

**JOINT STOCK COMPANY  
„KURZEMES ATSLĒGA 1”**

**REGISTRATION NUMBER 40003044007**

**ANNUAL REPORT FOR THE YEAR ENDED  
31 DECEMBER 2017**

The annual report was approved by the general shareholders' meeting on \_\_ April 2018

**Aizpute 2018**

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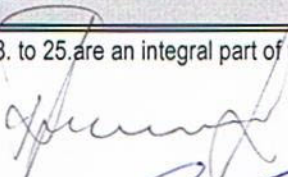
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## BALANCE SHEET

ASSETS	Note	31.12.2017 EUR	31.12.2016 EUR
<b>I. Non-current assets</b>			
<b>I. Intangible assets</b>			
1 Concessions, patents, licences, trademarks and similar rights		0	0
<b>Total intangible assets</b>	<b>4</b>	<b>0</b>	<b>0</b>
<b>II. Property, plant and equipment</b>			
1 Land, buildings and engineering constructions		510 393	525 420
2 Technological equipment and machinery		64 754	80 579
3 Other property, plant and equipment		8 878	9 054
4 Construction in progress		5 822	5 822
<b>Total property, plant and equipment</b>	<b>5</b>	<b>589 847</b>	<b>620 875</b>
<b>Total non-current assets</b>		<b>589 847</b>	<b>620 875</b>
<b>II. Current assets</b>			
<b>I. Inventories</b>			
1. Raw materials and consumables	6	384 903	399 772
2. Work in progress		283 987	320 142
3. Finished goods	7	89 067	108 850
4 Advance payment for goods	8	22 014	37 157
<b>Total inventories</b>		<b>779 971</b>	<b>865 921</b>
<b>II. Receivables</b>			
1 Trade receivables	9	201 034	146 759
2 Other receivables	10	50 613	15 016
<b>Total receivables</b>		<b>251 647</b>	<b>161 775</b>
<b>III. Cash</b>			
	11	43 597	16 559
<b>Total current assets</b>		<b>1 075 215</b>	<b>1 044 255</b>
<b>Total assets</b>		<b>1 665 062</b>	<b>1 665 130</b>

The accompanying notes on pages 8. to 25. are an integral part of these financial statements.

Chairman of the Board



Pēteris Frīdenbergs

Member of the Board



Aldis Ozols

Member of the Board



Aiga Ozola

Chief Accountant



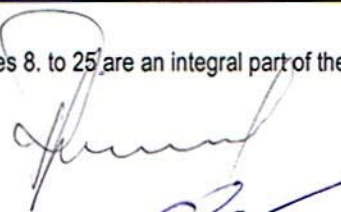
Irēna Burve

## BALANCE SHEET

EQUITY AND LIABILITIES	Note	31.12.2017 EUR	31.12.2016 EUR
<b>I. Equity</b>			
1 Share capital	12	1 285 401	1 285 401
2 Reserves			
a) Share capital reserve		21 000	21 000
b) Revaluation reserve		0	22 193
3 Retained earnings for the previous year	13	72 895	301 360
4 Retained earnings for the year		21 620	-228 465
<b>Total equity</b>		<b>1 400 916</b>	<b>1 401 489</b>
<b>II. Liabilities</b>			
<b>I. Non-current liabilities</b>			
1 Deferred tax		0	57 148
<b>Total non-current liabilities</b>		<b>0</b>	<b>57 148</b>
<b>III. Current liabilities</b>			
1 Bank loan	14	54 822	34 229
2 Advances received from customers	15	5 324	7 695
3 Trade payables	16	92 901	64 187
4 Amounts payable to associated companies	17	7 206	14 131
5 Taxes payable	18	31 289	19 442
6 Other payables	19	26 605	25 600
7 Accrued liabilities	20	45 999	41 209
<b>Total current liabilities</b>		<b>264 146</b>	<b>206 493</b>
<b>Total liabilities</b>		<b>264 146</b>	<b>263 641</b>
<b>Total equity and liabilities</b>		<b>1 665 062</b>	<b>1 665 130</b>

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Chief Accountant

Irēna Burve

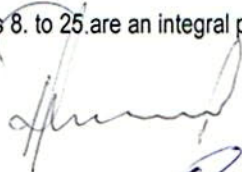


## INCOME STATEMENT

	Note	2017 EUR	2016 EUR
1 Revenue	21	1 840 988	1 508 226
b) from other type of economic activities		1 840 988	1 508 226
2 Cost of sales	22	-1 759 631	-1 611 876
3 Gross profit		81 357	-103 650
4 Distribution costs	23	-63 556	-55 086
5 Administrative expenses	24	-86 340	-81 470
6 Other operating income	25	72 055	40 800
7 Other operating expense	26	-37 294	-31 382
8 Interest payable and similar expense:			
a) to other persons	27	-1 750	-1 554
9 Profit or loss before tax		-35 528	-232 342
11 Profit or loss after tax		-35 528	-232 342
12 Deferred tax income		57 148	3 877
12 Profit or loss for the year		21 620	-228 465
13 Profit (loss) per share (EPS)		0.024	-0.249

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Chairman of the Board



Pēteris Frīdenbergs

Member of the Board



Aldis Ozols

Member of the Board



Aiga Ozola

Chief Accountant



Irēna Burve

## STATEMENT OF CASH FLOWS

(indirect method)

	2017 EUR	2016 EUR
<b>I. Cash flows from operating activities</b>		
1. Profit or loss before tax	-35 528	-232 342
Adjustments for:		
a) Depreciation of property, plant and equipment	34 097	52 497
b) Write-down of intangible assets	0	0
d) Profit or loss from foreign currency exchange rate fluctuations	4 190	-1 378
e) Losses from the liquidation of property, plant and equipment	-22 193	0
f) Subsidies, grants, gifts and donations received	0	0
i) Interest payable and similar expenses	1 745	1 332
<b>2. Profit or loss before adjustments in the balances of current assets and short-term liabilities</b>	<b>-17 689</b>	<b>-179 891</b>
Adjustments for:		
a) Increase/ decrease in trade receivables	-89 872	78 199
b) Increase/ decrease in inventories	85 950	39 296
c) Increase/ decrease in trade and other payables	37 060	13 033
<b>3. Cash generated from operations</b>	<b>15 449</b>	<b>-49 363</b>
4. Interest paid	-1 745	-1 332
5. Expenses for corporate income tax payments	0	0
<b>6. Net cash generated from operating activities</b>	<b>13 704</b>	<b>-50 695</b>
<b>II. Cash flows from investing activities</b>		
3. Purchases of property, plant and equipment and intangible assets	-3 069	-16 487
4. Proceeds from disposal of property, plant and equipment and intangible assets	0	0
<b>9. Net cash used in investing activities</b>	<b>-3 069</b>	<b>-16 487</b>
<b>III. Cash flows from financing activities</b>		
3. Loans received	20 593	-5 096
<b>7. Net cash used in financing activities</b>	<b>20 593</b>	<b>-5 096</b>
<b>IV. Foreign currency exchange rate fluctuations</b>	<b>-4 190</b>	<b>1 378</b>
<b>V. Net cash flows in the reporting year</b>	<b>27 038</b>	<b>-70 900</b>
<b>VI. Cash and cash equivalents at the beginning of the year</b>	<b>16 559</b>	<b>87 459</b>
<b>VII. Cash and cash equivalents at the end of the reporting year</b>	<b>43 597</b>	<b>16 559</b>

