technical areas, incl. high-precision energy management, as well as plastic molding technology. The R&D team now consists of 15 engineers and researchers.

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

9. Other operating expense

	Group		Parent Company	
	2020	**2019**	**2020**	**2019**
	EUR	**EUR**	**EUR**	**EUR**
Penalties	31 314	38 773	3 099	3 180
CIT on non-business related expense	10 425	5 583	7 128	428
Donations	6 807	22 763	3 300	10 000
Write-offs of receivables	2 358	-	2 358	-
Loss on disposal of property, plant and equipment, net	1 794	-	-	-
Currency exchange loss, net	995	35 697	-	34 214
Loss on sale of securities	-	10 000	-	10 000
TOTAL:	**53 693**	**112 816**	**15 885**	**57 822**

10. Financial costs

	Group		Parent Company	
	2020 **EUR**	**2019** **EUR**	**2020** **EUR**	**2019** **EUR**
Interest expense	429 534	410 187	413 781	392 645
Loss from fair value adjustment for warrants	306 555	-	306 555	-
Interest expense on lease liabilities	123 053	66 088	24 792	4 839
Change in fair value of a financial instrument	38 533	-	38 533	-
Directly attributable transaction costs	42 121	22 643	40 805	22 139
TOTAL:	**939 796**	**498 918**	**824 466**	**419 623**

Directly attributable transaction costs relate to the loans received from credit line and factoring agreement.

11. Corporate income tax

	Group		Parent Company	
	2020 **EUR**	**2019** **EUR**	**2020** **EUR**	**2019** **EUR**
Current corporate income tax charge for the reporting year on dividends	-	18 294	-	18 294
Corporate income tax on non-operating expense*	10 425	5 583	7 128	428
Total corporate income tax:	**10 425**	**23 877**	**7 128**	**18 722**

* Deemed profit distributions are taxed at income tax rate, but related expense is not presented as income tax expense but other operating expense in the statement of comprehensive income.

12. Staff costs and number of employees

	Group		Parent Company	
	2020 **EUR**	**2019** **EUR**	**2020** **EUR**	**2019** **EUR**
Wages and salaries	4 073 292	3 836 109	493 194	348 016
Statutory social insurance contributions	972 829	920 727	111 762	81 422
Employee health insurance	43 398	38 535	1 457	841
Other staff costs	4 813	2 472	1 411	44
TOTAL:	**5 094 332**	**4 797 843**	**607 824**	**430 323**

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

Including key management personnel compensation

		Group		Parent Company	
		2020	**2019**	**2020**	**2019**
		EUR	**EUR**	**EUR**	**EUR**
Management Board					
	Wages and salaries	282 648	285 575	209 829	164 213
	Statutory social insurance contributions	67 048	67 060	49 510	37 824
	Share options	896	-	896	-
	Other personnel expenses	1 093	667	896	360
	TOTAL:	**351 685**	**353 302**	**261 131**	**202 397**
Supervisory Board					
	Wages and salaries	45 716	44 935	45 716	44 935
	Statutory social insurance contributions	10 810	10 569	10 810	10 569
	Other staff costs	12	13	12	13
	TOTAL:	**56 538**	**55 517**	**56 538**	**55 517**

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

	Group		Parent Company	
	2020	**2019**	**2020**	**2019**
	EUR	**EUR**	**EUR**	**EUR**
Cost of sales (Note 5)	2 632 521	2 288 700	41 766	78 076
Cost of sales – under research costs (Note 5)	368 315	972 964	-	-
Distribution costs (Note 6)	733 943	648 129	56 297	37 664
Administrative expense (Note 7)	947 878	781 657	509 761	314 583
Wages and salaries – under contract assets	223 336	106 393	-	-
Wage and salaries – capitalized to fixed assets	188 339	-	-	-
TOTAL:	**5 094 332**	**4 797 843**	**607 824**	**430 323**

	Group		Parent Company	
	2020	**2019**	**2020**	**2019**
Average number of employees during the reporting year	**208**	**204**	**13**	**10**

13. 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:

	2020 EUR	2019 EUR
Net profit attributable to shareholders	(550 322)	214 490
Weighted average number of shares	1 829 381	1 829 381
Earnings per share (EUR):	(0.30)	0.12

	Change	Actual number of shares after transaction	Number of shares used in calculating earnings per share
2019			
Number of shares at the beginning of the year	-	1 829 381	1 829 381
Number of shares at the end of the year	-	1 829 381	1 829 381
Weighted average number of shares:			**1 829 381**
2020			
Number of shares at the beginning of the year	-	1 829 381	1 829 381
Number of shares at the end of the year	-	1 829 381	1 829 381
Weighted average number of shares:			**1 829 381**

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

No dividends were calculated and paid during the reporting period.

14. Intangible assets

Group

	ODM assets	**Other intangible assets**	**Goodwill***	**TOTAL**
	EUR	**EUR**	**EUR**	**EUR**
COST				
As at 31 December 2018	**23 021**	**1 057 469**	**-**	**1 080 490**
Additions	296 063	447 032	360 653	1 103 748
Reclassification	-	(19 182)	-	(19 182)
As at 31 December 2019	**319 084**	**1 485 319**	**360 653**	**2 165 056**
Additions	-	276 321	-	276 321
Disposals	-	(38 010)	-	(38 010)
As at 31 December 2020	**319 084**	**1 723 630**	**360 653**	**2 403 367**
ACCUMULATED AMORTIZATION				
As at 31 December 2018	**6 908**	**877 655**	**-**	**884 563**
Charge for the year	2 178	119 703	-	121 881
Reclassification	-	(1 686)	-	(1 686)
As at 31 December 2019	**9 086**	**995 672**	**-**	**1 004 758**
Charge for the year	-	187 470	-	187 470
Disposals/Correction	(477)	(35 218)	-	(35 695)
As at 31 December 2020	**8 609**	**1 147 924**	**-**	**1 156 533**
NET CARRYING AMOUNT				
As at 31 December 2019	**309 998**	**489 647**	**360 653**	**1 160 298**
As at 31 December 2020	**310 475**	**575 706**	**360 653**	**1 246 834**

Parent Company

	Other intangible assets	**TOTAL**
	EUR	**EUR**
COST		
As at 31 December 2018	**863 823**	**863 823**
Additions	424 150	**424 150**
Disposals	(116 322)	**(116 322)**
Reclassification	(1 056)	**(1 056)**
As at 31 December 2019	**1 170 595**	**1 170 595**
Additions	262 683	262 683
Disposals	(8 234)	(8 234)
Reclassification	18 695	18 695
As at 31 December 2020	**1 443 739**	**1 443 739**
ACCUMULATED AMORTIZATION		
As at 31 December 2018	**763 679**	**763 679**
Charge for the year	73 926	**73 926**
Disposals	(116 321)	**(116 321)**
Reclassification	(440)	**(440)**
As at 31 December 2019	**720 844**	**720 844**
Charge for the year	161 544	161 544
Disposals	(8 234)	(8 234)
Reclassification	18 695	18 695
As at 31 December 2020	**892 849**	**892 849**
NET CARRYING AMOUNT		
As at 31 December 2019	**449 751**	**449 751**
As at 31 December 2020	**550 890**	**550 890**

14. Intangible assets (cont'd)

* Goodwill has been recognized since 29 April 2019 as a result of the acquisition of SIA Zinātnes parks' shares, see Note 16. As at 31 December 2020, the Group performed an annual impairment test of Goodwill that was carried out on the basis of an eight-year business plan approved by the management and applying an after-tax rate of 8.3% per annum. No impairment was identified.

A number of intangible 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	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019
	EUR	EUR	EUR	EUR
Cost of depreciated intangible assets	891 685	801 642	683 431	605 798

15. Property, plant and equipment

Group

	Land and buildings	Equipment and machinery	Other fixtures and fittings, tools and equipment	Right-of-use asset (Note 29)	Leasehold improvements	Construction in progress	Total
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
COST/ REVALUED AMOUNT							
As at 31 December 2018	**5 444 810**	**14 049 394**	**2 315 573**	-	**143 899**	**284 160**	**22 237 836**
Additions	227 370	1 657 130	427 388	2 105 883	9 615	364 115	4 791 501
Disposals	-	(50 618)	(7 920)		-	-	(58 538)
Acquisition of subsidiary	-	-	-	-	-	1 692 949	1 692 949
Reclassification *	-	(1 231 261)	(101 510)	1 431 188	39 878	(45 761)	92 534
As at 31 December 2019	**5 672 180**	**14 424 645**	**2 633 531**	**3 537 071**	**193 392**	**2 295 463**	**28 756 282**
Additions	29 027	72 437	143 918	942 155	61 607	257 236	1 506 380
Disposals	-	(400 223)	(34 126)	(212 877)	-	(961)	(648 187)
Reclassification	1 020	181 655	-	-	-	(182 675)	-
As at 31 December 2020	**5 702 227**	**14 278 514**	**2 743 323**	**4 266 349**	**254 999**	**2 369 063**	**29 614 475**
ACCUMULATED DEPRECIATION							
As at 31 December 2018	**1 883 905**	**8 738 664**	**1 666 379**	-	**99 360**	**-**	**12 388 308**
Charge for the year	193 042	964 099	309 957	828 161	28 372	-	2 323 631
Disposals	-	(39 111)	(7 394)	-	-	-	(46 505)
Reclassification *	-	(65 539)	(38 098)	51 972	-	-	(51 665)
As at 31 December 2019	**2 076 947**	**9 598 113**	**1 930 844**	**880 133**	**127 732**	**-**	**14 613 769**
Charge for the year	197 111	879 589	280 987	795 881	37 157	-	2 190 725
Disposals	-	(400 223)	(26 860)	(202 594)	-	-	(629 677)
As at 31 December 2020	**2 274 058**	**10 077 479**	**2 184 971**	**1 473 420**	**164 889**	**-**	**16 174 817**
NET CARRYING AMOUNT							
As at 31 December 2019	**3 595 233**	**4 826 532**	**702 687**	**2 656 938**	**65 660**	**2 295 463**	**14 142 513**
As at 31 December 2020	**3 428 169**	**4 201 035**	**558 352**	**2 792 929**	**90 110**	**2 369 063**	**13 439 658**

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

Parent Company

	Land and buildings	Equipment and machinery	Other fixtures and fittings, tools and equipment	Right-of-use asset (Note 29)	Leasehold improvements	Construction in progress	Total
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
COST/ REVALUED AMOUNT							
As at 31 December 2018	**5 444 810**	**4 767 496**	**325 413**	**-**	**50 879**	**279 160**	**10 867 758**
Additions	227 370	1 328 724	56 215	181 490	997	197 129	1 991 925
Disposals	-	(281 252)	(51 008)	-	-	-	(332 260)
Reclassification *	-	(93 976)	(73 246)	247 512	-	(79 234)	1 056
As at 31 December 2019	**5 672 180**	**5 720 992**	**257 374**	**429 002**	**51 876**	**397 055**	**12 528 479**
Additions**	29 027	19 408	140 659	419 096	-	148 941	757 131
Disposals	-	(391 942)	(28 958)	(196 719)	-	(961)	(618 580)
Reclassification	1 020	181 655		-	-	(182 675)	-
As at 31 December 2020	**5 702 227**	**5 530 113**	**369 075**	**651 379**	**51 876**	**362 360**	**12 667 030**
ACCUMULATED DEPRECIATION							
As at 31 December 2018	**1 883 905**	**2 215 191**	**257 057**	**-**	**50 431**	**-**	**4 406 584**
Charge for the year	193 042	475 404	12 962	140 325	1 296	-	823 029
Disposals	-	(191 317)	(50 671)	-	-	-	(241 988)
Reclassification *	-	(9 647)	(34 717)	44 804	-	-	440
As at 31 December 2019	**2 076 947**	**2 489 631**	**184 631**	**185 129**	**51 727**	**-**	**4 988 065**
Charge for the year**	197 111	498 484	122 909	136 521	149	-	955 174
Disposals	-	(223 035)	(28 352)	(186 436)	-	-	(437 823)
As at 31 December 2020	**2 274 058**	**2 765 080**	**279 188**	**135 214**	**51 876**	**-**	**5 505 416**
NET CARRYING AMOUNT							
As at 31 December 2019	**3 595 233**	**3 231 361**	**72 743**	**243 873**	**149**	**397 055**	**7 540 414**
As at 31 December 2020	**3 428 169**	**2 765 033**	**87 887**	**516 165**	**-**	**362 360**	**7 161 614**

* In 2019, property, plant and equipment acquired under finance leases in accordance with IFRS 16 are reclassified to the right to use the asset. When the fixed assets are put into operation in 2019, the costs from the creation of the fixed assets are reclassified to the fixed assets of the respective group.
** In 2020, the Parent Company acquired fixed assets from subsidiaries for full original acquisition cost and with accumulated depreciation (accumulated depreciation EUR 81 310).

The Group at least once a year evaluates whether there is any indication that non-current assets are impaired. If any such indication exists, the Group performs an impairment test to evaluate the possible impairment need.

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

As at December 31, 2020, the Group's management assessed the external factors (changes in economic and regulatory environment, market composition, interest rates, etc.) and the internal factors (changes in the purpose of use and useful life of assets, cash flow generation capacity of assets, etc.) that might impact the value of non-current assets. Based on the assessment performed, management has concluded that there are no indications of impairment of non-current assets as at December 31, 2020.

