JOINT STOCK COMPANY
"KURZEMES ATSLĒGA 1"

REGISTRATION NUMBER 40003044007

ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

Aizpute
2020

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Information on the Company

Name of the Company	AS "KURZEMES ATSLĒGA 1"
Legal status of the Company	Joint stock Company
Number, place and date of registration	40003044007 Riga, 29 November 1991 Reregistered in Commercial Register with common registration No 40003044007 on 11 June 2004
Address	Kalvenes iela 27, Aizpute, Aizputes novads, LV-3456 Latvija
Names of major shareholders	AS "Kurzemes atslēga" (48.36%) Wiederhold Oliver Kai (17.12%) SIA "Aizputes atslēgas" (15.26%) Others (19.26%)
Names and positions of Board members	Pēteris Frīdenbergs – Chairman of the Board Aldis Ozols – Member of the Board (till 28.03.2019) Aiga Ozola – Member of the Board Voldemārs Magone – Member of the Board (from 04.06.2019)
Names and positions of the Supervisory Council members	Guntars Stekjānis – Chairman of the Supervisory Council Voldemārs Magone – Member of the Supervisory Council (till 04.06.2019) Irēna Burve – Deputy Chairman of the Supervisory Council (from 04.06.2019) Rolands Līvmanis – Member of the Supervisory Council Jānis Kārkliņš – Member of the Supervisory Council (till 04.06.2019) Ilgvars Jurjāns – Member of the Supervisory Council (from 04.06.2019) Daiga Lankovska – Member of the Supervisory Council (from 04.06.2019)
Financial year	1 January - 31 December 2019
Name and address of the certified audit company and certified auditor in charge	Revidentu birojs Gatis Sviklis Lāsma Svikle SIA Certified audit company Licence No. 181 Kr. Valdemāra iela 123-15 Rīga, LV-1013 Latvija Certified auditor in charge: Gatis Sviklis Certificate No. 202

Report of the Management

Type of operations

AS "KURZEMES ATSLĒGA 1" (hereinafter – the Company) is engaged in production of locks and hinges.

Performance of the Company during the year

AS "KURZEMES ATSLĒGA 1" core activity has not changed during 2019. Locks, ironmongery, furniture items, forgings of metal, building structures, technologic equipment are being produced and galvanizing services are being rendered.

Sales of the production in 2019 were as follows:

- Sales in Latvia – 52.5 %
- Sales in EU – 37.7 %
- export – 9.8 %

Sales of the production in 2018 were as follows:

- Sales in Latvia – 57.7%
- Sales in EU – 37.8 %
- export – 4.5 %

The average number of employees in 2019 was 76, the average salary in 2019 was 593 EUR. The average number of employees in 2018 was 82 and the average salary in 2018 was 563 EUR. Thus, the average salary as compared to a year before has increased by 5.3%.

AS "KURZEMES ATSLĒGA 1" share capital amounts to 1 285 401 EUR, net sales in 2019 amounted to 1 680 707 EUR. As compared to 2018, the net sales in 2019 decreased by 114 198 EUR, which amounts to 6.4% of the sales of 2018.

The financial result of the operations of the Company in 2019 was a loss of 212 221 EUR. As at 31 December 2019 the Company's current assets exceeded it current liabilities by 578 231 EUR and the Company had a positive shareholder's equity of 1 114 420 EUR. Therefore the management of the Company considers that the Company will not have liquidity problems and that it will be able to settle its liabilities as they fall due. Consequently, the management of the Company considers that the going-concern principle is applicable in the preparation of these financial statements.

Financial ratios:

Liquidity	
Total liquidity	3.3
Interim liquidity	0.6
Absolute liquidity	0.02
Equity ratios:	
Short-term liabilities / short-term assets	0.30
Net working capital	578 231
Solvency ratios:	
Liabilities / total balance sheet	0.18
Liabilities / equity	0.23

The Company does not have unsettled liabilities towards the state and municipality budgets.

Future prospects

The Company's aim in 2020 is to keep the existing clients and work on new markets. Simultaneously the aim is to improve the production efficiency as well as to optimize the use of the Company's premises. The management of the Company will review the risks of returning to the market of Ukraine.