The accompanying notes on pages 8. to 25. are an integral part of these financial statements.

Chairman of the Board  
Member of the Board  
Member of the Board  
Chief Accountant

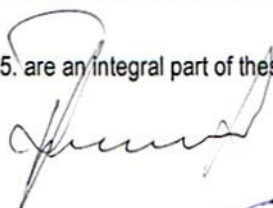
Pēteris Frīdenbergs  
Aldis Ozols  
Aiga Ozola  
Irēna Burve

## STATEMENT OF CHANGES IN EQUITY

	2017	2016
	EUR	EUR
<b>I. Share capital</b>		
1 Amount indicated in the balance sheet of the previous year	1 285 401	1 285 401
4 Amount indicated at the end of the period in the balance sheet of the financial year	1 285 401	1 285 401
<b>V. Reserves</b>		
1 Amount indicated in the balance sheet of the previous year	43 193	43 193
2 Reserves increased through the share capital	-22 193	0
3 Amount indicated at the end of the period in the balance sheet of the financial year	21000	43193
<b>VI. Retained earnings</b>		
1 Amount indicated in the balance sheet of the previous year	72 895	301 360
2 Increase/decrease in retained earnings	21620	-228465
3 Amount indicated at the end of the period in the balance sheet of the financial year	94515	72895
<b>VII. Equity</b>		
1 Amount indicated in the balance sheet of the previous year	1 401 489	1 629 954
2 Amount indicated at the end of the period in the balance sheet of the financial year	1400916	1401489

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Pēteris Frīdenbergs

Member of the Board



Aldis Ozols

Member of the Board



Aiga Ozola

Chief Accountant



Irēna Burve



## NOTES TO THE FINANCIAL STATEMENTS

### General information

Name of the company	Stock Company "KURZEMES ATSLĒGA 1"	
Legal form of the company	Stock Company	
Registration number, place and date of registration	40003044007, Riga, November 29. 1991	
Re-registration in Commercial Register	40003044007, Riga, on 11 .June 2004	
Legal address	27 Kalvenes str.,Aizpute,, LV-3456	
Board until 11.05.2017	<i>Agris Kārklīš</i>	Chairman of the Board
	<i>Ieva Niedoliņa</i>	Member of the Board
	<i>Aldis Ozols</i>	Member of the Board
Board until 11.05.2017	<i>Agris Kārklīš</i>	Chairman of the Board
	<i>Aldis Ozols</i>	Member of the Board
	<i>Agris Rastihins</i>	Member of the Board
Board from 21.07.2017	<i>Pēteris Frīdenbergs</i>	Chairman of the Board
	<i>Aldis Ozols</i>	Member of the Board
	<i>Aiga Ozola</i>	Member of the Board
Council	<i>Guntars Stekjānis</i>	Chairman of the Council
	<i>Voldemārs Magone</i>	Member of the Council
	<i>Rolands Līvmanis</i>	Member of the Council
	<i>Jānis Kārklīš</i>	Member of the Council
	<i>Irēna Burve</i>	Member of the Council
Major shareholders as at 31.12.2017	JSC "Kurzemes atslēga"	48.4%
	Wiederhold Oliver Kai	17.3%
	SIA "Aizputes atslēgas"	8.5%
	SIA "Gutta"	6.8%
	Others	19.0%
LEI code	529900VBOFPKLRG9DL23	
Economic activity	25.72 production of locks and hinges	
Financial year	01.01.2017	31.12.2017
Auditor	MARIJA JANSONE	LLC "NEXIA AUDIT ADVICE"
	Certified Auditor of the Republic of Latvia	9-3 Grečinieku Street, Riga
	Certificate No. 25	Latvia, LV – 1050
		Reg.No. 40003858822
		Licence No.134



## **Notes to the Financial Statements (*continued*)****Basis of preparation**

The financial statements of the Company have been prepared in accordance with the Law on Accounting, Law on Annual Reports and Consolidated Annual Reports, Regulations No.775 of 22.12.2015. issued by the Cabinet of Ministers of the Republic of Latvia "Enforcement policies of the Law on Annual Reports and Consolidated Annual Reports".

The financial statements are prepared on a historical cost basis. The monetary unit used in the financial statements is Euro (EUR), the monetary unit of the Republic of Latvia. Company's accounting and evaluation methods haven't changed compared with previous reporting period.

The income statement is classified by function of expense. Due to changes in laws and regulations - Law On Annual Reports lapsed on 1 January 2016 and Law on Annual Reports and Consolidated Annual Reports entered into force - classification name of the income statement has changed, replacing the name "by turnover cost method" with "classified according to the function of expenses". Contents and nature of the items does not change due to the change in the name.

### **Accounting principles applied**

Items of the financial statements have been evaluated according to the following accounting principles:

- a) assumption, that a Company is a going concern;
- b) the same evaluation methods are used as in the previous reporting year;
- c) evaluation is made with proper precaution:
  - the report includes profit that was acquired till the date of the statement of financial position;
  - all foreseeable risk amounts and losses that incurred during the reporting year or in the previous years have been taken into account even if they have been found out in the period between the date of statement of financial position and the date, when annual report was signed;
  - all impairments and depreciation amounts have been calculated and taken into account regardless of whether the reporting year is finished with profit or loss;
- d) income and expenses related to the reporting year are taken into account regardless of the date of payment and the date of invoice receipt or issue. Expenses are reconciled with incomes in the reporting year;
- e) - assets and liabilities items are evaluated separately;
- f) opening balances of the reporting year match closing balances of the previous year;
- g) all the items, that significantly affect assessment and decision-making of the users of the annual report, are disclosed, non-significant items have been combined and the details are disclosed in the notes;
- h) business transactions are disclosed in the annual report, taking into account its economic contents and nature rather than legal form;
- i) balance sheet and income statement items are stated at the cost of acquisition or production. The cost of acquisition is the purchase price of goods or services (less any discounts granted) plus any extra costs related to the purchase. The cost of production is the cost of acquiring raw materials and consumables and other expenses that are directly attributable to the construction of the asset. The cost of production may also include portions of expenses that are indirectly related to the construction of the asset, provided these costs are attributable to the same period.