Considering the decrease in the production volume and intensity of the use of property, plant and equipment in recent years, in 2019 the Group reviewed the useful lives of the assets and concluded that part of fully depreciated assets is still in active use. 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	
	31.12.2020. EUR	**31.12.2019. EUR**	**31.12.2020. EUR**	**31.12.2019. EUR**
Cost of depreciated assets	6 984 986	5 050 730	406 613	332 601

Pledges and other restrictions on title

The Group has pledged its movable and immovable properties at Akmeņu iela 72 and 74, Ogre, as security for all the loans granted by AS SEB Banka (see Note 28).

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

	Group		Parent Company	
	2020 EUR	**2019 EUR**	**2020 EUR**	**2019 EUR**
Cost of sales (Note 5)	1 891 521	1 969 699	856 717	787 662
Costs of research and product development (Note 5)	44 389	155 712	-	-
Administrative expense (Note 7)	346 733	277 979	178 691	109 293
SUBTOTAL:	**2 282 643**	**2 403 390**	**1 035 408**	**896 955**
Depreciation charge included in contract assets	1 840	42 122	-	-
Depreciation charge included in fixed asset value	93 712	-	-	-
TOTAL:	**2 378 195**	**2 445 512**	**1 035 408**	**896 955**

Revaluation of land

Revaluations are made with sufficient regularity (not less frequently than every 5 years) to ensure that the carrying amount of real estate (land and buildings) does not differ materially from that which would be determined using fair value at the end of reporting period. The revaluation is performed by certified valuators.

If land and buildings were measured using the cost model, the carrying amount would be as follows:

	2020 EUR
Cost	2 682 269
Accumulated depreciation and impairment	(1 169 054)
Net carrying amount	1 513 215

16. Investments in subsidiaries and associates

Investments in subsidiaries (Parent Company)

			Parent Company's investment		Financial data of investee			
			31.12.2020	**31.12.2019**	**31.12.2020 Statement of comprehensive income**	**31.12.2019 Equity**	**2019 Statement of comprehensive income**	**31.12.2019 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	190 862	1 296 548	171 455	1 105 685
SIA HansaMatrix Innovation (Latvia)	New product development; creation and licensing of intellectual property; prototype production	100	300 000	300 000	80 474	931 243	206 031	850 769
SIA HansaMatrix Pārogre (Latvia)	Integrated production at Pārogre manufacturing plant	100	200 000	200 000	190 793	981 388	199 977	790 595
SIA Zinātnes parks (Latvia) from 30.04.2019	Development of infrastructure of hi-tech industrial park in the territory of Riga airport	74.67% from 30.04.2019/ 100% from 30.09.2020	805 953	800 960	(10 824)	451 266	(29 065)	462 090
Total subsidiaries			**1 732 815**	**1 727 822**	**451 305**	**3 660 445**	**548 398**	**3 209 139**

SIA HansaMatrix Ventspils (hereinafter – HansaMatrix Ventspils) is a subsidiary, established on 1 November 2005 (until 26 April 2016 named SIA Ventspils Elektronikas Fabrika). The Company was established in order to create for AS HansaMatrix a second manufacturing plant at a sufficient distance from the Riga region to have a reasonably separate labor market. The creation of a second manufacturing plant was necessary minimize the labor availability risks by placing HansaMatrix plants in different regions of Latvia.

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

As at 31 December 2020, the equity of HansaMatrix Ventspils was EUR 1 296 thousand and the profit for 2020 amounted to EUR 191 thousand. The Parent Company intends to increase its orders to the subsidiary, and to continue increasing its contracting with the subsidiary. HansaMatrix equity exceeds the investment's net carrying amount in the Parent Company's balance sheet, which is EUR 427 thousand as at 31 December 2020. The Parent Company considers the investment in HansaMatrix Ventspils as fully recoverable.

SIA HansaMatrix Innovation (hereinafter– HansaMatrix Innovation) 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.

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

Over the past few years, the engineer and research teams of HansaMatrix Innovation R&D have developed a world class competence in several fields of electro-optics areas, such as AR/VR (augmented and virtual reality) hardware; heads up display optical systems, fast structured light projection systems or 3D robotic vision systems. Experience has been gained in several new technical areas, including high-precision current monitoring and plastic-molding technology.

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

The share capital of SIA HansaMatrix Innovation is EUR 300 000 and consists of 3 000 shares. The par value of each share is EUR 100. The shares are owned by AS HansaMatrix (100%).

As at 31 December 2020, the equity of HansaMatrix Innovation was EUR 931 thousand, and the profit for 2020 was EUR 81 thousand. The company's equity exceeds the net carrying amount of the investment the Parent Company's balance sheet, which was EUR 300 thousand as at 31 December 2020. The Parent Company considers the investment in HansaMatrix Innovation as fully recoverable.

SIA HansaMatrix Pārogre (hereinafter– HansaMatrix Pārpogre) is a subsidiary, established on 30 September 2015 to transform the business model of the Pārogre (Ogre) manufacturing plant, namely, from a structural unit of the Parent Company to a separate related entity.

HansaMatrix Pārogre 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.

On 4 June 2019, HansaMatrix, the sole shareholder of HansaMatrix Pārogre, increased its share capital from EUR 2800 to EUR 200 000 by issuing and paying up 197 200 new shares with a par value EUR 1 each. After the capital increase, HansaMatrix Pārogre capital consists of 200 000 shares with a par value of EUR 1 each.

As at 31 December 2020, the equity of HansaMatrix Pārogre equity was EUR 981 thousand, and the profit for 2020 was EUR 191 thousand. The Parent Company intends to expand orders to HansaMatrix Pārogre in the future, and make greater use of its capacities. HansaMatrix Pārogre equity exceeds the net carrying amount of the investment in the parent company's balance sheet, which was EUR 200 000 as at 31 December 2020. The Parent Company considers the investment in HansaMatrix Pārogre as fully recoverable.

SIA Zinātnes parks (hereinafter – Zinātnes parks) was established to develop hi-tech products for electronics and optics companies as well as infrastructure for an industrial park at Riga Airport.

In order to strengthen the paid-up capital of SIA Zinātnes parks, on 29 April 2019, HansaMatrix increased its capital participation in SIA Zinātnes parks to 74.67% by paying up according to the decision of SIA Zinātnes parks shareholders newly issued 200 (two hundred) capital shares of the Company in the amount of EUR 800 thousand, including EUR 8 thousand the value of share capital and EUR 792 thousand share premium. The capital was paid up by partially converting the previously issued HansaMatrix investment loan to SIA Zinātnes parks.

Following the transaction, the SIA Zinātnes parks shareholder structure is the following: 74.67% – HansaMatrix, 9.33% – Latvijas Elektrotehnikas un elektronikas rūpniecības asociācija, 8% – AS SAF Tehnika and 8% – SIA LEO Pētījumu centrs.

On 25 September 2020, HansaMatrix acquired 25.33% of the shares of SIA Zinātnes parks for EUR 5 thousand and SIA Zinātnes parks became a 100% subsidiary of HansaMatrix.

As at 31 December 2020, the balance of the convertible investment loan issued by HansaMatrix to Zinātnes parks amounted to EUR 1,066 million. The loan was issued and used for taking over a lease on a land plot of 4.51 ha, the purchase of a partially constructed building and designing the construction of industrial premises with a total area of 26 thousand m2 on the Riga International Airport territory. The loan agreement provides that the loan can be either repaid or refinanced in the future. Besides, HansaMatrix reserves the right to request a conversion of the loan into share capital at a par value. Part of the loan in the amount of EUR 0.8 million was converted to Zinātnes parks equity on 29 April 2019.

On the date of making the additional investment, the Group gained control over Zinātnes parks. It's previously held equity investment of 24% was remeasured to fair value at the date of the business combination and formed part of the consideration transferred.

At the end of the reporting period, the total Parent Company's investment in Zinātnes parks amounted to EUR 1.87 million, consisting of a convertible loan of EUR 1.066 million and paid up capital of EUR 0.805 million. Currently, investments received from HansaMatrix are used for land plot rental payments to VAS Starptautiskā lidosta Rīga, the coverage of property management costs and loan repayments to AS SEB banka.

Starting with 30 April 2019, SIA Zinātnes parks is part of the AS HansaMatrix group.

The fair value of the investment loan issued by the Parent Company is determined on the basis of the cash flow projections for 8 years assuming that the sales growth will be in line with the business development strategy. The estimate depends, inter alia, on the assumptions regarding the discount rate. In 2020, a discount rate of 8.3% (after-tax WACC rate) was applied (2019: 8.3%).

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

Income from investments in subsidiaries

In 2019 and 2020, the Parent Company did not receive any dividends from its subsidiaries.

Investments in associates (Parent Company)

			Parent Company's investment		Financial data of investee			
			31.12.2020	**31.12.2019**	**2020 Statement of comprehensive income**	**31.12.2020 Equity**	**31.12.2019 Statement of comprehensive income**	**31.12.2019 Equity**
Company	**Type of business**	**%**	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**
Associate								
SIA Lightspace Technologies (Latvia)	Development and commercialization of 3D display technologies	49.86 % from 30.09.2019	3 709 889	3 709 889	(746 477)	3 620 470	(1 612 688)	2 683 593
Total associates			**3 709 889**	**3 709 889**	**(746 477)**	**3 620 470**	**(1 612 688)**	**2 683 593**

Investments in associates are stated in the consolidated financial statements under the equity method.

SIA Lightspace Technologies (hereinafter – Lightspace technologies) was established on 12 February 2014 as a subsidiary of SIA EUROLCDS. In 2016, SIA EUROLCDS was restructured and SIA Lightspace Technologies was split off from it. As a result, on 9 March 2016 AS HansaMatrix acquired 451 shares or 16.11% of the share capital of SIA Lightspace Technologies, proportionate to its share capital in SIA EUROLCDS.

On 10 January 12017, the investment loan to SIA Lightspace Technologies of EUR 200 thousand was converted into equity shares. After the conversion, the HansaMatrix held 866 shares or 17.21% of the share capital of SIA Lightspace Technologies.

On 21 April 2017, AS HansaMatrix signed an agreement with KS AIF Imprimatur Capital Technology Venture Fund on granting the next investment round of EUR 799 365 to SIA Lightspace Technologies. Accordingly, AS HansaMatrix planned to invest EUR 649 635, which were paid in 2017 increasing its shareholding in SIA Lightspace Technologies to 33.07%.

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

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

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

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

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

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

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

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

In order to strengthen the paid-up capital of SIA Lightspace Technologies, on 30 September 2019, HansaMatrix increased its equity interest in SIA Lightspace Technologies to 49.86% by paying up the new 2730 (two thousand seven hundred thirty) shares of SIA Lightspace Technologies issued according to the decision of its shareholders, dated 30 September 2019, and amounting to EUR 1.5 million or EUR 550 each. The payment was made through conversion of the convertible loan.

Following the transaction, the shareholding structure of Lightspace technologies is the following: 49.86% – HansaMatrix. 27.07% – BaltCap Latvia Venture Capital Fund, 12.77% – Ilmārs Osmanis, 7.8% – Imprimatur Capital Technology Venture Fund, 2.5% – Imprimatur Capital Seed Fund.

Investment in SIA Lightspace Technologies (Group)

	2020 EUR	**2019 EUR**
Group's share in SIA Lightspace technologies	49.86%	39.99% / 49.86%*
Investment amount	3 709 889	3 709 889
SIA Lightspace technologies loss for the year attributable to majority shareholders	(628 092)	(1 502 280)
Group's share of loss of an associate recognized in the statement of comprehensive income	(325 146)	(623 202)
Aggregate losses attributed to investment	(1 480 037)	(1 154 891)
Investment balance sheet value (group)	**2 229 852**	**2 554 998**

* Until 30 September 2019, the Group's share in equity totaled 39.99%, afterwards – 49.86%.

The annual report of SIA Lightspace Technologies was approved after the submission of the Group's annual report for 2019, as a result of which the recognized losses from participation increased by EUR 11,980. These losses were recognized in the 2020 annual report.

Investment loans to associates

	Group		**Parent Company**	
	31.12.2020 EUR	**31.12.2019 EUR**	**31.12.2020 EUR**	**31.12.2019 EUR**
Investment loan to SIA Lightspace Technologies	4 961 573	4 461 446	4 961 573	4 461 446
TOTAL:	**4 961 573**	**4 461 446**	**4 961 573**	**4 461 446**

The convertible interest-free investment loan to Lightspace Technologies for financing the development of 3D imaging technologies was issued in 2017, 2018, 2019 and 2020, and as at 31 December 2020 totaled EUR 4.962 million.

In 2020, HansaMatrix invested EUR 0.5 million in SIA Lightspace Technologies in the form of a convertible loan. At the end of the reporting period, HansaMatrix's investments (at the Group level) in SIA Lightspace Technologies amounted to EUR 7.191 million, consisting of a convertible loan of EUR 4.962 million and share capital investment balance sheet recognized value – EUR 2.229 million.

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

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

It is also a part of AS HansaMatrix development strategy envisioning equity investments in companies which have a synergy with AS HansaMatrix integrated manufacturing service and with HansaMatrix Innovation engineering and knowledge resources, and which can lead to new, high value-added product manufacturing within 3 to 5 years.