Financial risk management

In order to control the financial risks, AS "KURZEMES ATSLĒGA 1" monitors its liquidity and regularly updates its cash-flow forecasts. Active work on cash collection from debtors takes place. Financial resources in the form of credit are being used.

Report of the Management (continued)
Financial risk management (continued)

The main financial instruments of the Company are borrowings from the bank, borrowings from other companies and cash. The aim of these financial instruments is to finance the operations of the Company. The Company also has other financial instruments such as trade receivables, trade payables and other creditors arising directly from its operations.

Financial risks
The main financial risks attributable to the Company's financial instruments are the interest rate risk, liquidity risk and the credit risk.

Interest rate risk
The Company is exposed to the interest rate risk mainly in connection with its borrowings from bank and other companies. The borrowings are not material in proportion to the shareholders' equity. Fixed and variable interest rates are applicable to the borrowings.

Liquidity risk
The Company manages its liquidity risk by maintaining sufficient cash resource or by way of using te credit facilities granted by the 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 of 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.

Material risks and uncertainties
After the end of the reporting year, in March 2020 limitations arising from the spread of the coronavirus have been put in place in the Republic of Latvia and in other countries. The development of the situation is not predictable therefore an economic uncertainty prevails. The management of the Company is constantly contemplating the situation. The Company complies with all legal restrictions. Since the Company's production is related to machinery, remote work is not possible. There is a visible tendency of falling sales and the debtors' payment discipline is deteriorating. The management of the Company considers that the spread of the coronavirus will have a limited effect on the operations of the Company.

Management's proposals on profit sharing or loss cover
Management proposes to offset the loss of 2019 from the profit of the following years.
The report on compliance with the principles of corporate governance in 2019 is published on the JSC "KURZEMES ATSLĒGA 1" website: www.ka1.lv \ akcionāriem

Pēteris Frīdenbergs Chairman of the Board	Aiga Ozola Member of the Board	Voldemārs Magone Member of the Board

24 March 2020

Statement of Management Responsibility

The Board of AS „KURZEMES ATSLĒGA 1" is responsible for the preparation of the financial statements of the Company.

On the basis of information available to the Board of AS „KURZEMES ATSLĒGA 1", the financial statements are prepared in accordance with the applicable legal framework of the Republic of Latvia and give a true and fair view of the assets, liabilities, financial position, financial result and cash flows of AS "KURZEMES ATSLĒGA 1". The Report of the Management gives a true information on the Company's development and operating results.

The control procedures on internal risks, risk management and risk control have been managed acording to the internal conrol procedure instructions.

The management of AS "KURZEMES ATSLĒGA 1" is responsible for obeying the laws of the Republic of Latvia.

Pēteris Frīdenbergs Chairman of the Board	Aiga Ozola Member of the Board	Voldemārs Magone Member of the Board

24 March 2020

Corporate Governance Report

AS „KURZEMES ATSLĒGA 1" Corporate Governance Report of the year 2019 is prepared according to NASDAQ Riga, AS Corporate governance principles and recommendations on their implementation, issued in 2010. The report is worked out in accordance with the principle "respect or explain".

The report is made by the Board of AS „KURZEMES ATSLĒGA 1" and revised by the Supervisory Council of AS „KURZEMES ATSLĒGA 1".

This report is prepared and submitted to NASDAQ Riga, AS together with AS "KURZEMES ATSLĒGA 1" audited annual financial report of 2019 and published at the official web site of NASDAQ Riga, AS www.nasdaqbaltic.com.

On behalf of the Board,

Pēteris Frīdenbergs	Aiga Ozola	Voldemārs Magone
Chairman of the Board	Member of the Board	Member of the Board

24 March 2020

Profit and loss account for the year ended 31 December 2019

	Note	2019 EUR	2018 EUR
Net sales		1 680 707	1 794 905
Cost of sales	1	(1 718 046)	(1 747 860)
Gross (loss) / profit		**(37 339)**	**47 045**
Selling expenses	2	(46 560)	(44 834)
Administrative expenses	3	(87 847)	(94 764)
Other operating income	4	37 790	39 727
Other operating expenses	5	(76 167)	(19 267)
Interest expenses and similar expenses	6	(1 608)	(1 714)
Loss before corporate income tax		**(211 731)**	**(73 807)**
Corporate income tax for the reporting year		(490)	(468)
Current year's loss		**(212 221)**	**(74 275)**
Loss per share		**(0.231)**	**(0.081)**

Notes on pages 13 to 23 form an integral part of these financial statements.