### **Reporting period**

The financial statements cover the period from 01.01.2017 till 31.12.2017



### Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expense and disclosure of contingencies. Future events occur may cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements when it's determinable.

### Contingencies

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

### Currency and foreign currency revaluation

The functional currency of the Company and monetary unit used in the financial statements is euro (EUR), the monetary unit of the Republic of Latvia. All transactions in the foreign currency are revaluated to euro according to the Euro foreign exchange reference rates set by the European Central Bank, which is in force at the beginning of the day of business transaction. Monetary assets and liabilities denominated in foreign currencies are translated into euro according to the foreign exchange reference rate in force on the last day of the reporting year.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions or on reporting of assets and liabilities using the exchange rates that differ from the initial transaction accounting rates are recognized in the income statement in net value.

	31.12.2017	31.12.2016
USD	1,1993	1,05410

### Non-current and current items

Amounts presented in long-term items are the amounts with the maturity term for receipt, payment or write-off coming into effect more than a year after the end of the respective reporting year. Amounts receivable, payable or to be written-off within a year are presented as short-term items.

### Related parties

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

Related parties are defined also as entities in which the Company has significant influence or control.

### Intangible assets and property, plant and equipment

Intangible assets and property, plant and equipment are initially measured at cost.

Property, plant and equipment are recognized as non-current assets if their acquisition cost exceeds 70 euros. Purchases under 70 euros are recognised as low-value inventory.

The cost of an item of property, plant and equipment comprises its purchase price, including import duties and nonrefundable purchase taxes, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Only rights acquired in exchange for consideration are indicated in the item "Concessions, patents, licenses, trademarks, and similar rights".



Intangible assets and property, plant and equipment are stated at cost less accumulated depreciation. Depreciation on assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

<i>Intangible assets:</i>		
Computer software etc.	20	%
<i>Property, plant and equipment</i>		
Buildings and construction	2	%
Transmission equipment	5	%
Technological plant and machinery	10,14.3	%
Vehicles	14.3	%
Other fixed assets and equipment	20,10	%

Depreciation is calculated starting with the following month after the intangible asset or property, plant and equipment is ready for intended use. Land is not depreciated. Each part of an item of property 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 Company depreciates separately some parts of property 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 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 and equipment is the higher of an asset's net selling price and its value in use.

Profit or loss from alienation of a long-term investment object is indicated in the income statement in the net value.

Repair and restoration costs that increase useful life and value of assets are capitalized and depreciated over their estimated useful lives. Other repair and restoration costs are recognized as expenses of the reporting period.

The initial value of construction in progress is increased by other direct costs incurred in relation to the object until the new object is put into operation. The initial value of the respective asset is not increased by the interest of the loans used for creation of the new asset.

If investments are made in the rented asset (e.g., reconstruction, improvement or renewal), then such costs are recognized in the balance sheet item "Long-term investments in leased assets" and depreciated over the lease period.

#### **Revaluation of fixed assets and establishment of reserve**

A fixed assets object, the value of which is significantly higher than the costs of its acquisition or production cost price or assessment on the balance sheet of the previous year, is revalued according to its higher value, if it may be assumed that the value increase will be long-term. A difference arisen as a result of such revaluation between assessment, which was carried out on the basis of acquisition costs or production cost price, and assessment which was carried out on the basis of revaluation, if such difference is positive, is included in the relevant assets item of the balance sheet where revalued object of fixed assets is indicated and in the liabilities item of the balance sheet "Revaluation reserve of long-term investments" under the section "Equity".

#### **Development costs**

Development costs are costs which are directly eligible to development measures or which may be justifiably related to these measures.

#### **Inventories**

Inventories are stated at the lower of cost and net realisable value according to the perpetual inventory method.

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

### Receivables

Receivables are recognized at original invoice amount less an allowance for any doubtful amounts. The allowance for any doubtful amounts is made in the cases, when the collection of these amounts is problematic. Bad debts are written off when the recovery is deemed impossible.

Signs that an amount receivable may be doubtful:

- delayed payment of debt, after repeated reminders the debtor still does not pay or the debtor is questioning the Company's right to recover the debt;
- the debtor's poor financial situation and negative operating results or other circumstances indicating the debtor's failure to pay the full amount of the debt (known, that the debtor is subject of proceedings for its recognition as bankrupt), etc.

### Trade receivables

Trade receivables are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

### Other receivables

The Company under the item "Other receivables" presents those debtors that cannot be presented in other items, including tax overpayments, debit balances of accounts payable.

### Prepaid expense and deferred revenue

Payments made before the balance sheet date but referring to the next financial years shall be indicated in the item "Prepaid expense".

Payments received before the balance sheet date but referring to the next financial years or further financial years shall be indicated in the balance sheet item "Deferred revenue".

### Other securities and investments

Long-term investments in bonds and securities are measured at cost in the balance sheet. Short-term investments in shares and securities, which are listed on the stock exchange, are measured at market value in the balance sheet, which is determined by the stock exchange transactions on the last day of the reporting year.

### Cash

Cash and cash equivalents include cash in bank and on hand.

### Share capital

The item "Equity" shows the share capital according to the capital registered in the Commercial Register.

### Share capital reserve

Reserve has emerged as a result of the share capital denomination

### Payables

Payables are reported according to supporting documents and checked with respective creditors by reconciling balances.



### **Loans and borrowings**

Loans and borrowings are initially recognized at cost, determined by the fair value and plus directly attributable transaction costs for issued loans and net of directly attributable transaction costs for borrowings received.

### **Leases**

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments, by respective charge to current and non-current liabilities. Lease payments are apportioned between the finance charges and reduction of the principal lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are included in the income statement as interest expense.

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

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

### **Provisions**

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

### **Accrued income**

As accrued income are recognized clearly known settlement amounts with buyers and customers for the supply of goods or services in the reporting year but for which payment documents (invoices) have not been issued by the balance sheet date due to the terms of the agreement.