The fair value of the convertible loan to Lightspace Technologies is determined on the basis of the cash flow projections for 6 years assuming that the sales growth will be in line with the business development strategy. The estimate depends, inter alia, on the assumptions regarding the discount rate. In 2020, a discount rate of 28% (after-tax WACC) was applied (2019: 28%).

Assessing the potential impact of the above mentioned convertible loan of AS HansaMatrix on the degree of control over Lightspace Technologies, it can be concluded that the convertible loan does not give AS HansaMatrix a control over Lightspace Technologies , as in accordance with Chapter 2, Article 196 of the Commercial Law of the Republic of Latvia, a share capital of any entity be increased or reduced only on the basis of a decision of a shareholders' meeting specifying the regulations for the increase or reduction of the share capital. The decision on changes in the share capital is regarded as taken, if not less than two-thirds of votes of the shareholders present vote for it, unless a greater number of votes is set in the Articles of Association.

17. Investments in other companies

Strategic investments in service organizations:

		Group		**Parent Company**	
		31.12.2020	**31.12.2019**	**31.12.2020**	**31.12.2019**
	%	**EUR**	**EUR**	**EUR**	**EUR**
Investments					
SIA LEO PĒTĪJUMU CENTRS (Latvia)	10,43	-	-	711	711
SIA LEO PĒTĪJUMU CENTRS (Latvia)	14,60	996	996	-	-
Buildit Latvia Seed Fund (Latvia)	6,67	24 671	20 339	24 671	20 339
SIA LEITC (Latvia)	4,25	16 419	16 419	16 419	16 419
	TOTAL:	**42 086**	**37 754**	**41 801**	**37 469**

SIA LEO PĒTĪJUMU CENTRS was established on 27 July 2010 by 20 companies and research institutions in Latvian Electronics and Optics Cluster. AS HansaMatrix owns 711 of 6 818 shares, representing 10.43% of the total shares. SIA HansaMatrix Ventspils owns 284 of 6 818 shares, or 4.17%. Together investments by the Group in SIA LEO PĒTĪJUMU CENTRS total 995 shares, representing 14.6% of the total 6 818 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.

The fair value of the investment of AS HansaMatrix in SIA LEITC is based on the company's book value of equity. The assessment showed that as at 31 December 2020 the carrying amount of the investment of AS HansaMatrix in SIA LEITC corresponded to the fair value of this financial instrument.

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

17. Investments in other companies (cont'd)

On 14 July 2014, SIA LEITC renominated its share capital in the EUR; as a result, the entity's total share capital was EUR 2 840 as the par value of each share changed. Accordingly, the number of the entity's shares owned by AS HansaMatrix increased from 79 to 112.

On 17 October 2017, AS HansaMatrix entered into an agreement with LSIA ARCUS ELEKTRONIKA on the acquisition of 9 shares or 0.32% of the shares in SIA LEITC. After the acquisition date, AS HansaMatrix owns 4.25% of the shares in SIA LEITC.

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

The fair value of the investment of AS HansaMatrix in SIA LEITC is based on the company's book value of equity. The assessment showed that as at 31 December 2020 the carrying amount of the investment of AS HansaMatrix in SIA LEITC corresponded to the fair value of this financial instrument.

On 12 June 2018, HansaMatrix entered into a subscription agreement with SIA AIFP Buildit Latvia committing to invest EUR 150 000 EUR and become a 6.67% partner in KS Buildit Latvia Seed Fund AIF (hereinafter – the Fund). The Fund is a VAS Latvijas Attīstības finanšu institūcija Altum co-operational acceleration fund managed by SIA AIFP Buildit Latvia. KS Buildit Latvia Seed Fund AIF plans investing in one period maximum up to EUR 250 thousand in one start-up focusing on the Internet of Things and hardware sectors. The investment corresponds to the strategy of HansaMatrix facilitating knowledge exchange and creating synergies to the company through the cooperation with start-ups.
The investment period of the Fund is limited to 5 years from the first conclusion date provided by the Limited Partnership Agreement, namely, till 20 June 2023. The deadline for the Fund operations is set by 20 June 2026. The meeting of the Fund's investors may decide on the extension of its operations by one year. No more than two one-year extension decisions may be passed.

HansaMatrix determines the fair value of investments in the Fund using the net asset value of the Fund, relying that the Fund, as described in the management report and notes to the Fund annual report, has established and applies the procedures of fair value measuring in its financial reports.

18. Other financial assets and liabilities

Other financial assets

		Group		Parent Company	
		31.12.2020	31.12.2019	31.12.2020	31.12.2019
	%	EUR	EUR	EUR	EUR
Right to acquire shares					
Airdog Inc (USA)	1.45	115 692	126 371	115 692	126 371
Accumulated decrease in fair value		(77 128)	(42 293)	(77 128)	(42 293)
	TOTAL:	**38 564**	**84 078**	**38 564**	**84 078**

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

The fair value of Airdog Inc. (USA) preferred share warrants owned by HansaMatrix is determined on the basis of the asset purchase agreement of 16 March 2020 signed by Airdog, Inc., a company registered in Delaware (USA), and SIA Airdog (as Sellers) and a U.S. based technology company as the Buyer to sell and transfer to the Buyer certain assets of the Sellers, implying that after settling the Sellers' liabilities the remaining amount is to be distributed to the holders of Series A shares (preferred shares) of Airdog Inc.

18. Other financial assets and liabilities (cont'd)

Other financial liabilities

	Group		Parent Company	
	31.12.2020	**31.12.2019**	**31.12.2020**	**31.12.2019**
	EUR	**EUR**	**EUR**	**EUR**
EIB warrants	1 652 485	1 345 930	1 652 485	1 345 930
TOTAL:	**1 652 485**	**1 345 930**	**1 652 485**	**1 345 930**

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

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

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

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

The EIB warrants are classified as financial liabilities at fair value through profit or loss (FVTPL). The fair value of warrants is determined using the Black-Scholes model. The estimate depends, inter alia, on the average weighted share market price for the period of last quarter as at the reporting date, option purchase price (EUR 1 per share), stock price volatility – 34.69%, contract term and other factors.

19. Loan to related company

	Group		Parent Company	
	31.12.2020	**31.12.2019**	**31.12.2020**	**31.12.2019**
	EUR	**EUR**	**EUR**	**EUR**
Investment loan to SIA Zinātnes parks	-	-	1 066 200	823 700
Loan to SIA HansaMatrix Innovation	-	-	916 876	-
TOTAL:	**-**	**-**	**1 983 076**	**823 700**
Current	-	-	1 066 200	823 700
Non-current part	-	-	916 876	-

20. Inventories

	Group		Parent Company	
	31.12.2020	**31.12.2019**	**31.12.2020**	**31.12.2019**
	EUR	**EUR**	**EUR**	**EUR**
Raw materials and consumables (at cost)	2 217 157	3 363 241	1 806 512	2 763 401
Allowances for raw materials and consumables	(244 851)	(311 635)	(239 476)	(307 901)
TOTAL:	**1 972 306**	**3 051 606**	**1 567 036**	**2 455 500**

The total value of inventories used amounted to EUR 9 483 287 in 2020, and EUR 10 636 442 in 2019.

20. Inventories (cont'd)

Movement in allowances for slow-moving items:

	Group		Parent Company	
	2020	**2019**	**2020**	**2019**
	EUR	**EUR**	**EUR**	**EUR**
At the beginning of the year	**311 635**	**199 376**	**307 901**	**198 871**
Release of allowances	(140 805)	(11 378)	(139 770)	(10 730)
Established in the reporting year	74 021	123 637	71 345	119 760
At the end of the year	**244 851**	**311 635**	**239 476**	**307 901**

Changes in allowances are recognized under cost of sales (Note 5).

The Group has pledged its inventories as security for all the loans granted by AS SEB banka (see Note 28).

21. Trade receivables from contracts with customers

	Group		Parent Company	
	31.12.2020	**31.12.2019**	**31.12.2020**	**31.12.2019**
	EUR	**EUR**	**EUR**	**EUR**
Trade receivables without factoring	624 596	797 140	124 883	185 502
Allowances for expected credit losses/doubtful receivables	(29 500)	(55 466)	(568)	(12 967)
SUBTOTAL:	**595 096**	**741 674**	**124 315**	**172 535**
Trade receivables with factoring	1 379 394	1 410 579	1 328 477	1 410 579
Received prepayments for factoring	(1 218 600)	(1 194 761)	(1 182 885)	(1 194 761)
TOTAL:	**755 890**	**957 492**	**269 907**	**388 353**

On 11 December 2018, HansaMatrix signed new factoring agreements with SEB līzings for the total amount of EUR 2.41 million to be used for financing of working capital and operations, including export transactions. The agreements expire on 22 December 2021.

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

As at 31 December 2020, the ageing analysis of the receivables may be specified as follows:

	Total	**Not past due**	**Past due**				
			<30	**30-60**	**60-90**	**90-120**	**>120**
	EUR	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**
Applied ECL %		**0.30%**	**1%**	**5%**	**10%**	**15%**	**40%-100%**
Group							
Other trade receivables, gross	624 596	86 359	159 238	23 269	121	76 053	279 556
Allowances for expected credit losses	(29 500)	(138)	(440)	(314)	(24)	(10 584)	(18 000)
2020	**595 096**	**86 221**	**158 798**	**22 955**	**97**	**65 469**	**261 556**
Parent Company							
Other trade receivables, gross	124 883	47 790	66 766	10 327	-	-	-
Allowances for expected credit losses	(568)	(138)	(425)	(5)	-	-	-
2020	**124 315**	**47 652**	**66 341**	**10 322**	**-**	**-**	**-**

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

As at 31 December 2019, the ageing analysis of the receivables may be specified as follows:

	Total	Not past due	Past due				
			<30	30-60	60-90	90-120	>120
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Applied ECL %		**0.30%**	**1%**	**5%**	**10%**	**15%**	**40%-100%**
Group							
Other trade receivables, gross	797 140	181 563	230 788	282 223	56 741	15 572	30 253
Allowances for expected credit losses	(55 466)	(784)	(2 308)	(14 111)	(5 674)	(2 336)	(30 253)
2019	**741 674**	**180 779**	**228 480**	**268 112**	**51 067**	**13 236**	**-**
Parent Company							
Other trade receivables, gross	185 502	138 205	23 727	6 346	5 697	-	11 527
Allowances for expected credit losses	(12 967)	(316)	(237)	(317)	(570)	-	(11 527)
2019	**172 535**	**137 889**	**23 490**	**6 029**	**5 127**	**-**	**-**

22. Receivables from related companies from contracts with customers

	Group		**Parent Company**	
	31.12.2020	**31.12.2019**	**31.12.2020**	**31.12.2019**
	EUR	**EUR**	**EUR**	**EUR**
SIA HansaMatrix Innovation	-	-	73 681	128 045
SIA HansaMatrix Ventspils	-	-	21 937	20 181
SIA HansaMatrix Pārogre	-	-	2 139	116 125
Allowances for expected credit losses	-	-	-	(16 666)
TOTAL:	**-**	**-**	**97 757**	**247 685**

The Parent Company evaluates recievables form related companies as a separate recievable portfolio, considerng that historically the unrecovered debts for this portfolio were equal to 0, no ECL is being recognized during year 2020.

23. Prepayments for goods

	Group		**Parent Company**	
	31.12.2020	**31.12.2019**	**31.12.2020**	**31.12.2019**
	EUR	**EUR**	**EUR**	**EUR**
Prepayments for goods to suppliers	94 152	50 117	22 991	39 175
Prepayment to SIA HansaMatrix Innovation	-	-	-	1 005 248
TOTAL:	**94 152**	**50 117**	**22 991**	**1 044 423**

24. Other receivables

	Group		Parent Company	
	31.12.2020	**31.12.2019**	**31.12.2020**	**31.12.2019**
	EUR	**EUR**	**EUR**	**EUR**
Overpayment of VAT	197 758	254 842	189 466	242 626
Accrued income	147 630	118 420	-	-
Security deposit	3 247	3 295	2 988	2 988
Overpayment of real estate tax	-	20	-	20
Other receivables	3 322	2 470	34	2 353
TOTAL:	**351 957**	**379 047**	**192 488**	**247 987**

25. Cash and cash equivalents

	Group		Parent Company	
	31.12.2020	**31.12.2019**	**31.12.2020**	**31.12.2019**
	EUR	**EUR**	**EUR**	**EUR**
Cash at bank	830 243	254 480	751 733	245 926
TOTAL:	**830 243**	**254 480**	**751 733**	**245 926**

Cash and cash equivalents by currency profile:

	Group		Parent Company	
	31.12.2020	**31.12.2019**	**31.12.2020**	**31.12.2019**
	EUR	**EUR**	**EUR**	**EUR**
EUR	317 907	218 908	244 062	210 354
USD	512 336	35 572	507 671	35 572
TOTAL:	**830 243**	**254 480**	**751 733**	**245 926**

26. Share capital

As at 31 December 2020, the share capital of the Parent Company was EUR 1 829 381 (31 December 2019: EUR 1 829 381). The par value of one share is 1 EUR (31 December 2019: EUR 1). All the shares are fully paid.