Balance sheet as at 31 December 2019 (1)

	Note	31.12.2019. EUR	31.12.2018. EUR
<u>Assets</u>			
Long-term investments			
Intangible assets:			
Concessions, patents, licenses, trademarks and similar rights		608	712
Total intangible assets:	7	**608**	**712**
Fixed assets:			
Real estate:			
a) Land, buildings and engineering structures		480 339	495 366
Equipment and machinery		43 384	58 798
Other fixed assets		6 036	8 119
Fixed assets under construction		5 822	5 822
Total fixed assets:	8	**535 581**	**568 105**
Total long-term investments:		**536 189**	**568 817**
Current assets			
Inventories:			
Raw materials and consumables		308 569	380 504
Work-in-progress		253 903	304 792
Finished goods and goods for sale		82 333	83 329
Advances for goods receivable		35 131	37 145
Total inventories:	9	**679 936**	**805 770**
Debtors:			
Trade debtors	10	134 249	188 117
Other debtors	11	11 045	17 650
Total debtors:		**145 294**	**205 767**
Cash and bank:	12	**5 169**	**1 944**
Total current assets:		**830 399**	**1 013 481**
<u>Total assets</u>		**1 366 588**	**1 582 298**

Notes on pages 13 to 23 form an integral part of these financial statements.

Balance sheet as at 31 December 2019 (2)

	Note	31.12.2019 EUR	31.12.2018 EUR
Liabilities and shareholders' funds			
Shareholders' funds:			
Share capital	13	1 285 401	1 285 401
Reserves:			
other reserves		21 000	21 000
Previous years' retained earnings		20 240	94 515
Current year's loss		(212 221)	(74 275)
Total shareholders' funds:		**1 114 420**	**1 326 641**
Short-term creditors:			
Loans from credit institutions	14	23 002	15 876
Advances from customers	15	3 033	34 253
Trade creditors	16	108 805	77 124
Accounts payable to affiliated companies	17	23 544	43 359
Taxes and the state compulsory social insurance contributions	18	25 161	20 886
Other creditors	19	28 675	27 439
Accrued liabilities	20	39 948	36 720
Total short-term creditors:		**252 168**	**255 657**
Total creditors:		**252 168**	**255 657**
Total liabilities and shareholders' funds		**1 366 588**	**1 582 298**

Notes on pages 13 to 23 form an integral part of these financial statements.

Statement of changes in equity for the year ended 31 December 2019

	Share capital EUR	Reserves EUR	Retained earnings EUR	Total EUR
Balance as at 31 December 2017	**1 285 401**	**21 000**	**94 515**	**1 400 916**
Profit for the year	-	-	(74 275)	**(74 275)**
Balance as at 31 December 2018	**1 285 401**	**21 000**	**20 240**	**1 326 641**
Profit for the year	-	-	(212 221)	**(212 221)**
Balance as at 31 December 2019	**1 285 401**	**21 000**	**(191 981)**	**1 114 420**

Notes on pages 13 to 23 form an integral part of these financial statements.