### **Accrued liabilities**

Accrued liabilities comprise clearly known trade payables for goods or services which have been supplied during the reporting year but for which payment documents (invoices) have not been received by the balance sheet date due to the terms of the supply, sale or contractor agreement or for any other reasons.

### **Reserve for unused leaves**

Reserve for unused leaves is determined by multiplying the average salary for the last six months of the reporting year of each employee by the number of unused accrued annual leave days.

### **Advances from customers**

Advances from customers are payments which in accordance with the contract the buyer pays the seller before the receipt of goods or service.

### **Other payables**

The company under the item "Other payables" presents those creditors that cannot be presented in other items, including credit balances of accounts receivable.

### **Dividends**

Claims and obligations in respect of dividends are recognized when the shareholders' right to receive the payment is established, which means that only when the distribution is authorised by the shareholders decision, as well as when the amount of dividends is calculated.

#### **Taxes and mandatory state social insurance contributions**

Tax information is reconciled with the tax administration. The Company presents within payables only tax debts, any overpayments are presented under other receivables.

#### **Revenue recognition**

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

##### **Sale of goods**

Revenue arising from the sale of goods is recognised when all of the following criteria have been satisfied:

- 1) the Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- 2) the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- 3) it is probable that the economic benefits associated with the transaction will flow to the Company;
- 4) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

The Company reports the sale of goods, taking into account the economic substance and not merely the legal form.

##### **Provision of services**

Revenue arising from the rendering of services is recognised in the period when the services are rendered.

Revenue arising from the rendering of services and related costs is recognised by reference to the stage of completion of the transaction at the balance sheet date.

If the outcome cannot be estimated reliably, revenue arising from the rendering of services is recognised only to the extent of the expenses recognised that are recoverable.

##### **Other income**

Other income is income that is not included in the revenue, is occurred in the result of the economic activity, or is related to, or directly derived. Other income is recognised as follows:

- revenues from fines and penalties – upon receipt;
- proceeds from the sale of non-current assets - net gain or loss on non-current assets' sale are determined by comparing the proceeds with the carrying amount and are included in the income statement as incurred;
- revenue from exchange rate fluctuations - net profit or loss from currency fluctuations is calculated as the difference between revenue and losses from exchange rate fluctuations and included in the income statement as incurred;
- interest income on current account balances from credit institutions registered in the Republic of Latvia - upon receipt;
- dividends - when the shareholder's right to receive payment is established;
- other income – as incurred.

#### **Corporate income tax**

Corporate income tax includes current corporate income tax. Corporate income tax is recognized in the income statement. Current corporate income tax is calculated in accordance with the Law on Corporate Income Tax and is applied statutory tax rate of 15% on taxable income.



Due to the new corporate income tax regulation, deferred tax were excluded from the balance sheet, as they were calculated in accordance with the previous corporate income tax regulation..

**Subsequent events**

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

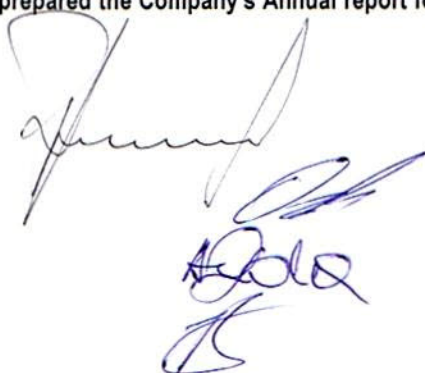
The Board and chief accountant prepared the Company's Annual report for the year ended 31 December 2017 and signed it on March 21, 2018

Chairman of the Board

Member of the Board

Member of the Board

Chief Account

The image shows four handwritten signatures in blue ink. The first signature is at the top, followed by two more in the middle, and the last one at the bottom. They are arranged vertically, corresponding to the list of names on the right.

Pēteris Frīdenbergs

Aldis Ozols

Aiga Ozola

Irēna Burve

Due to the new corporate income tax regulation, deferred tax were excluded from the balance sheet, as they were calculated in accordance with the previous corporate income tax regulation..

**Subsequent events**

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

The Board and chief accountant prepared the Company's Annual report for the year ended 31 December 2017 and signed it on March 21, 2018.

## NOTES TO THE BALANCE SHEET (continued)

	2017	2016
1 Average number of employees during the reporting year, incl.	81	79
Members of the Board	3	3
Members of the Council	5	5
Other employees	73	71
	2017	2016
	EUR	EUR
2 Total labour costs	658 119	587 873
- salaries	534 525	477 868
- state mandatory social insurance payments	123 594	110 005
Remuneration of employees engaged in production (core activity)		
- salaries	470 474	405 628
- state mandatory social insurance payments	109 829	92 981
- total	580 303	498 609
Remuneration of administration		
- salaries	62 974	60 390
- state mandatory social insurance payments	13 543	14 272
- total	76 517	74 662
3 Management remuneration		
<i>Members of the Council</i>		
- salaries	8 892	8 892
- state mandatory social insurance payments	2 098	2 533
- total	10 990	11 425
<i>Members of the Board</i>		
- salaries	9 460	9 448
- state mandatory social insurance payments	2 153	2 150
- total	11 613	11 598
Remuneration of personal for social sphere		
- salaries	1 077	1 061
- state mandatory social insurance payments	222	230
- total	1 299	1 291



4. Intangible assets

	Concessions, patents, licences, trademarks and similar rights	Advance payments	Total intangible assets
	EUR	EUR	EUR
Purchase value as at 31.12.2015	5 629	0	5 629
Purchase value as at 31.12.2016	5 629	0	5629
Depreciation as at 31.12.2015	5 629	0	5629
Depreciation as at 31.12.2016	5 629	0	5629
Residual balance value 31.12.2015	0	0	0
Residual balance value 31.12.2016	0	0	0
			0
Purchase value as at 31.12.2016	5 629	0	5629
Purchase value as at 31.12.2017	5 629	0	5629
			0
Depreciation as at 31.12.2016	5 629	0	5629
Depreciation as at 31.12.2017	5 629	0	5629
Residual balance value 31.12.2016	0	0	0
Residual balance value 31.12.2017	0	0	0