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

	Number of shares	Par value, EUR	Share capital, EUR	Share premium, EUR
31.12.2020.	**1 829 381**	**1**	**1 829 381**	**2 435 579**
31.12.2019.	**1 829 381**	**1**	**1 829 381**	**2 435 579**

Major shareholders (over 5% of equity interest) of the Parent Company:

	31.12.2020		**31.12.2019**	
Major shareholders (over 5% of equity interest) **Shareholder**	**Number of shares and votes**	**Equity interest**	**Number of shares**	**Equity interest**
SIA MACRO RĪGA	623 198	34.07%	622 503	34.03%
ZGI-4 AIF KS	275 562	15.06%	275 562	15.06%
Swedbank AS customer accounts	259 943	14.30%	259 142	14.17%
KS BaltCap Latvia Venture Capital Fund	182 000	9.95%	182 000	9.95%
KS FlyCap Investment Fund I AIF	175 738	9.61%	175 738	9.61%
IPAS CBL Asset Management Managed funds	120 000	6.56%	120 000	6.56%
Funds managed by Swedbank Ieguldījumu Pārvaldes Sabiedrība AS	93 369	5.10%	93 369	5.10%
Other	99 571	5.35%	101 067	5.52%
TOTAL:	**1 829 381**	**100%**	**1 829 381**	**100.00%**

Reserves

	Group		**Parent company**	
	31.12.2020. EUR	**31.12.2019. EUR**	**31.12.2020. EUR**	**31.12.2019. EUR**
Share capital denomination reserve	313	313	313	313
Share option reserve	1 660	375	1 660	375
TOTAL:	**1 973**	**688**	**1 973**	**688**

27. Non-current asset revaluation reserve

Real estate was revalued in 2007, 2012 and 2017 by certified valuators. Revaluation is performed on a regular basis, which is at least every five years. Land and buildings are stated at their revalued amount, which is equal to the fair value at the revaluation date less any subsequent accumulated depreciation and impairment. The measurement of the fair value disclosed herein is classified as Level 3 — fair value measurements using significant unobservable inputs.

As a result, the carrying amount of the real estate was increased as follows: by EUR 1 989 062 in 2007, by EUR 237 251 in 2012, and by EUR 793 644 in 2017. The revaluation reserve for the building is taken to income over the useful life of the asset. The revaluation reserve established for the land remains unchanged.

	Group		Parent Company	
	31.12.2020	**31.12.2019**	**31.12.2020**	**31.12.2019**
	EUR	**EUR**	**EUR**	**EUR**
Revaluation reserve (building)	1 651 518	1 775 209	1 651 518	1 775 209
Revaluation reserve (land)	263 438	263 438	263 438	263 438
TOTAL:	**1 914 956**	**2 038 647**	**1 914 956**	**2 038 647**

28. Loans from credit institutions

The Group has received the following loans from AS SEB Banka and the European Investment Bank:

Non-Current			Group		Parent Company	
Initial loan amount	Interest rage	Maturity	**31.12.2020**	**31.12.2019**	**31.12.2020**	**31.12.2019**
			EUR	**EUR**	**EUR**	**EUR**
EUR 5 200 000	3m EURIBOR+2.1%	25.12.2022	1 660 203	2 167 478	1 660 203	2 167 478
EUR 2 000 000	3m EURIBOR+2.1%	30.11.2023	1 343 317	1 543 318	1 343 317	1 543 318
EUR 980 000	3m EURIBOR+2.1%	22.12.2022	298 983	398 644	-	-
EUR 5 000 000		30.11.2023	4 096 590	3 832 671	4 096 590	3 832 671
		Non-current loans from credit institutions:	**7 399 093**	**7 942 111**	**7 100 110**	**7 543 467**
		Loan agreement closing costs – non-current portion	(9 064)	(11 511)	(9 064)	(11 511)
		TOTAL:	**7 390 029**	**7 930 600**	**7 091 046**	**7 531 956**

The loan from the European Investment Bank (Note 18) totals EUR 5 000 000. The loan was initially measured at fair value when it was received, but is subsequently measured at amortized cost and is interest-free.

Current			Group		Parent Company	
Initial loan amount summa	Interest rate	Maturity	**31.12.2020**	**31.12.2019**	**31.12.2020**	**31.12.2019**
			EUR	**EUR**	**EUR**	**EUR**
EUR 5 200 000	3m EURIBOR+2.1%	25.12.2022	1 040 000	1 056 966	1 040 000	1 056 966
EUR 2 000 000	3m EURIBOR+2.1%	30.11.2023	400 000	400 000	400 000	400 000
EUR 980 000	3m EURIBOR+2.1%	20.12.2022	199 322	199 322	-	-
EUR 700 000	3m EURIBOR+2.1%	22.12.2021	196 071	221 373	196 071	221 373
		Current loans from credit institutions:	**1 835 393**	**1 877 661**	**1 636 071**	**1 678 339**
		Accrued interest	1 936	2 149	1 936	2 149
		Loan agreement closing costs – current portion	(8 258)	(5 331)	(8 258)	(5 331)
		TOTAL:	**1 829 071**	**1 874 479**	**1 629 749**	**1 675 157**

On 22 December 2017, a loan agreement for EUR 4 900 000 and a credit line agreement for EUR 600 000 maturing within one year were signed with AS SEB banka. The credit line is reviewed annually and extended for another one-year period. In 2020, an agreement on increasing the credit line limit was signed; the amount of the credit line is EUR 700 000 and it matures on 22 December 2021.

28. Loans from credit institutions (cont'd)

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

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

	Group		**Parent Company**	
	31.12.2020	**31.12.2019**	**31.12.2020**	**31.12.2019**
	EUR	**EUR**	**EUR**	**EUR**
Payable:				
In less than one year	1 835 393	1 877 661	1 636 071	1 678 339
Between one and five years	7 399 093	7 942 111	7 100 110	7 543 467
In more than five years				
TOTAL:	**9 234 486**	**9 819 772**	**8 736 181**	**9 221 806**

As at 31 December 2020, the unused credit line amount available to the Group and the Parent Company was EUR 235 125 (31 December 2019: EUR 478 627). As at 31 December 2020 and 2018 all the Group and Parent Company's property, plant and equipment and current assets were pledged as security for the loans received. The pledge agreements are registered in the Commercial Pledge register.

29. Lease

The Group has lease contracts for various items of plant, machinery, vehicles and other equipment used in its operations. Leases of plant and machinery generally have lease terms between 3 and 15 years, while motor vehicles and other equipment generally have lease terms between 3 and 5 years. The Group's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the Group is restricted from assigning and subleasing the leased assets and some contracts require the Group to maintain certain financial ratios.

There are several lease contracts that include extension and termination options and variable lease payments, which are further discussed below.

The Group also has certain leases of machinery with lease terms of 12 months or less and leases of office equipment with low value. The Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

Set out below are the carrying amounts of right-of-use assets recognized and the movements during the period:

Group

	Other intangible assets	**Property and land**	**Equipment and machinery**	**Motor vehicles**	**Total**
-	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**
At 1 January 2019	17 496	1 687 067	1 254 820	55 787	3 015 170
Additions	-	427 805	-	42 124	469 929
Depreciation charge	(12 414)	(613 568)	(168 009)	(34 170)	(828 161)
As at 31 December 2019	**5 082**	**1 501 304**	**1 086 811**	**63 741**	**2 656 938**
Correction	6 716	(27 893)	20 177	1 000	-
Additions	-	808 368	14 042	119 745	942 155
Disposals	-	-	-	(10 283)	(10 283)
Depreciation charge	(6 042)	(580 255)	(173 413)	(36 171)	(795 881)
As at 31 December 2020	**5 756**	**1 701 524**	**947 617**	**138 032**	**2 792 929**

29. Lease (cont'd)

Parent Company

	Other intangible assets	Property and land	Equipment and machinery	Motor vehicles	Total
-	EUR	EUR	EUR	EUR	EUR
As at 1 January 2019	616	160 000	163 563	43 126	367 305
Additions	-	-	-	16 893	16 893
Depreciation charge	(616)	(98 073)	(19 136)	(22 500)	(140 325)
As at 31 December 2019	**-**	**61 927**	**144 427**	**37 519**	**243 873**
Additions	-	327 609	-	91 487	419 096
Disposals				(10 283)	(10 283)
Depreciation charge		(95 671)	(19 136)	(21 714)	(136 521)
As at 31 December 2020	**-**	**293 865**	**125 291**	**97 009**	**516 165**

Set out below are the carrying amounts of lease liabilities (included under interest-bearing loans and borrowings) and the movements during the period:

	Group		Parent Company	
	2020	**2019**	**2020**	**2019**
	EUR	**EUR**	**EUR**	**EUR**
As at 1 January 2020	**2 555 293**	**2 545 147**	**207 186**	**348 114**
Additions	942 155	469 929	419 096	16 893
Accretion of interest	123 053	413 974	24 792	8 146
Payments	(973 859)	(873 757)	(188 932)	(165 967)
As at 31 December 2020	**2 646 642**	**2 555 293**	**462 142**	**207 186**
Current	960 475	826 058	145 583	90 148
Non-current part	1 686 167	1 729 235	316 559	117 038

The following are the amounts recognized in profit or loss:

	Group		Parent Company	
	2020	**2019**	**2020**	**2019**
	EUR	**EUR**	**EUR**	**EUR**
Depreciation expense of right-of-use assets	795 881	828 161	136 521	140 325
Interest expense on lease liabilities	123 053	413 974	24 792	8 146
Lease origination costs	2 673	-	2 673	-
Expense relating to short-term leases (included in other operating costs)	-	3 724	-	3 724
TOTAL:	**921 607**	**1 245 859**	**163 986**	**152 195**

Group as a lessor

The Group has entered into 1 to 5 year-operating leases on office and manufacturing buildings.

For rental income recognized by the Group during the year refer to Note 8.

30. Changes in liabilities arising from financing activities

Group

	1 January 2020 EUR	Cash flows EUR	New leases EUR	Other EUR	31 December 2020 EUR
Current interest-bearing loans and borrowings (excluding items listed below)	1 874 479	(849 205)	-	803 797	1 829 071
Current lease liabilities (Note 29)	826 058	(973 859)	220 642	887 634	960 475
Non-current interest-bearing loans and borrowings (excluding items listed below)	7 930 600	-	-	(540 571)	7 390 029
Non-current lease liabilities (Note 29)	1 729 235	-	721 513	(764 581)	1 686 167
Dividends payable	-	-	-	-	-
Total liabilities from financing activities	**12 360 372**	**(1 823 064)**	**942 155**	**386 279**	**11 865 742**

	1 January 2019 EUR	Cash flows EUR	New leases EUR	Other EUR	31 December 2019 EUR
Current interest-bearing loans and borrowings (excluding items listed below)	2 037 520	(2 243 364)	-	2 080 323	1 874 479
Current lease liabilities (Note 29)	193 046	(873 757)	94 738	1 412 031	826 058
Non-current interest-bearing loans and borrowings (excluding items listed below)	6 503 051	2 770 473	-	(1 342 924)	7 930 600
Non-current lease liabilities (Note 29)	662 796	398 014	375 191	293 234	1 729 235
Dividends payable	-	(73 175)	-	73 175	-
Total liabilities from financing activities	**9 396 413**	**(21 809)**	**469 929**	**2 515 839**	**12 360 372**

Parent Company

	1 January 2020 EUR	Cash flows EUR	New leases EUR	Other EUR	31 December 2020 EUR
Current interest-bearing loans and borrowings (excluding items listed below)	1 675 157	(749 544)	-	704 136	1 629 749
Current lease liabilities (Note 29)	90 148	(188 932)	116 030	128 337	145 583
Non-current interest-bearing loans and borrowings (excluding items listed below)	7 531 956	-	-	(440 910)	7 091 046
Non-current lease liabilities (Note 29)	117 038	-	303 066	(103 545)	316 559
Dividends payable	-	-	-	-	-
Total liabilities from financing activities	**9 414 299**	**(938 476)**	**419 096**	**288 018**	**9 182 937**

30.Changes in liabilities arising from financing activities (cont'd)

	1 January 2019 EUR	Cash flows EUR	New leases EUR	Other EUR	31 December 2019 EUR
Current interest-bearing loans and borrowings (excluding items listed below)	2 037 520	(2 230 913)	-	1 868 550	1 675 157
Current lease liabilities (Note 29)	93 110	(165 967)	4 131	158 874	90 148
Non-current interest-bearing loans and borrowings (excluding items listed below)	6 503 051	2 650 042	-	(1 621 137)	7 531 956
Non-current lease liabilities (Note 29)	255 004	-	12 762	(150 728)	117 038
Dividends payable	-	(73 175)	-	73 175	-
Total liabilities from financing activities	**8 888 685**	**179 987**	**16 893**	**328 734**	**9 414 299**

31. Government grants

	Group		Parent Company	
	2020 EUR	2019 EUR	2020 EUR	2019 EUR
Balance at the beginning of the year	**1 124 311**	**572 707**	**931 682**	**345 054**
Grants received	12 600	653 450	12 600	653 450
Attributed to income (Note 8)	(227 078)	(101 846)	(192 054)	(66 822)
Balance at the end of the year	**909 833**	**1 124 311**	**752 228**	**931 682**
Current	185 758	101 845	135 168	66 821
Non-current	724 075	1 022 466	617 060	864 861

Participation of the Parent Company in EU projects

In the recent years the Parent Company participated in the following EU grant projects related to technological equipment acquisition:

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

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

In the reporting period HansaMatrix continued investing in the technological equipment and the realization of European Regional Development Fund (ERDF) funded project "Development of experimental production of 3D volumetric imaging equipment and its components" under ERDF "Operational Program "Growth and Jobs" 1.2.1 Specific Support Objective "Increase Private Investment in R&D" measure 1.2.1.4. "Support for Introduction of New Products in Production". Total and eligible costs of the aforementioned project amount to EUR 2.9 million, with the planned ERDF funding EUR 1 million, or 35% of the eligible project costs.