Cash flow statement for the year ended 31 December 2019

	Note	2019 EUR	2018 EUR
Cash flows from operating activities			
Profit or loss before taxation		(211 731)	(73 807)
Adjustments for:			
a) Fixed asset depreciation		32 524	33 774
b) Amortization of intangible assets		354	83
c) Foreign exchange loss		-	(976)
d) Interest expense		1 608	1 448
		(177 245)	**(39 478)**
Adjustments for:			
a) Debtors decrease		60 473	45 880
b) Inventories decrease / (increase)		125 834	(25 799)
c) Trade and other creditors' (decrease) / increase		(10 615)	30 457
Cash (used in) / generated from operations		**(1 553)**	**11 060**
Interest paid		(1 608)	(1 448)
Corporate income tax paid		(490)	(468)
Net cash (used in) / generated from operations		**(3 651)**	**9 144**
Cash flows from investing activities			
Acquisition of intangible assets		(250)	(12 827)
Net cash used in investing activities		**(250)**	**(12 827)**
Cash flows from financing activities			
Borrowings received		7 126	(38 946)
Net cash generated from / (used in) financing activities		**7 126**	**(38 946)**
Result of foreign exchange rate fluctuations		-	976
Net increase (decrease) in cash and cash equivalents		**3 225**	**(41 653)**
Cash and cash equivalents at the beginning of the reporting year		1 944	43 597
Cash and cash equivalentrs at the end of the reporting year		**5 169**	**1 944**

Notes on pages 13 to 23 form an integral part of these financial statements.

Notes
Accounting policies

(a) Information on the Company
The legal address of AS "KURZEMES ATSLĒGA 1" is Kalvenes iela 27, Aizpute, Aizputes novads, LV-3456. The Company is registered in Commercial Register with common registration number 40003044007. The Company's shareholders are AS "Kurzemes atslēga" (48.36%), Wiederhold Oliver Kai (17.12%), SIA"Aizputes atslēgas" (15.26), and others (19.26%). The Board of the Company consists of Pēteris Frīdenbergs (Chairman of the Board), Aiga Ozola (Member of the Board) and Voldemārs Magone (Member of the Board). The Company's auditor is the certified audit company Revidentu birojs Gatis Sviklis Lāsma Svikle SIA and certified auditor in charge Gatis Sviklis.

(b) Financial statements preparation basis
Financial statements are prepared in accordance with the Law on Accounting and Law on Annual Reports and Consolidated Annual Reports of the Republic of Latvia and based on MK rules No. 775 Application rules of Law on Annual Reports and Consolidated Annual Reports, prepared on a going concern basis. In accordance with section 3, subsection (6) of the Law on Annual Reports and Consolidated Annual Reports, the Company is classified as a large company. The shares of the Company are listed on NASDAQ stock exchange.

The profit and loss account is classified by function of expense.
Cash flow statement is prepared using indirect method.

Accounting policies used by the Company are consistent with those used in the previous reporting period.

(c) Going concern
Th financial result of the operations of the Company in 2019 was a loss of 212 221 EUR. As at 31 December 2019 the Company's current assets exceeded its current liabilities by 578 231 EUR and the Company had a positive shareholders' equity of 1 114 420. Therefore the management considers that the Company will not have liquidity problems and it will be able to settle the liabilities as they fall due. Therefore the management of the Company considers that the going concern basis is applicable in the preparation of these financial statements.

(d) Net sales and income recognition
Net sales represent the total of goods and services sold during the year net of discounts and value added tax. Sales of goods are recognised when the customer has accepted the goods in accordance with the goods delivery terms. Sales of services are recognised in the accounting period in which the services are rendered. Dividend income is recognised when the right to receive payment is established.

(e) Currency unit and revaluation of foreign currency
All amounts in these financial statements are expressed in the Latvian official currency - euro (EUR).

Foreign currency transactions have been translated into euro applying the exchange rate valid at the beginning of the day of transaction determined by the conversion procedure between central banks of the European System of Central Banks and other central banks and which is published on the European Central Bank's website.

On the last day of the reporting period all monetary assets and liabilities were translated into euros in accordance with the rates (at the end of the day) published on the European Central Bank's website.

	31.12.2019 EUR	31.12.2018 EUR
1 USD	1.123	1.145

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

Notes (continued)
Accounting policies (continued)

(f) Intangible assets and fixed assets

Intangible assets and fixed assets are recorded at historical cost or net of accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the intangible assets and fixed assets. The cost of software licences includes the purchase cost and costs related to their implementation in use.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives using the following rates set by management:

	% per annum
Intangible assets	20
Transmission devices	5
Buildings	2
Technological equipment	10 - 14.3
Other fixtures and fittings, motor vehicles	10 - 20

Where the carrying amount of an intangible or a fixed asset exceeds its estimated recoverable amount, it is written down immediately to its recoverable amount. Recoverable amount is the higher of the fair value less costs to sell and the value in use of the related intangible or fixed asset.