5. Fixed assets

	Land	Buildings, constructions	Technological equipment and machinery	Other property, plant and equipment	Origination of capital assets	Total
<b>Purchase value as at 31.12.2015</b>	<b>23 924</b>	<b>988 353</b>	<b>1 160 650</b>	<b>137609</b>	<b>5 822</b>	<b>2 316 358</b>
Additions	0	0	14 997	1490	0	16 487
Disposal	0	0	-14 444	-6231	0	-20 675
Reclassification	0	0	0		0	0
<b>Purchase value as at 31.12.2016</b>	<b>23 924</b>	<b>988 353</b>	<b>1 161 203</b>	<b>132868</b>	<b>5 822</b>	<b>2 312 170</b>
						0
<b>Depreciation as at 31.12.2015</b>	<b>0</b>	<b>471 753</b>	<b>1 062 203</b>	<b>125516</b>	<b>0</b>	<b>1 659 472</b>
Calculated	0	15 104	32 864	4529	0	52 497
Disposal	0	0	-14 443	-6231	0	-20 674
<b>Depreciation as at 31.12.2016</b>	<b>0</b>	<b>486 857</b>	<b>1 080 624</b>	<b>123814</b>	<b>0</b>	<b>1 691 295</b>
<b>Residual balance value 31.12.2015</b>	<b>23 924</b>	<b>516 600</b>	<b>98 447</b>	<b>12 093</b>	<b>5 822</b>	<b>656 886</b>
<b>Residual balance value 31.12.2016</b>	<b>23 924</b>	<b>501 496</b>	<b>80 579</b>	<b>9054</b>	<b>5 822</b>	<b>620 875</b>
						0
<b>Purchase value as at 31.12.2016</b>	<b>23 924</b>	<b>988 353</b>	<b>1161203</b>	<b>132868</b>	<b>5 822</b>	<b>2 312 170</b>
Additions	0	0	0	3069	0	3 069
Disposal	0	0	-837	-8905	0	-9 742
Reclassification	0	0	0		0	0
<b>Purchase value as at 31.12.2017</b>	<b>23 924</b>	<b>988 353</b>	<b>1 160 366</b>	<b>127032</b>	<b>5 822</b>	<b>2 305 497</b>
						0
<b>Depreciation as at 31.12.2016</b>	<b>0</b>	<b>486 857</b>	<b>1 080 624</b>	<b>123814</b>	<b>0</b>	<b>1 691 295</b>
Calculated	0	15 027	15825	3245	0	34 097
Disposal	0	0	-837	-8905	0	-9 742
<b>Depreciation as at 31.12.2017</b>	<b>0</b>	<b>501 884</b>	<b>1 095 612</b>	<b>118 154</b>	<b>0</b>	<b>1 715 650</b>
<b>Residual balance value 31.12.2016</b>	<b>23 924</b>	<b>501 496</b>	<b>80 579</b>	<b>9054</b>	<b>5 822</b>	<b>620 875</b>
<b>Residual balance value 31.12.2017</b>	<b>23 924</b>	<b>486 469</b>	<b>64 754</b>	<b>8878</b>	<b>5 822</b>	<b>589 847</b>

Real estate	Cadastral No.	Cadastral value as at 31.12.2017	Book value as at 31.12.2017
<i>Land</i>	EUR	20 717	23 924
<i>Buildings</i>	EUR	332 489	472 397

<b>6 Raw materials and consumables</b>	<b>31.12.2017</b>	<b>31.12.2016</b>
	<b>EUR</b>	<b>EUR</b>
Raw materials	177636	191961
Low-value materials and inventory	23259	23249
Press-form	184008	184562
<b>Total</b>	<b>384 903</b>	<b>399 772</b>
<b>7 Finished goods</b>	<b>31.12.2017</b>	<b>31.12.2016</b>
	<b>EUR</b>	<b>EUR</b>
Finished products in warehouse	89 067	89 734
Goods in store	0	19 116
<b>Total</b>	<b>89 067</b>	<b>108 850</b>
<b>8 Advance payment for goods</b>	<b>31.12.2017</b>	<b>31.12.2016</b>
	<b>EUR</b>	<b>EUR</b>
Diesel	268	218
Material	21 746	36 939
<b>Total</b>	<b>22 014</b>	<b>37 157</b>
<b>9 Trade receivables</b>	<b>31.12.2017</b>	<b>31.12.2016</b>
	<b>EUR</b>	<b>EUR</b>
Carrying amount of trade receivables	219 692	168 604
Allowance for doubtful debts	-18 658	-21 845
<b>Net trade receivables</b>	<b>201 034</b>	<b>146 759</b>
Movements in the allowance for doubtful debts	<b>Trade receivables</b>	<b>Total</b>
Allowance as at 31.12.2016	21 845	22 823
Decrease	(3 187)	(1 111)
Increase	0	133
<b>Allowance as at 31.12.2017</b>	<b>18 658</b>	<b>21 845</b>
<b>10 Other receivables</b>	<b>31.12.2017</b>	<b>31.12.2016</b>
	<b>EUR</b>	<b>EUR</b>
The overpaid taxes	940	4030
Personnel debts	238	420
Public utilities payment	8074	6956
Other debts	41361	3610
<b>Total</b>	<b>50 613</b>	<b>15 016</b>
<b>11 Cash</b>	<b>31.12.2017</b>	<b>31.12.2016</b>
	<b>EUR</b>	<b>EUR</b>
Cash at bank	43 176	15 773
Cash in hand	421	786
<b>Total</b>	<b>43 597</b>	<b>16 559</b>



### 13 Share capital

As at 31 December 2017, registered and fully paid share capital of the company is EUR 1285401 and it consists of 918144 shares with a par value of EUR 1.40 per share. As at 31 December 2016, registered and fully paid share capital of the company is EUR 1285401 and it consists of 918144 shares with a par value of EUR 1.40 per share.

Capital structure kategorija	31.12.2017			31.12.2016		
	% of share capital	Number of shares	EUR	% of share capital	Number of shares	EUR
Bearer shares with voting rights - publicly traded	71.5%	656 356	918 898	71.5%	656 356	918 898
Registered (closed issue) shares	28.5%	261 788	366 503	28.5%	261 788	366 503
Total	100%	918 144	1 285 401	100%	918 144	1 285 401

#### Shareholders of the Company as at 31 December 2017 and their position in the Company

Shareholders	Position in the Company	% of share capital
AS "Kurzemes atslēga"	shareholder	48.40%
Wiederhold Oliver Kai	shareholder	17.30%
SIA "Aizputes atslēgas"	shareholder	8.50%
SIA "Gutta"	shareholder	6.80%
Other shareholders	X	19.00%
<b>Kopā:</b>	<b>x</b>	<b>100.00%</b>

Council and board members do not own shares.

#### Details of the restrictions on the transfer of shares.

Restrictions on the transfer of shares or receipt of specific consent for transfer of shares have not been determined.

#### Shareholders' rights and agreements

Regulated by Latvian laws and regulations, the Company's Statutes does not define special restrictions or provisions relating to the voting rights.