In 2019, interim payments were received for the equipment already in operation and purchased under the project. In 2020, the Parent Company began to recognize revenue from the financing received for the equipment purchased and put into operation in 2019. In 2020, the recognized amount was EUR 125 233.

32. Prepayments received under contracts with customers

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

Movement in prepayments and breakdown according to the set settlement term:

	Group		Parent Company	
	2020	**2019**	**2020**	**2019**
	EUR	**EUR**	**EUR**	**EUR**
At the beginning of the year	**1 192 478**	**1 153 124**	**1 078 124**	**1 102 026**
Recognized in revenue	(1 032 821)	(420 129)	(978 207)	(369 031)
Received	629 013	459 483	594 113	345 129
At the end of the year	**788 670**	**1 192 478**	**694 030**	**1 078 124**
Current	788 670	1 042 633	694 030	928 279
Non-current	-	149 845	-	149 845

33. Trade payables

	Group		Parent Company	
	31.12.2020	**31.12.2019**	**31.12.2020**	**31.12.2019**
	EUR	**EUR**	**EUR**	**EUR**
Trade payables, EUR	2 954 338	2 920 625	1 223 067	1 427 759
Trade payables, USD	532 173	796 426	523 880	784 527
Trade payables, JPY	-	6 200	-	6 200
Trade payables, NOK	7 470	-	7 470	-
Trade payables, GBP	2 440		2 440	-
Trade payables, CHF	-	1 047	-	1 047
Trade payables, SEK	539	-	539	-
TOTAL:	**3 496 960**	**3 724 298**	**1 757 396**	**2 219 533**

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

	Group		Parent Company	
	31.12.2020	**31.12.2019**	**31.12.2020**	**31.12.2019**
	EUR	**EUR**	**EUR**	**EUR**
Trade payables without factoring	3 121 963	3 628 788	1 382 399	2 124 023
Trade payables with factoring	374 997	95 510	374 997	95 510
TOTAL:	**3 496 960**	**3 724 298**	**1 757 396**	**2 219 533**

The Group has signed a reverse factoring agreement with SIA SEB Līzings, limit 450 000 EUR. The agreement expires on 17 January 2022.

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

34. Taxes payable

The Group and Parent Company's taxes payable to the State budget during one year period as at 31 December 2020 and 2019 may be specified as follows:

	Group		Parent Company	
	31.12.2020	**31.12.2019**	**31.12.2020**	**31.12.2019**
	EUR	**EUR**	**EUR**	**EUR**
Statutory social insurance contributions	(373 583)	(196 864)	(30 429)	(9 413)
Personal income tax	(184 655)	(87 656)	(16 212)	(5 172)
Value added tax – payable	(251 832)	(273 530)	-	-
Value added tax – receivable	197 758	254 842	189 466	242 626
Natural resource tax	(1 229)	(575)	(106)	(116)
Real estate tax	-	20	-	20
Unemployment risk duty	(75)	(79)	(5)	(4)
TOTAL:	**(613 616)**	**(303 842)**	**142 714**	**227 941**
TOTAL PAYABLE:	**(811 374)**	**(558 704)**	**(46 752)**	**(14 705)**
TOTAL RECEIVABLE (Note 24):	**197 758**	**254 862**	**189 466**	**242 646**

The term of taxes payable to the State budget was extended during year 2020 until years 2022-2023 and non-current part of taxes payables is as follows:

	Group		Parent Company	
	31.12.2020.	**31.12.2019.**	**31.12.2020.**	**31.12.2019.**
	EUR	**EUR**	**EUR**	**EUR**
Statutory social insurance contributions	(120 223)	-	-	-
Value added tax – payable	(102 292)	-	-	-
Personal income tax	(50 902)	-	-	-
TOTAL:	**(273 417)**	**-**	**-**	**-**

35. Corporate income tax

	Group		Parent Company	
	31.12.2020	**31.12.2019**	**31.12.2020**	**31.12.2019**
	EUR	**EUR**	**EUR**	**EUR**
Corporate income tax – payable	(2 516)	(809)	(824)	-
Corporate income tax – receivable	-	685	-	219
TOTAL:	**(2 516)**	**(124)**	**(824)**	**219**
TOTAL PAYABLE:	(2 516)	(809)	(824)	-
TOTAL RECEIVABLE	-	685	-	219

36. Other liabilities

	Group		Parent Company	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019
	EUR	EUR	EUR	EUR
Wages and salaries	244 688	229 801	31 129	18 974
Balances due to employees	404	2 557	-	2 251
Credit cards	520	-	520	-
Phone lease agreements	5 416	7 039	3 306	2 572
Other liabilities	359	337	239	-
TOTAL:	**251 387**	**239 734**	**35 194**	**23 797**

37. Accrued liabilities

	Group		Parent Company	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019
	EUR	EUR	EUR	EUR
Vacation pay reserve	185 919	169 271	38 204	25 701
Other accrued liabilities	121 342	67 518	72 125	17 782
TOTAL:	**307 261**	**236 789**	**110 329**	**43 483**

38. Related party disclosures

The major shareholder of the Parent Company is SIA MACRO RĪGA, which owns 34.07% (2019: 34.03%) of the Parent Company's shares. The table below summarizes transactions of the Group and the Parent Company with related parties for the relevant financial year.

			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 Lightspace Technologies (AS HansaMatrix equity interest: 49.86% from 30.09.2019)	Loan	31.12.2019	2 007 323	2 007 323	-	-	4 461 446	4 461 446	-	-
		31.12.2020	500 127	500 127	-	-	4 961 573	4 961 573	-	-
	Services, purchase of materials, sales	31.12.2019	2 991	2 991	-	-	502	502	-	-
		31.12.2020	3 975	3 975	172	172	-	-	-	-
	TOTAL	**31.12.2019**	**2 010 314**	**2 010 314**	**-**	**-**	**4 461 948**	**4 461 948**	**-**	**-**
	TOTAL	**31.12.2020**	**504 102**	**504 102**	**172**	**172**	**4 961 573**	**4 961 573**	**-**	**-**
2. Entities with significant influence over the Parent Company										
SIA Macro Rīga (shareholder)	Loan	31.12.2019	32 585	32 585	-	-	540 133	540 133	-	-
		31.12.2020	10 290	10 290	-	-	551 883	551 883	-	-
	Services, purchase of materials, sales	31.12.2019	-	-	-	-	-	-	-	-
		31.12.2020	3 428	3 428	-	-	1 808	1 808	-	-
	TOTAL	**31.12.2019**	**32 585**	**32 585**	**-**	**-**	**540 133**	**540 133**	**-**	**-**
	TOTAL	**31.12.2020**	**13 718**	**13 718**	**-**	**-**	**553 691**	**553 691**	**-**	**-**
3. Subsidiaries										
SIA HansaMatrix Ventspils (AS HansaMatrix equity interest: 100%)	Production services, supply of materials	31.12.2019	-	192 379	-	5 678 132	-	20 181	-	719 179
		31.12.2020	-	209 287	-	6 411 646	-	21 937	-	1 277 051
SIA HansaMatrix Innovation (AS HansaMatrix equity interest: 100%)	Production services, supply of materials	31.12.2019	-	397 464	-	827 855	-	1 133 293	-	470 704
		31.12.2020	-	231 611	-	499 189	-	73 681	-	65 359
SIA HansaMatrix Pārogre (AS HansaMatrix equity interest: 100%)	Investment in capital	31.12.2019	-	197 200	-	-	-	-	-	98 600
		31.12.2020	-	-	-	-	-	-	-	-
	Production services, supply of materials	31.12.2019	-	569 479	-	6 615 665	-	116 125	-	877 721
		31.12.2020	-	679 478	-	6 263 238	-	2 139	-	1 385 877
SIA Zinātnes parks (AS HansaMatrix equity interest: 74.67% from 30.04.2019.) .)/100% from 30.09.2020.	Loan, investment in capital	31.12.2019	-	415 000	-	-	823 700	-	-	-
		31.12.2020	-	242 500	-	-	1 066 200	-	-	-
	TOTAL	**31.12.2019**	**-**	**1 771 522**	**-**	**13 121 652**	**823 700**	**1 269 599**	**-**	**2 166 204**
	TOTAL	**31.12.2020**	**-**	**1 362 876**	**-**	**13 174 073**	**1 066 200**	**97 757**	**-**	**2 728 287**
3. Other related companies										
	Production services, supply of materials	31.12.2019	9 257	9 257	10 089	10 089	-	-	720	720
		31.12.2020	-	-	2 923	2 923	-	-	720	720
	TOTAL	**31.12.2019**	**9 257**	**9 257**	**10 089**	**10 089**	**-**	**-**	**720**	**720**
	TOTAL	**31.12.2020**	**-**	**-**	**2 923**	**2 923**	**-**	**-**	**720**	**720**

38. Related party disclosures (cont'd)

The maturity of the loan issued by HansaMatrix to SIA MACRO RĪGA is December 31, 2021.

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

		Interest charged		Amounts owed by related parties			
		2020	2019	31.12.2020		31.12.2019	
		EUR	EUR	EUR	EUR	EUR	EUR
Interest rate	Maturity			Non-current	Current	Non-current	Current
1.9	31.12.2021	10 295	32 585	551 883	-	-	541 593

	Group				Parent Company			
	31.12.2020	**31.12.2020**	**31.12.2019**	**31.12.2019**	**31.12.2020**	**31.12.2020**	**31.12.2019**	**31.12.2019**
	EUR	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**
	Current	**Non-Current**	**Current**	**Non-Current**	**Current**	**Non-Current**	**Current**	**Non-Current**
SIA MACRO RĪGA								
Loan	541 593	-	537 480	-	541 593	-	509 008	-
Interest charged	10 290	-	4 113	-	10 290	-	32 585	-
Accrual	-	-	(1 460)	-	-	-	(1 460)	-
TOTAL:	**551 883**	**-**	**540 133**	**-**	**551 883**	**-**	**540 133**	**-**

The recoverability of the loan issued to SIA MACRO RĪGA is assessed under the expected credit losses model, using the following variables: Exposure at Default (EAD), Loss Given Default (LGD) and Probability of Default (PD); the latter variable value obtained from the available public data by Moody's investors service for hi-tech industry.

	Koncerns		**Mātes sabiedrība**	
	2020	**2019**	**2020**	**2019**
	EUR	**EUR**	**EUR**	**EUR**
Interest on the loan Macro Rīga, SIA	10 290	32 585	10 290	32 585
Interest on the loan HansaMatrix Innovation, SIA	-	-	20 806	-
KOPĀ:	**10 290**	**32 585**	**31 096**	**32 585**

Terms and conditions of transactions with related parties

Outstanding balances at the year-end are unsecured, interest-free (except for the loans issued).

Transactions with key management personnel

The amounts related to key management personnel and recognized as an expense during the reporting period are disclosed in Note 12

39. 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 2020, the total value of these materials was EUR 29 699 472 (31 December 2019: EUR 10 810 251).

On 22 December 2017, the Parent Company entered into a guarantee line agreement with AS SEB banka for a total amount of EUR 100 000 to receive guarantees for participation in the EU grant programs administered by Latvian authorities and to be used as security for prepayments due from customers. In 2018, the Parent Company increased the limit of the guarantee line agreement with AS SEB banka up to EUR 800 000. The guarantee line expires within one year and each year it is extended for another year; now it expires on 22 December 2021. The above agreement is secured by a commercial pledge on the Parent Company's assets. As at 31 December 2020, one guarantee was used: a) a guarantee of EUR 100 000 issued to AAS BTA Baltic Insurance Company.

On 22 December 2017, the Parent Company entered into a guarantee agreement with AS SEB banka for the liabilities of SIA Zinātnes parks arising from loan agreement No 2017012425 signed with AS SEB banka on 22 December 2017. The said loan matures on 20 December 2022.

On 22 December 2017, the subsidiaries SIA HansaMatrix Pārogre, SIA HansaMatrix Ventspils and SIA HansaMatrix Innovation entered into guarantee agreements with AS SEB banka for the liabilities of the Parent Company arising from the following agreements with AS SEB banka: loan agreement No 2017012423 of 22 December 2017 (maturing on 25 December 2022), loan agreement No 2019002164 of 03 April 2019 (maturing on 30 November 2023), overdraft agreement No 2017012422 of 22 December 2017 (maturing on 22 December 2021) and surety agreement No 2017012424 of 22 December 2017 (maturing on 22 December 2021).