Subsequent costs are included in the asset's carrying amount or recognised as separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. Such costs are depreciated over the remaining useful life of the related asset. When capitalising the cost of mounted spare parts, the carrying value of the part replaced is written off to the profit and loss account.

Repairs and maintenance are charged to the profit and loss account during the period in which they are incurred.

Leasehold improvements are amortised on a straight-line basis over the shorter of the estimated useful life of the leasehold improvement and the term of the lease.

Gains or losses on disposals are determined by comparing carrying amount with proceeds and are charged to the profit and loss account during the period in which they are incurred.

(g) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted-average method. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses. When the net realisable value of inventories is lower than its cost, provisions are created to reduce the value of inventories to its net realisable value.

(h) Accounts receivable

Accounts receivable are recorded in the balance sheet at their amortised cost less provisions for impairment. Provisions for impairment are established when there is an objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of provisions for impairment is the difference between the amortised cost and the recoverable amount. The amount of the provision is recognised in the profit and loss account.

(i) Borrowings

Borrowings are recognised initially at the proceeds received net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost using the effective interest method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account or in accordance with fixed asset accounting policy capitalised as part of the cost of fixed assets under construction over the period of borrowings.

Notes (continued)
Accounting policies (continued)

(j) Taxation

Corporate income tax for the reporting period is included in the financial statements based on the management's calculations prepared in accordance with Latvian Republic tax legislation.

Corporate income tax is calculated on the basis of distributed profit (20/80 of the net amount payable to shareholders). Corporate tax on distributed profit will be recognized when the shareholders of the Company make a decision about profit distribution.

The Company calculates and pays corporate income tax also for the conditionally distributed profit (20/80 of calculated taxable base), which includes taxable objects in accordance with the Corporate Income Tax law, such as the expenditure not related to economic activity, the doubtful debts of debtors and the loans to the related parties, if they meet criteria provided in the Corporate Income Tax law, as well other expenses exceeding statutory limits for deduction. Corporate income tax for the conditionally distributed profit is recognized in the profit or loss statement in the year for which it is assessed. Corporate income tax for the distributed profit and corporate income tax for the conditionally distributed profit is included in the profit and loss statement line item "Corporate income tax for the reporting year" and disclosed by the components in the notes to the financial statements.

(k) Accrued unused annual leave expenses

Amount of accrual for unused annual leave is determined by multiplying the average daily wage of employees for the last six months of the reporting year by the amount of accrued but unused annual leave at the end of the reporting year.

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, balances of current account with banks and other highly liquid investments with original maturities up to 90 days.

(m) Related parties

Related parties are defined as Company's shareholders, members of the Executive Board and Supervisory Board, their close relatives and companies in which they have a significant influence or control.

Notes (continued)

(1) Cost of sales

	2019 EUR	2018 EUR
Materials and spare parts	841 031	913 071
Salaries	470 394	481 341
State compulsory social insurance contributions	111 656	114 165
Electroenergy costs	91 077	91 206
Depreciation	32 377	33 774
Amortization	354	83
Low value inventory	301	4 134
Depreciation of own punches	11 141	5 985
Customs tax	2 452	3 947
External services received	13 689	29 656
Work safety expenses	12 642	12 181
Accrued vacations	953	-
Real estate tax	5 304	5 304
Other expenses	72 789	68 081
Expenses total	**1 666 160**	**1 762 928**
Changes in work-in-prcess	50 890	(20 806)
Change in goods for sale	996	5 738
	1 718 046	**1 747 860**

(2) Selling expenses

	2019 EUR	2018 EUR
Salaries	6 577	5 984
State compulsory social insurance contributions	1 832	1 449
Selling services	20 423	18 268
Transportation expenses	17 584	18 909
Other expenses	144	224
	46 560	**44 834**

(3) Administrative expenses

	2019 EUR	2018 EUR
Salaries	62 294	65 783
State compulsory social insurance contributions	14 840	15 599
Communication expenses	1 787	1 886
Office expenses	3 746	7 998
Audit expenses	4 000	2 000
Bank services	1 180	1 498
	87 847	**94 764**