The Company has no information on any shareholders agreement.

#### Powers of board members and special agreements.

According to Company's Statutes, the Company shall be represented either by chairman of the Board alone or other two Board members together.

#### The rules for the election of board members, amendments of the Statutes.

Regulated by Latvian laws and regulations, the Company's Statutes does not define special restrictions or provisions relating to the selection of board members, changes in the composition of the Board and amendment of the Statutes



<b>13 Retained earnings</b>	<b>31.12.2017</b>	<b>31.12.2016</b>
	<b>EUR</b>	<b>EUR</b>
Retained earnings for the previous year	72 895	301 360
Retained earnings for the year	21 620	-228 465
<b>Total</b>	<b>94 515</b>	<b>72 895</b>
<b>Provisions</b>	<b>31.12.2017</b>	<b>31.12.2016</b>
	<b>EUR</b>	<b>EUR</b>
Deferred tax liabilities	0	57 148
<b>Total</b>	<b>0</b>	<b>57 148</b>
<b>14 Bank kredit(short term)</b>	<b>31.12.2017</b>	<b>31.12.2016</b>
	<b>EUR</b>	<b>EUR</b>
AS Luminor bank	54 822	34 229
<b>Total</b>	<b>54 822</b>	<b>34 229</b>
<b>Advance payment</b>	<b>31.12.2017</b>	<b>31.12.2016</b>
	<b>EUR</b>	<b>EUR</b>
Customers in Latvia	3 344	2 974
Foreign customers	1 980	4 721
<b>Total</b>	<b>5 324</b>	<b>7 695</b>
<b>15 Trade payables</b>	<b>31.12.2017</b>	<b>31.12.2016</b>
	<b>EUR</b>	<b>EUR</b>
Latvian trade payables	76 589	60 801
Foreign trade payables	16 312	3 386
<b>Total</b>	<b>92 901</b>	<b>64 187</b>
<b>16 Liabilities to associated (Enterprises short term)</b>	<b>31.12.2017</b>	<b>31.12.2016</b>
	<b>EUR</b>	<b>EUR</b>
AS "Kurzemes atslēga"	7 206	14 131
<b>Total</b>	<b>7 206</b>	<b>14 131</b>
<b>18 Taxes payable</b>	<b>31.12.2017</b>	<b>31.12.2016</b>
	<b>EUR</b>	<b>EUR</b>
State mandatory social insurance payments	15 023	13 054
Personal income tax	7 047	5 949
Value added tax	8778	0
Natural resources tax	408	407
State fee of business risk	33	32
<b>Total</b>	<b>31 289</b>	<b>19 442</b>

19 Other payables	31.12.2017	31.12.2016
	EUR	EUR
Salaries	24 734	21 377
Harm recompense	1 314	1 367
Other creditors	557	2856
<b>Total</b>	<b>26 605</b>	<b>25 600</b>

20 Accrued liabilities	31.12.2017	31.12.2016
	EUR	EUR
Accrued liabilities - unused annual leaves	31 696	31 308
Accrued liabilities	14 303	9 901
<b>Total</b>	<b>45 999</b>	<b>41 209</b>

## NOTES TO THE INCOME STATEMENT

21 Revenue	Nace	2017	2016
		EUR	EUR
Revenue from production of locks and ironmongery	25,72	1 676 061	1 416 407
Revenue from rendering of services		164 927	91 819
<b>Total</b>		<b>1 840 988</b>	<b>1 508 226</b>

21a Revenue by geographical segments		2017	2016
	Code	thousand EUR	thousand EUR
Latvia	LV	1101.6	880.2
Lithuania	LT	381.1	344.5
Estonia	EE	161.7	171.9
Uzbekistan	UZ	140.2	58.9
Denmark	DK	23	20.8
Russia	RU	12.9	13.4
Ukraine	UA	0	10.8
Other		20.5	7.7
<b>Total</b>		<b>1841</b>	<b>1508.2</b>

22 Cost of sales	2017	2016
	EUR	EUR
Material cost	840 729	753 001
Salaries	457 706	405 628
State mandatory social insurance payments	106 865	92 981
Electricity costs	97 708	92 635
Property, plant and equipment depreciation	33 236	52 497
Depreciation of low inventory	119	1 127
Press-form depreciation	1 106	69 900
Import duty	3 107	4 694
Received services	81 290	88 475
Environment protection expenses	11 233	8 094



Accrued liabilities vacations	388	9 264
Property tax	5 301	5 385
The rest of expensis	64 906	57 131
<b>Total</b>	<b>1 703 694</b>	<b>1 640 812</b>
Correction of expenses		
Changes of remains unfinished production	36 155	-33 043
Changes of remains of self-made punches	0	-299
Changes of remains of complete product	19 782	4 406
<b>Total</b>	<b>1 759 631</b>	<b>1 611 876</b>
<b>23 Distribution costs</b>	<b>2017</b>	<b>2016</b>
	<b>EUR</b>	<b>EUR</b>
Salaries	12768	10789
State mandatory social insurance payments	2964	2522
Marketing services	30 110	35 025
Goods delivery costs	17 331	6 750
Other costs	383	0
<b>Total</b>	<b>63 556</b>	<b>55 086</b>
<b>24 Administrative expenses</b>	<b>2017</b>	<b>2016</b>
	<b>EUR</b>	<b>EUR</b>
Administrative personnel expenses	62 974	60 389
State mandatory social insurance payments	13 543	14 272
Communication expenses	1 694	1 487
Office maintenance expenses	4 826	2 722
Annual report and audit expenses	2 000	1 420
Bank charges	1 303	1 180
<b>Total</b>	<b>86 340</b>	<b>81 470</b>
<b>25 Other operating income</b>	<b>2017</b>	<b>2016</b>
	<b>EUR</b>	<b>EUR</b>
Sales of current assets	41 018	37 108
Income from exchange rate fluctuations	0	3 692
EU financing	491	0
Other income	30 296	0
Income from exchange rate fluctuations	0	0
Proceeds from sale of property, plant and equipment, net	250	0
<b>Total</b>	<b>72 055</b>	<b>40 800</b>
<b>26 Other operating expense</b>	<b>2017</b>	<b>2016</b>
	<b>EUR</b>	<b>EUR</b>
Losses from foreign currency exchange rate fluctuations, net	4190	0
Harm recompense	16309	16429
Expenses for social sphere	1298	1290
Expenses ,unrelated with economic activity,	1291	1065
Provision for doubtful receivables	0	133
Other expenses	14206	12465
<b>Total</b>	<b>37 294</b>	<b>31 382</b>