On 3 December 2018, SIA HansaMatrix Ventspils, SIA HansaMatrix Pārogre and SIA HansaMatrix Innovation and in December 2020 also SIA Zinātnes parks entered into guarantee agreement with the European Investment Bank for the liabilities of the Parent Company arising from EUR 10 million financing agreements No 89375 and No 90409. The loan is repayable within 5 years after the receipt of each tranche.

40. Commitments and contingencies

The Parent Company has pledged its real estate at Akmeņu iela 72, Ogre, and movable property as security for loan granted by AS SEB banka (see Note 28).

41. Share-based payments

The expense recognized for employee services received during the year is shown in the following table:

	Group		Parent Company	
	2020	2019	2020	2019
	EUR	EUR	EUR	EUR
Expense arising from equity-settled share-based payment transactions	1 285	(636)	1 285	(636)
TOTAL:	1 285	(636)	1 285	(636)

There were no cancellations or modifications to the awards in 2020 or 2019.

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options during the year (excluding SARs):

	Group				Parent Company			
	2020	2020	2019	2019	2020	2020	2019	2019
	Number	WAEP	Number	WAEP	Number	WAEP	Number	WAEP
Outstanding at 1 January	2 400	6.33	1 000	7.55	2 400	6.33	1 000	7.55
Granted during the year	7 300	8.33	3 400	6.33	7 300	8.33	3 400	6.33
Forfeited during the year	(150)	7.68	(2 000)	6.96	(150)	7.68	(2 000)	6.96
Outstanding at 31 December	9 550	8.33	2 400	6.33	9 550	8.33	2 400	6.33

42. Financial risk management

The Group and Parent Company's principal financial instruments comprise loans from credit institutions, leases, cash and short-term deposits. The main purpose of these financial instruments is to ensure financing for the Group and Parent Company's operations. The Group and the Parent Company have various other financial instruments such as trade and other receivables and trade and other payables, which arise directly from its operations. The activities of the Group and the Parent Company expose them to a variety of financial risks: market risk (including foreign currency risk and interest rate risk), liquidity risk, credit risk and cash flow risk. The Group's financial management identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units.

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 objective of the Group's financial risk management is to hedge currency risk of all expected cash flows in foreign currencies (for capital investments or purchases of materials and raw materials) that may give rise to significant currency risk.
Currency risk as at 31 December 2020 and 31 December 2019 can be specified as follows:

Group		USD	JPY	CHF	SEK	GBP	NOK	EUR	TOTAL
		EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Trade receivables	2020	120 094	-	-	-	-	-	729 948	850 042
	2019	234 915	-	-	-	-	-	772 694	1 007 609
Loans	2020	-	-	-	-	-	-	5 513 456	5 513 456
	2019	-	-	-	-	-	-	5 001 579	5 001 579
Cash	2020	512 336	-	-	-	-	-	317 907	830 243
	2019	35 572	-	-	-	-	-	218 908	254 480
Total financial assets subject to currency risk, EUR	2020	632 430	-	-	-	-	-	6 561 311	7 193 741
	2019	270 487	-	-	-	-	-	5 993 181	6 263 668
Trade payables	2020	870 468	-	-	539	2 440	7 470	3 326 330	4 207 247
	2019	1 525 052	6 200	1 047	-	-	-	3 384 477	4 916 776
Loans	2020	-	-	-	-	-	-	13 518 227	13 518 227
	2019	-	-	-	-	-	-	13 706 302	13 706 302
Total financial liabilities subject to currency risk, EUR	2020	870 468	-	-	539	2 440	7 470	16 844 557	17 725 474
	2019	1 525 052	6 200	1 047	-	-	-	17 090 779	18 623 078
Net assets / (liabilities) subject to currency risk, EUR	2020	**(238 038)**	-	-	**(539)**	**(2 440)**	**(7 470)**	**(10 283 246)**	**(10 531 733)**
	2019	**(1 254 565)**	**(6 200)**	**(1 047)**	-	-	-	**(11 097 598)**	**(12 359 410)**

42. Financial risk management (cont'd)

Foreign currency risk (cont'd)

Parent Company		USD	JPY	CHF	SEK	GBP	NOK	EUR	TOTAL
		EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Trade receivables	2020	120 094	-	-	-	-	-	270 561	390 655
	2019	232 150	-	-	-	-	-	1 448 311	1 680 461
Loans	2020	-	-	-	-	-	-	7 496 532	7 496 532
	2019	-	-	-	-	-	-	5 825 279	5 825 279
Cash	2020	507 671	-	-	-	-	-	244 062	751 733
	2019	35 572	-	-	-	-	-	210 354	245 926
Total financial assets subject to currency risk, EUR	2020	627 765	-	-	-	-	-	8 011 155	8 638 920
	2019	267 722	-	-	-	-	-	7 483 944	7 751 666
Trade payables	2020	860 755	-	-	539	2 440	7 470	4 261 713	5 132 917
	2019	1 513 153	6 200	1 047	-	-	-	3 943 461	5 463 861
Loans	2020	-	-	-	-	-	-	10 835 422	10 835 422
	2019	-	-	-	-	-	-	10 760 229	10 760 229
Total financial liabilities subject to currency risk, EUR	2020	860 755	-	-	539	2 440	7 470	15 097 135	15 968 339
	2019	1 513 153	6 200	1 047	-	-	-	14 703 690	16 224 090
Net assets / (liabilities) subject to currency risk, EUR	2020	**(232 990)**	**-**	**-**	**(539)**	**(2 440)**	**(7 470)**	**(7 085 980)**	**(7 329 419)**
	2019	**(1 245 431)**	**(6 200)**	**(1 047)**	**-**	**-**	**-**	**(7 219 746)**	**(8 472 424)**

The following table demonstrates the sensitivity of the Group and Parent Company's profit before tax to a reasonably possible change in USD and JPY exchange rates in four different scenarios, with all other variables held constant.

Group Change in exchange rate		Potential net effect from increase/ decrease in USD exchange rate	Potential net effect from increase/ decrease in NOK exchange rate	Potential net effect from increase/ decrease in GBP exchange rate	Potential net effect from increase/ decrease in SEK exchange rate	Potential net effect from increase/ decrease in JPY exchange rate	Potential net effect from increase/ decrease in CHF exchange rate	TOTAL
		EUR	EUR	EUR	EUR	EUR	EUR	EUR
10%	2020	114 051	679	222	49	-	-	115 001
	2019	21 640	-	-	-	564	95	22 299
5%	2020	11 335	356	116	26	-	-	11 833
	2019	59 741	-	-	-	295	50	60 086
-5%	2020	(12 528)	(393)	(128)	(28)	-	-	(13 077)
	2019	(66 030)	-	-	-	(326)	(55)	(66 411)
-10%	2020	(26 449)	(830)	(271)	(60)	-	-	(27 610)
	2019	(139 396)	-	-	-	(689)	(116)	(140 201)

42. Financial risk management (cont'd)

Foreign currency risk (cont'd)

Parent Company Change in exchange rate		Potential net effect from increase/ decrease in USD exchange rate	Potential net effect from increase/ decrease in NOK exchange rate	Potential net effect from increase/ decrease in GBP exchange rate	Potential net effect from increase/ decrease in SEK exchange rate	Potential net effect from increase/ decrease in JPY exchange rate	Potential net effect from increase/ decrease in CHF exchange rate	TOTAL
		EUR	EUR	EUR	EUR	EUR	EUR	EUR
10%	2020	21 181	679	222	49	-	-	22 131
	2019	113 221	-	-	-	564	95	113 880
5%	2020	11 095	356	116	26	-	-	11 593
	2019	59 306	-	-	-	295	50	59 651
-5%	2020	(12 263)	(393)	(128)	(28)	-	-	(12 812)
	2019	(65 549)	-	-	-	(326)	(55)	(65 930)
-10%	2020	(25 888)	(830)	(271)	(60)	-	-	(27 049)
	2019	(138 381)	-	-	-	(689)	(116)	(139 186)

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 and the Parent Company are exposed to cash flow interest rate risk mainly in relation to borrowings with floating interest rates as the finance costs increase significantly with the interest rate growing.
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 28.

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

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

Group

Year		EURIBOR	Effect on profit before tax EUR
	2020	+0.5%	(29 163)
	2019		(35 065)
	2020	+1.0%	(58 327)
	2019		(70 131)
	2020	-0.5%	29 163
	2019		35 065

Parent Company

Year		EURIBOR	Effect on profit before tax EUR
	2020	+0.5%	(23 681)
	2019		(27 617)
	2020	+1.0%	(47 362)
	2019		(55 233)
	2020	-0.5%	23 681
	2019		27 617

42. Financial risk management (cont'd)

Liquidity risk

The Group's liquidity and cash flow risk management objective is to maintain an adequate amount of cash and cash equivalents and the availability of non-current and current borrowings through access to sufficient credit amounts to meet the existing and expected liabilities. The Group manages its liquidity risk by arranging an adequate amount of committed credit facilities with banks, planning of terms of payment of trade payables, developing and analyzing future cash flows comprising both the existing and planned loans and interest on such loans.

The table below summarizes the maturity profile of the Group's financial liabilities as at 31 December 2020 based on contractual undiscounted payments.

Group

		Up to 3 months	3 - 12 months	1 - 5 years	TOTAL
Loans from credit institutions	2020	409 831	1 425 562	7 399 093	**9 234 486**
	2019	414 073	1 463 589	7 942 110	**9 819 772**
Interest payments	2020	24 934	63 955	69 645	**158 534**
	2019	26 983	73 125	99 151	**199 259**
Lease liabilities	2020	67 625	444 387	519 116	**1 031 128**
	2019	12 380	29 805	92 006	**134 191**
Interest expense	2020	3699	9 287	10 507	**23 493**
	2019	637	1 580	2 455	**4 672**
Trade and other payables	2020	3 266 984	151 593	-	**3 418 577**
	2019	3 649 154	75 144	-	**3 724 298**
TOTAL	**2020**	**3 773 073**	**2 094 784**	**7 998 361**	**13 866 218**
	2019	**4 103 227**	**1 643 243**	**8 135 722**	**13 882 192**

Parent Company

		Up to 3 months	3 - 12 months	1 - 5 years	TOTAL
Loans from credit institutions	2020	360 000	1 276 071	7 100 110	**8 736 181**
	2019	364 242	1 314 097	7 543 467	**9 221 806**
Interest payments	2020	22 345	57 874	65 222	**145 441**
	2019	26 983	73 125	99 151	**199 259**
Lease liabilities	2020	9 229	267 640	59 421	**336 290**
	2019	12 380	29 805	92 006	**134 191**
Interest expense	2020	451	1 100	991	**2 542**
	2019	637	1 580	2 455	**4 672**
Trade and other payables	2020	4 438 456	431	0	**4 438 887**
	2019	4 311 602	74 135	0	**4 385 737**
TOTAL	**2020**	**4 830 481**	**1 603 116**	**7 225 744**	**13 659 341**
	2019	**4 715 844**	**1 492 742**	**7 737 079**	**13 945 665**

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

		Group		**Parent Company**	
		2020	**2019**	**2020**	**2019**
		EUR	**EUR**	**EUR**	**EUR**
EBITDA	EUR	3 081 235	3 761 229*	1 172 395	1 626 572*
EBITDA	%	13	15	5	7

*Restated increasing by the amount of depreciation included in the cost of work in progress, costs of fixed asset, see cash flow statement.

42. Financial risk management (cont'd)

Credit risk

The Group is exposed to credit risk through its trade receivables, issued current loans, as well as cash and cash equivalents. The Group manages its credit risk by continuously assessing the credit history of customers and assigning credit terms on an individual basis. In addition, receivable balances are monitored on an ongoing basis to ensure that the Group's exposure to bad debts is minimized. The Group uses credit risk insurance for factoring transactions where credit limits and credit rating are established. The Group's counterparties in money transactions are local financial institutions.

The Group's revenue from its largest customer does not exceed 30% of its total turnover. Except for that, the Group has no other customer or customer group the transactions with which would exceed 13% of the Group's total turnover.

Group		**31.12.2020**	**31.12.2019**
		EUR	**EUR**
Trade receivables – not insured		718 748	847 257
Insured trade receivables (factoring)		1 379 394	1 410 579
	TOTAL:	**2 098 142**	**2 257 836**
Factoring prepayment made		(1 218 600)	(1 194 761)
		879 542	**1 063 075**

Parent Company		**31.12.2020**	**31.12.2019**
		EUR	**EUR**
Trade receivables – not insured		147 874	1 229 925
Insured trade receivables (factoring)		1 328 477	1 410 579
	TOTAL:	**1 476 351**	**2 640 504**
Factoring prepayment made		(1 182 885)	(1 194 761)
		293 466	**1 432 776**

Capital management

The Group's objective is to maximize the return on capital to the companies' shareholders and by retaining a sound capital structure to maintain the credibility of creditors, customers and market participants as well as to ensure sustainable operations. The primary task of the Group's capital management is to ensure that the Group maintains a strong credit rating and healthy capital ratios to support its business and increase the shareholder value. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions.

The Group and the Parent Company monitor the capital adequacy by calculating the equity-to-asset ratio:

Group	**31.12.2020**	**31.12.2019**
	EUR	**EUR**
Equity	8 472 898	9 028 217
Total assets	28 832 543	29 811 642
Equity-to-asset ratio	**29%**	**30%**

Parent Company	**31.12.2020**	**31.12.2019**
	EUR	**EUR**
Equity	7 732 195	8 387 293
Total assets	24 692 657	25 625 050
Equity-to-asset ratio	**31%**	**33%**

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

42. Financial risk management (cont'd)

Geopolitical risk

Income from sales outside the European Union represents a small part of the Group's turnover (approximately 5% of the revenue), which gives rise to geopolitical risk. The global market of electronic manufacturing services is mainly affected by the US-China "trade war". The manufacturers of electronic systems in Eastern Europe benefit from higher US import tariffs on Chinese electronics products on the US market. On the other hand, the "trade war" has a dampening effect on the economy and reduces investment in infrastructure. The situation is not stable and may change at any time. The suspended raising of import duties has calmed down the market and stabilized it.

43. Fair value

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

The tables below provide the fair value measurement hierarchy of the Group's assets and liabilities at 31 December 2020:

Group			Fair value measurement using		
	Total at carrying amount	Total at fair value	quoted prices in active markets (Level 1)	significant observable inputs (Level 2)	significant unobservable inputs (Level 3)
	EUR	EUR	EUR	EUR	EUR
Assets and liabilities measured at fair value					
Convertible loan SIA Lightspace Technologies	4 961 573	4 961 573	-	4 961 573	-
Warrants	1 652 485	1 652 485	-	1 652 485	-
Investments in other companies	42 086	42 086	-	-	42 086
Other financial assets	38 564	38 564	-	-	38 564
Assets and liabilities for which fair value is disclosed					
Loan to shareholder	551 883	551 883	-	-	551 883
Loans from credit institutions	9 219 100	9 219 100	-	9 219 100	-

43. Fair value (cont'd)

Parent Company	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
Assets and liabilities measured at fair value					
Convertible loan SIA Lightspace Technologies	4 961 573	4 961 573	-	4 961 573	-
Convertible loan SIA Zinātnes parks	1 066 200	1 066 200	-	1 066 200	-
Warrants	1 652 485	1 652 485	-	1 652 485	-
Investments in other companies	41 801	41 801	-	-	41 801
Other financial assets	38 564	38 564	-	-	38 564
Assets and liabilities for which fair value is disclosed					
Loan to shareholder	551 883	551 883	-	-	551 883
Loans from credit institutions	8 720 795	8 720 795	-	8 720 795	-

The tables below provide the fair value measurement hierarchy of the Group's assets and liabilities at 31 December 2019.

Group	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
Assets and liabilities measured at fair value					
Convertible loan SIA Lightspace Technologies	4 461 446	4 461 446	-	4 461 446	-
Convertible loan SIA Zinātnes parks	-	-	-	-	-
Warrants	1 345 930	1 345 930	-	1 345 930	-
Investments in other companies	37 754	37 754	-	-	37 754
Other financial assets	84 078	84 078	-	-	84 078
Other financial liabilities	1 345 930	134 930	-	1 345 930	
Assets and liabilities for which fair value is disclosed					
Loan to shareholder	540 133	540 133	-	-	540 133
Loans from credit institutions	9 805 079	9 805 079	-	9 805 079	-

43. Fair value (cont'd)

Parent Company

			Fair value measurement using		
	Total at carrying amount	Total at fair value	quoted prices in active markets (Level 1)	significant observable inputs (Level 2)	significant unobservable inputs (Level 3)
	EUR	EUR	EUR	EUR	EUR
Assets and liabilities measured at fair value					
Convertible loan SIA Lightspace Technologies	4 461 446	4 461 446	-	4 461 446	-
Convertible loan SIA Zinātnes parks	823 700	823 700	-	823 700	-
Warrants	1 345 930	1 345 930	-	1 345 930	-
Investments in other companies	37 469	37 469	-	-	37 469
Other financial assets	84 078	84 078	-	-	84 078
Other financial liabilities	1 345 930	134 930	-	1 345 930	
Assets and liabilities for which fair value is disclosed					
Loan to shareholder	540 133	540 133	-	-	540 133
Loans from credit institutions	9 207 113	9 207 113	-	9 207 113	-

Assets stated at fair value are revalued property, plant and equipment (Note 26), 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.

44. Going concern

As at 31 December 2020, the Group's working capital (current assets) amounted to EUR 6.813 million, including a cash balance of EUR 830 thousand. The liquidity ratio of the Group historic values from 2016 to 2020 in the exhibit below indicate the ability of the Group to effectively manage the current asset volumes.

Year	Dec 31, 2016	Dec 31, 2017	Dec 31, 2018	Dec 31, 2019	Dec 31, 2020
Liquidity ratio	0.9	0.7	1.0	0.8	0.8

The Group's management has prepared the budget and cash flow projection for the year 2021 ensuring adequate resources for financing the Group's operating activities as well as the expected investment flows. The prepared budget and cash flow were adjusted to the COVID-19 virus spread emergency situation, using the best knowledge available to the management of the Company at the time of preparing these financial projections. Future developments in the business environment may differ from the forecasts of the Group's management, nevertheless the key assumptions used in the Group's cash flow and liquidity projection for the year 2021 are as follows:

- The positive market trend of increased demand in the data network and medical device sectors continues in 2021. No significant structural changes occur either in the business environment or the market both in the EU and Latvia, except for the emergency situation due COVID-19 virus spread estimated effects on the Group key financial indicators due to decrease in demand form some customers and due to potential disruptions of the supply chain;
- In 2021, the Group continues to serve the existing customers and acquiring new customers.

44.Going concern (cont'd)

- HansaMatrix has introduced internal code of emergency aimed to ensure safeguarding and maintaining good health of the employees in the Company. New internal regulations and business practices have been introduced to maintain operations of the Group during COVID-19 emergency situation, allowing to assume no significant business interruption due to employees contracting the virus.
- The Group invests in property, plant and equipment to maintain the equipment to the required standards and to ensure maintaining the existing production capacity and to ensure increasing the capacity if necessary;
- In 2021, the working capital is increased from the Group's operating cash flow;
- In December 2020, HansaMatrix has signed agreements with SEB banka and SEB lizings to extend the maturity of factoring, overdraft, guarantee and reverse factoring for the next annual period of one year for a total amount of EUR 4.56 million for working capital financing that also include export financing transactions.
- The liability that arised frompostponed tax payments in 2020 to ensure liquidity due to COVID-19 business impact is planned to be gradually decreased in 2021.
- The Group utilizes the opportunities of the government support as applicable to HansaMatrix group to improve liquidity situation during the COVID-19 virus spread extraordinary situation.
- Principal balances of the existing long term loans with SEB banka are amortized according to the standard agreed repayment schedules.

In 2018, the Group entered into a EUR 10 million financing agreement with the European Investment Bank. The objective of the funding is to support the AS HansaMatrix Group's planned investments in 2018-2021 amounting to EUR 20 million. The funds granted by the European Investment Bank are mainly intended for co-funding the R&D activities, IT system development, boosting the production capacity at Ogre and Ventspils manufacturing plants and investments in production automation, thus facilitating the business growth as well as for increasing the current assets. The Group has utilized 5 million of this financing and will evaluate the necessity to receive the remaining 5 million of EIB financing in 2021.

45. Events during the reporting year

On 12 February 2020, LightSpace Technologies announced the development of multi focal AR MR headsets for professional use. The company, in close partnership with several global market leaders, plans to develop multi focal AR headset models representing medical, automotive and professional 3D graphics applications. Developer kits will be available already in Q3 2020, with commercial sales scheduled to start in 2021.

On 9 March 2020, Gundars Strautmanis resigned from the position of a member of the HansaMatrix Supervisory Board. Positions were retained by Andris Bērziņš, Chairman of the Supervisory Board; Ivars Ķirsons, Deputy Chairman of the Supervisory Board; Ingrīda Blūma and Dagnis Dreimanis, members of the Supervisory Board.

On 22 May 2020, the HansaMatrix shareholders' meeting elected a new Supervisory Board wherein to the existing members Andris Bērziņš, Ingrīda Blūma and Dagnis Dreimanis, new members – Normunds Igolnieks and Baiba Anda Rubesa – were elected.

On 28 July 2020, the HansaMatrix associate LightSpace Technologies signed grant agreement No 960828 with the European Commission to receive EUR 2.25 million from the European Union research and innovation program Horizon 2020. In addition, the European Innovation Council Equity Fund (EIC Fund) will make a capital injection of up to EUR 1.7 million to LightSpace Technologies through a separate investment agreement, providing mixed funding.

LightSpace Technologies has won in a strong 4000 project competition in Horizon 2020 EIC accelerator program focused on COVID-19 treatment initiatives with the project "Next Generation Enhanced Augmented Reality 3D Glasses for medical education, pre-procedural planning, intra-procedural visualization, and patient rehabilitation".

On 24 November 2020, the Supervisory Board of HansaMatrix decided to make changes in the composition of the Management Board, appointing as a Board member the Chief Operating Officer (COO) Jānis Sams in addition to the Chairman of the Board Ilmārs Osmanis and the Board Member, Chief Financial Officer (CFO) Māris Macijevskis.

On 18 December 2020, the Financial Data Analysis and Research Program by the European Bank for Reconstruction and Development (EBRD) published the first report on HansaMatrix which is publicly available free of charge to every investor on the program's website: https://bit.ly/3oWow54. HansaMatrix is included in the given EBRD supported Program for a period of two years.

In December 2020, HansaMatrix signed agreements with SEB banka and SEB lizings to extend the maturity of factoring, overdraft, guarantee and reverse factoring facilities for another year in an aggregate amount of EUR 4.56 million for financing working capital, including export transactions.

46. Events after the reporting year

On 5 January 2021, HansaMatrix announced launching of operations in its second plant in Ventspils according to the manufacturing campus development plan. The Company has signed a 10-year lease agreement with the Freeport of Ventspils Authority to lease the newly constructed manufacturing building with a total area of 4600 square meters, located at Ventspils Augsto tehnoloģiju parks No 7, Ventspils. The new plant will complement the existing manufacturing capacity with new integrated manufacturing process in plastic parts production and in the assembly of final product that contains optical elements and systems. It will double the box build assembly capacity available on Ventspils manufacturing site. As a result of the transaction, the Group's balance sheet will increase by EUR 733.6 thousand.

On 22 March, 2021, HansaMatrix announced changes to its management to be carried out in the course of the second quarter 2021 by appointing Jānis Sams, Chief Operating Officer and Management Board member to the position of Chief Executive Officer, pending all regulatory requirements. HansaMatrix founder Ilmars Osmanis will continue to rapidly develop LightSpace Technologies as its founder and current CEO and will remain a significant shareholder in HansaMatrix and is expected to join the Supervisory Board of the Company after the planned Supervisory Board elections at the company's annual Shareholders' meeting on May 26, 2021.

The full impact of the COVID-19 pandemic on economic activity is still unknown and the situation is still developing. Depending on the duration of the Coronavirus disease (COVID-19) pandemic, and continued negative impact on economic activity in year 2021, the Group might experience negative results, and liquidity restraints and incur impairments on its assets. The exact impact on the Group's activities in 2021 and thereafter cannot be predicted.

In the period since 31 December 2020 the Group has not incurred losses due to impairments recognized on outstanding receivables, write down of inventories and fair value decreases of securities/ commodities.

Ilmārs Osmanis
Chairman of the Management Board
26 April 2021

Vineta Grecka
Chief Accountant
26 April 2021

THIS DOCUMENT IS SIGNED ELECTRONICALLY WITH A SAFE ELECTRONIC SIGNATURE AND CONTAINS A TIME STAMP

Other notes to the financial statement

47. Explanation of audited financial result differences compared to operative financial results.

	01.01.2020- 31.03.2020	01.04.2020- 30.06.2020	01.07.2020- 30.09.2020	01.10.2020- 31.12.2020	01.01.2020- 31.12.2020	difference	2020 audited
Revenue	5 184 137	5 290 316	6 554 139	5 632 089	22 660 681	(71 699)	**22 588 982**
EBITDA	441 076	526 667	1 246 271	782 827	2 996 841	84 394	**3 081 235**
Net profit/loss	(435 145)	(382 581)	330 139	19 550	(468 037)	(83 575)	**(551 612)**

Audited and operative revenue figure difference is 71.6 thousand EUR or 0.31%, explained by the changes in Work In Progress (WIP) values (decreasing revenues).

Audited and operative EBITDA figure difference is 84.3 thousand EUR or 2.92%, mostly explained by the change in Work In Progress (WIP) values (-71 699 EUR impact), the change of classifying the necessary provision expense for financial assets from other operating expenses to finance costs in the statement of comprehensive income (+38 533 EUR impact) and by by adding depreciation included in the cost of work in progress and other minor items (+95 552 EUR impact).

Audited and operative Net loss figure difference is 83.6 thousand EUR or 17.86%, mostly explained by positive effect from the changes in SIA Lightspace.technologies losses recognized in HansaMatrix profit/loss statement (+200 893 EUR impact) and by negative effect from the increase of EIB warrant liability fair value recognized in HansaMatrix profit/loss statement (-306 555 EUR impact) and other minor items.