<b>27 Interest payable and similar expense</b>	<b>2017</b>	<b>2016</b>
	<b>EUR</b>	<b>EUR</b>
Interest	1 745	1 331
Interest cover	5	223
<b>Total</b>	<b>1 750</b>	<b>1 554</b>

<b>28 Deferred tax revenue</b>	<b>2017</b>	<b>2016</b>
	<b>EUR</b>	<b>EUR</b>
	<b>57 148</b>	<b>3 877</b>

<b>29 Sworn auditor's remuneration</b>	<b>2017</b>	<b>2016</b>
	<b>EUR</b>	<b>EUR</b>
Statutory audit of the Annual report	2 000	1 420
Other audit engagement	0	0
Tax consultancy	0	0
Other expert tasks	0	0
<b>Total</b>	<b>2 000</b>	<b>1 420</b>

### 30 Financial risk management

The Company faces such financial instruments as loans from credit institutions, finance lease companies, purchaser and commissioning party debts and other debtors, debts to suppliers and contractors and other payables, and the rest creditors, deriving from the Company's economic activity directly.

#### Financial risks

The main financial risks that are related to the Company's financial instruments are currency risk, liquidity risk and credit risk.

#### Currency risk

The Company's monetary assets and liabilities that are subjected to foreign currency risk comprise cash, debts to suppliers and contractors. The Company is exposed to the foreign currency risk mainly, due to the USD currency.

#### Liquidity risk

The Company manages its liquidity risk by maintaining sufficient cash or by ensuring sufficient financing through loans from credit institutions, as well as financial leases.

#### Credit risk

The Company is exposed to credit risk. It arises from trade receivables and cash. The Company manages its credit risk by continuously assessing the credit history of customers and assigning credit terms on an individual basis. The company has no significant concentration of risk in respect to any business partner or group of business partners with a similar description.

### 31 Information on significant lease contracts

During the reporting year the Company concluded a lease agreement with SIA Kurz by May 31, 2027

### 32 Financial assistance received and other forms of financial support

During the reporting year, the Company has received 491 EUR funding from the EU

During the reporting year the Company did not receive any state or local government guarantees or equity contributions.

During the reporting year the Company did not receive any donations or gifts.

33 Transactions with related parties	Materials purchased from associated person in 2017( EUR)	Service provided sold to the associated company in 2017,(EUR)
AS"Kurzemes atslēga"	111 789	60

34 Liabilities to former employees

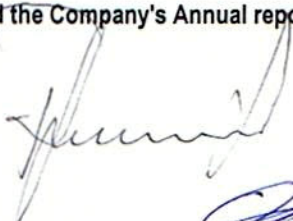
The Company has liabilities to its former employees - compensation for damages.  
17former employees receive a monthly remuneration for damage done to their health.

35 Events after the reporting period

In the period from the last day of the reporting year till signing this report, there have been no substantial events affecting the final results of the Annual report

The Board and chief accountant prepared the Company's Annual report for the year ended 31 December 2017 and signed it on March 21,2018

Chairman of the Board



Pēteris Frīdenbergs

Member of the Board



Aldis Ozols

Member of the Board



Aiga Ozola

Chief Accountant



Irēna Burve



## STATEMENT ABOUT MANAGEMENT LIABILITY

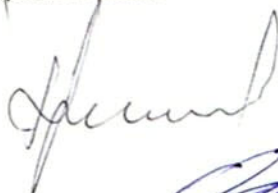
The Management of Joint Stock Company "KURZEMES ATSLĒGA 1" is responsible for the preparation of the Company's Annual Report.

The Management of Joint Stock Company "KURZEMES ATSLĒGA 1" in accordance with information available confirms that the Annual Report for the financial year 2017 has been prepared in accordance with the requirements of the applicable laws and regulations and gives a true and fair view on the JSC "KURZEMES ATSLĒGA 1" assets, liabilities, financial position and loss. The Management Report provides true review of JSC "KURZEMES ATSLĒGA 1" growth and performance results.

Internal risk control procedures are effective, risk management and internal control during the reporting year were performed in accordance with internal control procedures.

The Management of Joint Stock Company "KURZEMES ATSLĒGA 1" is responsible for the compliance with the requirements of laws and regulations of the Republic of Latvia.

Chairman of the Board



Pēteris Frīdenbergs

Member of the Board



Aldis Ozols

Member of the Board



Aiga Ozola

**Management report**  
**Company's action during reporting period**

The action type of the Joint Stock Company "KURZEMES ATSLEGA 1" during 2017 has not changed in comparison with previous periods of time: door locks, ironware, furniture fittings, forged products, building structures, production tools etc. are still being produced and services of galvanization provided.

Volume of sold production in 2017 divides as follows:

- sold in local market (Latvia) – 59.8/%,
- EU deliveries 32.6 %
- exported – 7.6 %

Volume of sold production in 2016 divides as follows:

- sold in local market (Latvia) – 58.4%,
- EU deliveries 37.7 %
- exported – 3.9 %

Average number of employees in 2017 was 81, average salary in 2017 – 550 EUR, average number of employees in 2016 was 79, average salary 504 EUR. In comparison with corresponding period of previous period, average salary is up by 9.1%.

**The Company's financial performance and financial situation**

The fixed asset of the JSC "KURZEMES ATSLEGA 1" is 1 285 401 EUR, net turnover of the 2017th 1 840 988 EUR.

Net turnover of the 2017 compared with 2016 has increased by 332 762 EUR, what makes 22.1% of turnover of the 2016th.

The main export markets in EU are Lithuania and Estonia.

The company finalized 2017 with a profit of 21 620 EUR.

Profit per share – 0.02 EUR

**Financial results:**

Liquidity (solvency, i.e. ability to cover completely its current liabilities)

Total liquidity ratio 4.07

Intermediate liquidity ratio 1.12

Absolute liquidity ratio 0.17

**Profitability (Company's success in profit making)**

Gross profit ratio 4.4%

Net profit ratio 1.2%

**Secured by own funds ratio**

Current assets with short-term liabilities 0.25

Net working capital EUR 811 069

**Liability or solvency ratios (Company's ability to cover current and non-current liabilities)**

Debt to assets ratio 0.16

Debt to equity ratio 0.19

Interest coverage ratio 19.17

The Company has no tax and other arrears due to state and municipal budget.

**The further development of the company and future prospects**

1. Retain existing customers and continue to attract new clients.
2. To optimize the production and selling costs.
3. To optimize the use of production facilities.

**Events in research and development**

No research works are planned.