48. Corrected quarterly profit/loss statements 2020

Taking into account that in the audited statements the Company recognizes in revenue the change in Work In Progress (WIP) year end balances and taking into account that there have been minor changes in the 2020 quarterly financial results, the Company includes in this note the corrected quarterly profit/loss statement summary for 2020.

	01.01.2020- 31.03.2020 EUR	01.04.2020- 30.06.2020 EUR	01.07.2020- 30.09.2020 EUR	01.10.2020- 31.12.2020 EUR	01.01.2020- 31.12.2020 EUR
Revenue from contracts with customers	5 184 137	5 290 316	6 554 139	5 560 390	22 588 982
Cost of sales	(4 851 058)	(4 906 471)	(5 565 824)	(4 692 890)	(20 016 243)
Gross profit	**333 079**	**383 845**	**988 315**	**867 500**	**2 572 739**
Distribution costs	(114 816)	(117 960)	(120 302)	(503 529)	(856 607)
Administrative expense	(442 069)	(484 941)	(459 801)	(351 534)	(1 738 345)
Other operating income	95 581	163 565	245 340	274 460	778 946
Other operating expense	(44 671)	(18 587)	(13 150)	22 715	(53 693)
Operating profit	**(172 896)**	**(74 078)**	**640 402**	**309 612**	**703 040**
Loss from investments in associates	(140 778)	(188 924)	(164 166)	168 722	(325 146)
Finance income	2 558	2 559	2 587	2 586	10 290
Finance costs	(124 029)	(122 138)	(148 684)	(544 945)	(939 796)
Profit before tax	**(435 145)**	**(382 581)**	**330 139**	**(64 025)**	**(551 612)**
Corporate income tax	-	-	-	-	-
Net profit for the reporting period	**(435 145)**	**(382 581)**	**330 139**	**(64 025)**	**(551 612)**
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods (net of tax):	-	-	-	-	-
Total comprehensive income for the year, net of tax	**(435 145)**	**(382 581)**	**330 139**	**(64 025)**	**(551 612)**
Profit attributable to:					
Equity holders of the Parent Company	(434 609)	(382 161)	330 473	(64 025)	(550 322)
Non-controlling interests	(536)	(420)	(334)	-	(1 290)
	(435 145)	**(382 581)**	**330 139**	**(64 025)**	**(551 612)**
EBITDA	**441 076**	**526 667**	**1 246 271**	**867 221**	**3 081 235**

49. Corrected quarterly profit/loss statements 2019

Taking into account that in the audited statements the Company recognizes in revenue the change in Work In Progress (WIP) year end balances, taking into account that there have been minor changes in the 2019 quarterly financial results and also taking into account that in Q4 and 12 month operative financial report published the incorrect Q4 2020 profit/loss statement figures were included, the Company includes in this note the corrected quarterly profit/loss statement summary for 2019.

	01.01.2019-31.03.2019 EUR	**01.04.2019-30.06.2019 EUR**	**01.07.2019-30.09.2019 EUR**	**01.10.2019-31.12.2019 EUR**	**01.01.2019-31.12.2019 EUR**
Revenue from contracts with customers	5 907 883	5 973 344	6 118 110	6 611 278	24 610 615
Cost of sales	(4 895 209)	(5 258 928)	(5 304 918)	(5 513 016)	(20 972 071)
Gross profit	**1 012 674**	**714 416**	**813 192**	**1 098 262**	**3 638 544**
Distribution costs	(131 642)	(123 654)	(127 096)	(442 330)	(824 722)
Administrative expense	(434 816)	(443 643)	(439 532)	(487 644)	(1 805 635)
Other operating income	67 050	178 158	122 630	52 508	420 346
Other operating expense	(43 894)	(35 618)	(93 031)	59 727	(112 816)
Operating profit	**469 372**	**289 659**	**276 163**	**280 523**	**1 315 717**
Loss from investments in associates	(168 845)	(228 877)	(177 804)	(47 676)	(623 202)
Finance income	11 754	11 886	6 371	2 574	32 585
Finance costs	(111 685)	(127 144)	(133 152)	(126 937)	(498 918)
Profit before tax	**200 596**	**(54 476)**	**(28 422)**	**108 484**	**226 182**
Corporate income tax	-	-	-	(18 294)	(18 294)
Net profit for the reporting period	**200 596**	**(54 476)**	**(28 422)**	**90 190**	**207 888**
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods (net of tax):	-	-	-	-	-
Total comprehensive income for the year, net of tax	**200 596**	**(54 476)**	**(28 422)**	**90 190**	**207 888**
Profit attributable to:					
Equity holders of the Parent Company	200 596	(54 476)	(28 422)	96 792	214 490
Non-controlling interests	-	-	-	(6 602)	(6 602)
	200 596	**(54 476)**	**(28 422)**	**90 190**	**207 888**
EBITDA	**1 116 140**	**959 899**	**941 975**	**743 215**	**3 761 229**

Definitions of alternative performance measures (APM)

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

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

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INDEPENDENT AUDITOR'S REPORT

DOCUMENT DATE IS THE TIME OF ITS ELECTRONIC SIGNATURE

To the shareholders of HansaMatrix AS

Report on the Audit of the Financial Statements

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 21 to 86 of the accompanying Annual Report, which comprise the statements of financial position as at 31 December 2020 and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements of the Group and the Parent Company give a true and fair view of the financial position of the Group and the Parent Company as at 31 December 2020, and of 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 the International Financial Reporting Standards as adopted by the European Union (the IFRS).

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 Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) (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
Recoverability of investments and other loans (the Group and the Parent Company)	
The Group's and the Parent Company's investments in associated and other companies as at 31 December 2020 amounts to EUR 2 271 938 and EUR 3 751 690, respectively. (*Note 16 and Note 17*). Furthermore, other loans in the statements of financial position of the Group and the Parent Company amount to EUR 5 513 456 and EUR 7 496 532 as at 31 December 2020 (*Note 16, Note 19 and Note 38*). Other loans, investments in associated and other companies correspond to 27% and 46% of the Group's and the Parent Company's assets, respectively. Some of the companies, in which the Group and the Parent Company has invested in, are in the process of starting up their operations and their future cash flows are difficult to forecast. The Group's management has evaluated recoverability for these investments as disclosed in *Note 16, Note 17*, *Note 18 and Note 36*. Investments in other companies and other loans in year 2020 are measured at fair value based on Group's management valuation as disclosed in *Note 16, Note 17* and *Note 18*. Recoverability of investments in associated companies and valuation of other investments and loans requires the Group's management to make significant assumptions and judgements. Due to the above facts and circumstances, we considered recoverability and valuation of investments and loans as key audit matter.	We obtained assessment of recoverability of investments in associated companies and valuation of other investments and loans prepared by the Group's management and identified the key assumptions used. We gained an understanding of the assessment preparation process. We discussed with the Group's management the development status of each start-up company and assessed the information and data used in the recoverability assessment and internal valuation prepared by the management. We considered the development plans of each company. In doing so, among other procedures, we reviewed whether the activities performed by Group`s management are consistent with the milestones of investment programs and budgets of the companies We assessed key quantitative and qualitative assumptions used to determine the amounts. We compared key assumptions against market information. We have identified that the estimation uncertainty, subjectivity and complexity is high and, therefore, we have involved valuation specialists to assist us in performing our audit procedures by assessing the key assumptions used by the Group's management and testing the mathematical accuracy of the models. 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, Note 17*, *Note 18, Note 19 and Note 36*).
Monitoring of liquidity position (the Group and the Parent Company)	
As explained in *Note 44* as at 31 December 2020 the Group's current liabilities exceed its current assets by EUR 1 820 544, The Parent Company`s current assets exceed its current liabilities by EUR 1 722 089. 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 21.*) and continuing the use of overdraft facilities (*Note 28*). 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 44.* 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 2021. In addition, since the beginning of year 2020, the Covid-19 outbreak has left an impact on the Group`s and the Parent Company`s activities. As a result, in the first half of the year, the	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. We evaluated the significant assumptions made by the Group's management in the context of liquidity forecasts and Covid-19 impact assessment. 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 2021 and compared against the budgeted results. We also reviewed the financing available to the Group subsequently to the financial year end.

total Group`s revenue decreased by 11% and the Parent Company`s 'revenue decreased by 12 % comparing to the similar period of year 2019,

This matter is important 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 also assessed the adequacy of related disclosures contained in *Note 44, Note 45 and Note 46.*

Revenue recognition from contracts with customers (the Group and the Parent Company)

The Group and the Parent Company in 2020 have recognized in the statement of profit or loss revenue from contracts with customers amounting to 22 589 thousand EUR and 21 387 thousand EUR, respectively, as disclosed in *Note 4*.

There were significant judgements made by the management in determining the appropriate basis of revenue recognition including recognition of revenue from production services, as outlined in *Note 2.*

Given the variety of contractual terms with the customers, as well as unique product types, revenue recognition is considered to be relatively complex and requires, among other things, continual operating effectiveness of controls over the revenue streams.

Revenue recognition was significant to our audit due to the materiality of revenue to the financial statements, potential impact from IFRS 15 and judgements related with revenue recognition.

In relation to revenue recognition we performed the following procedures, among others:

- we gained an understanding of the revenue recognition and measurement for production revenue streams;
- we tested a sample of key controls implemented over revenue recognition and measurement for production services revenue streams;
- we tested a sample of key controls over revenue recording, calculation of amounts billed to the Group's and Parent Company's customers and matching of cash receipts to the customers' accounts;
- we obtained external customer confirmations for selected largest customers recognized by the Group and the Company;
- we performed analytical review procedures by forming an expectation of revenue based on the key performance indicators, including taking into consideration the number and composition of the Group's and Parent Company's customers, production volumes, changes in service prices and comparing the results of our analysis against the prior reporting period.
- we tested a sample of revenue transactions near the financial year-end for their recognition in the appropriate accounting period.
- we obtained and reviewed updated IFRS 15 impact assessment prepared by the management;
- we tested sample of customer contracts and reviewed management's IFRS 15 analysis to assess, whether performance obligations in the sales contracts have been appropriately identified and whether revenue related to the different performance obligations is recognized in accordance with IFRS 15 requirements.

We also assessed the adequacy of the revenue related disclosures in *Note 4.* In addition, we evaluated the disclosures related to significant judgements made by the management in relation to revenue recognition (*Note 2*).

Reporting on other information

Management is responsible for the other information. The other information comprises:

- the General information about the Company as set out on pages 3 to 9 of the accompanying Annual Report;
- the Management Report as set out on pages 10 to 19 of the accompanying Annual Report;
- the Statement on Management Responsibility, as set out on page 20 of the accompanying Annual Report;
- the Statement of Corporate Governance for the year 2020, set out in separate statement provided by HansaMatrix AS management and available on the HansaMatrix AS website http://www.hansamatrix.com,
- the Remuneration Report for the year 2020, set out in separate statement provided by HansaMatrix AS management and available on the HansaMatrix AS website http://www.hansamatrix.com,

Other information 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.

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, the Statement of Corporate Governance and the Remuneration Report. These additional reporting responsibilities are beyond those required under the ISAs.

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

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

- the information given in the Management Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

- the Management Report has been prepared in accordance with the requirements of the Law on Annual Reports and Consolidated Annual Reports of the Republic of Latvia.

In accordance with the Law on Audit Services of the Republic of Latvia with respect to the Statement of Corporate Governance, our responsibility is to consider whether the Statement of Corporate Governance includes the information required in Article 56^1, paragraph one, clauses 3, 4, 6, 8 and 9 and Article 56^2, paragraph two, clause 5 of the Financial Instruments Market Law and if it includes the information stipulated in Article 56^2, paragraph two, clauses 1, 2, 3, 4, 7 and 8 of the Financial Instruments Market Law.

In our opinion, the Statement of Corporate Governance includes the information required in Article 56^1, paragraph one, clauses 3, 4, 6, 8 and 9 and Article 56^2, paragraph two, clause 5 of the Financial Instruments Market Law and it includes the information stipulated in Article 56^2, paragraph two, clauses 1, 2, 3, 4, 7 and 8 of the Financial Instruments Market Law.

Furthermore, in accordance with the Law on Audit Services of the Republic of Latvia with respect to the Remuneration Report our responsibility is to consider whether the Remuneration Report includes the information required in Article 59^4 of the Financial Instruments Market Law.

In our opinion, the Remuneration Report includes the information required in Article 59^4 of the Financial Instruments Market Law.

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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 auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other reporting responsibilities and confirmations required by the legislation of the Republic of Latvia and European Union when providing audit services to public interest entities

We were first appointed as auditors of the Group and the Parent Company on 19th November 2014 by shareholders. Our appointment has been renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of 7 years.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Parent Company;
- as stipulated in paragraph 37^6 of the Law on Audit Services of the Republic of Latvia we have not provided to the Group and the Parent Company the prohibited non-audit services (NASs) referred to in EU Regulation (EU) No 537/2014. We also remained independent of the audited entity in conducting the audit.

The responsible certified auditor on the audit resulting in this independent auditors' report is Diāna Krišjāne.

SIA Ernst & Young Baltic
Licence No. 17

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

Riga,

THIS DOCUMENT IS SIGNED ELECTRONICALLY WITH A SAFE ELECTRONIC SIGNATURE AND CONTAINS A TIME STAMP