A set of shares or parts of the Company

A Company does not own its shares.

**The Company's branches and representatives abroad.**

N/A

**Financial risk management**

To ensure financial risk management JSC "Kurzemes atslēga 1" follows-up the liquidity, take regular controls on cash flow of the enterprise. Active work with collection of fiscal debts is being provided. Financial resources – credit is being attracted.

The Company's main financial instruments comprise loans from credit institutions, loans from other companies, and cash. The task of these financial instruments is to ensure financing of the business activity. The Company has various other financial instruments such as trade receivables, trade payables and other creditors resulting from economic activity.

**Financial risks**

The main financial risks associated with the Company's financial instruments are interest rate risk, liquidity risk and credit risk.

**Interest rate risk**

The Company is subject to interest rate risk mainly due to short-term loan facility and borrowings from other companies. Borrowing compared to equity is low. Both fixed and variable interest rates are being applied.

**Liquidity risk**

The Company controls its liquidity risk by maintaining an adequate amount of money or by providing adequate financing through loan facility granted by bank.

**Currency risk**

The Company is subject to foreign exchange risk in relation to the US dollar. In order to control currency risk, the Company plans to purchase the necessary material resources for the currency.

**Credit risk**

The Company is exposed to credit risk in relation to its customers debts. The Company controls its credit risk by continuously assessing the debt repayment history of its customers and setting lending rules for each client individually. The Company does not have significant concentration of credit risk for any counterparty or group of eligible counterparties

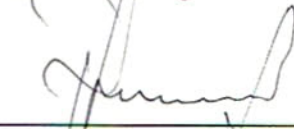

**Events and circumstances after the end of the reporting year**

During the period of the last day of the reporting year till signing these financial statements, there have been no events that could substantially affect the information reflected in these financial reports and that may result in further adjustments or should be clarified.

**Management's proposals on profit sharing or loss cover**

Management proposes to use the profit of 2017 for the development of the Company.

The report on compliance with the principles of corporate governance in 2017 is published on the JSC "Kurzemes atslēga 1" website: [www.ka1.lv/investors](http://www.ka1.lv/investors)

  
Pēteris Frīdenbergs  
Chairman of the Board  
Aldis Ozols  
Board member:  
Aiga Ozola  
Board member:



## **Independent Auditor's Report**

**To the shareholders of Joint Stock Company "KURZEMES ATSLĒGA 1"**

### ***Our Opinion on the Financial Statements***

We have audited the accompanying financial statements of Joint Stock Company "KURZEMES ATSLĒGA 1" ("the Company"), Reg. No. 40003044007, set out on pages 3 to 25 of the accompanying annual report, which comprise:

- the balance sheet as at 31 December 2017,
- the profit and loss statement for the year then ended,
- the statement of changes in equity for the year then ended,
- the statement of cash flows for the year then ended, and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Joint Stock Company "KURZEMES ATSLĒGA 1" as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with the 'Law On the Annual Reports and Consolidated Annual Reports' of the Republic of Latvia.

### ***Basis for Opinion***

In accordance with the Law on Audit Services of the Republic of Latvia 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 Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and independence requirements included in the Law on Audit Services of the Republic of Latvia that are relevant to our audit of the financial statements in the Republic of Latvia. We have also fulfilled our other professional ethics responsibilities and objectivity requirements in accordance with the IESBA Code and Law on Audit Services of the Republic of Latvia.

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 current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our report:

#### ***Inventory valuation as of the year end***

In the financial statements of the Company, inventory includes stamps and molds worth EUR 184008. Considering the rapid development of the technology industry, the book value of self-manufactured



stamps and molds in the inventory is material, therefore we consider this to be one of the key audit matters.

Our audit procedures, amidst others, included the following:

- We evaluated the internal control system and accepted accounting policies of inventory;
- We reviewed the results of the inventory count by randomly checking the presence of stamps and molds in the warehouse;
- We checked on a random basis the compliance of the book value of stamps and molds with the accounting policy conditions and estimates made by the management.

### ***Reporting on Other Information***

The Company management is responsible for the other information. The other information comprises:

- Information about the Company, as set out on page 8 of the accompanying Annual Report,
- the Management Report, as set out on page 27-28 of the accompanying Annual Report,
- the Statement on Management Responsibility, as set out on page 26 of the accompanying Annual Report,
- the Statement of Corporate Governance, as set out on page z of the accompanying Annual Report,

Our opinion on the financial statements does not cover the other information included in the Annual Report, 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 related to other information* 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 entity and its 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 related to other information***

In addition, in accordance with the Law on Audit Services of the Republic of Latvia with respect to the Management Report, our responsibility is to consider whether the Management Report is prepared in accordance with the requirements of the 'Law On the Annual Reports and Consolidated Annual Reports' of the Republic of Latvia and The Financial and Capital Market Commission requirements.

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 the Annual Reports and Consolidated Annual Reports' of the Republic of Latvia and The Financial and Capital Market Commission requirements.

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 section 56.1, first paragraph, clause 3, 4, 6,, 8 and 9, as well as section 56.2, second paragraph, clause 5 of the Financial Instruments Market Law and if it includes the



information stipulated in section 56.2 second paragraph, clause 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 section 56.1, first paragraph, clause 3, 4, 6,, 8 and 9, as well as section 56.2, second paragraph, clause 5 of the Financial Instruments Market Law and it includes the information stipulated in section 56.2 second paragraph, clause 1, 2, 3, 4, 7 and 8 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 'Law On the Annual Reports and Consolidated Annual Reports' of the Republic of Latvia 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 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 Company or to cease operations, or has no realistic alternative but to do so.

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

### ***Auditor's Responsibility 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 scepticism 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 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 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 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 a fair presentation.

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 objectivity, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our 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 the European Union when providing audit services to public interest entities***

We were appointed by those charged with governance on 25 April 2017 to audit the financial statements of Joint Stock Company "KURZEMES ATSLĒGA 1" for the year ended 31 December 2017. Our total uninterrupted period of engagement is 1 year, covering the periods ending to 31 December 2017.

We confirm that:

- our audit opinion is consistent with the additional report presented to the Audit Committee of the Company;
- as referred to in the paragraph 37.6 of the Law on Audit Services of the Republic of Latvia we have not provided to the Company the prohibited non-audit services (NASs) referred to of 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 Marija Jansone.

SIA "Nexia Audit Advice"

The Firm of Sworn Auditors, Licence No. 134

**Marija Jansone**

Member of the Board,

Responsible Sworn Auditor, Certificate No. 25

Rīga, Latvija

March 21, 2018