(4) Other operating income

	2019 EUR	2018 EUR
Sales of other assets	35 149	31 683
Foreign exchange gains	-	976
Financing frm ESF	2 641	3 341
Other income	-	3 727
	37 790	**39 727**

Notes (continued)

(5) Other operating expenses

	2019 EUR	2018 EUR
Foreign exchange loss	394	-
Cost of sold materials	17 682	15 409
Compensation of damage to health	16 011	1 388
Social expenditure	1 420	480
Non-business expenses	313	559
Debtor writ-offs	1 229	-
Accruals for doubtful debtors	38 136	-
Other expenses	982	1 431
	76 167	**19 267**

(6) Interest expenses and similar expenses

Interest expenses	1 527	1 448
Penalties	81	266
	1 608	**1 714**

(7) Intangible assets

	Concessions, patents, licenses, trademarks nd similar rights EUR	Total EUR
Cost		
31.12.2018.	6 424	**6 424**
Additions	250	**250**
31.12.2019.	**6 674**	**6 674**
Amortization		
31.12.2018.	(5 712)	**(5 712)**
Amortization for 2019	(354)	**(354)**
31.12.2019.	**(6 066)**	**(6 066)**
Net book value 31.12.2018.	**712**	**712**
Net book value 31.12.2019.	**608**	**608**

Notes (continued)

(2) Fixed assets

	Land, buildings and engineering structures	Equipment and machinery	Other fixed assets	Fixed assets under construction	Total
	EUR	EUR	EUR	EUR	EUR
Cost					
31.12.2018.	1 012 277	1 071 771	121 702	5 822	**2 211 572**
Disposals	(8 434)	-	(5 870)	-	**(14 304)**
31.12.2019.	**1 003 843**	**1 071 771**	**115 832**	**5 822**	**2 197 268**
Depreciation					
31.12.2018.	(516 911)	(1 012 973)	(113 583)	-	**(1 643 467)**
Depreciation for 2019	(15 027)	(15 414)	(2 083)	-	**(32 524)**
Disposed	8 434	-	5 870	-	**14 304**
31.12.2019.	**(523 504)**	**(1 028 387)**	**(109 796)**	**-**	**(1 661 687)**
Net book value 31.12.2018.	**495 366**	**58 798**	**8 119**	**5 822**	**568 105**
Net book value 31.12.2019.	**480 339**	**43 384**	**6 036**	**5 822**	**535 581**

(9) Inventories

	31.12.2019. EUR	31.12.2018. EUR
Materials	119 991	184 136
Low value inventory	21 695	18 345
Punches and presforms	166 883	178 023
Work-in-process	253 903	304 792
Goods for sale	82 333	83 329
Advances for inventories	35 131	37 145
	679 936	**805 770**

(10) Trade debtors

Customers' debts	189 555	206 521
Accruals for bad and doubtful debtors	(55 306)	(18 404)
	134 249	**188 117**

Notes (continued)

(10) Trade debtors (continued)
Accruals for bad and doubtful debtors

	Customers' debts EUR	Total EUR
31 December 2018	18 404	**18 404**
Decrease	(1 234)	**(1 234)**
Increase	38 136	**38 136**
31 December 2019	**55 306**	**55 306**

(11) Other debtors

	31.12.2019. EUR	31.12.2018. EUR
Tax overpaid	-	2 990
Expense reports of personnel	52	70
Utility services	42	2 109
Other debtors	10 951	12 481
	11 045	**17 650**

(12) Cash and bank

	31.12.2019. EUR	31.12.2018. EUR
Cash at bank	4 377	1 114
Cash a hand	792	830
	5 169	**1 944**

(13) Share capital

The Company's share capital amounts to 1 285 401 EUR as of 31 December 2019 and it consists of 918 144 shares. The nominal value of each share is 1.40 EUR. The Company's share capital amounts to 1 285 401 EUR as of 31 December 2018 and it consists of 918 144 shares. The nominal value of each share is 1.40 EUR.

	31.12.2019			31.12.2018		
	% from share capital	Amount of sares	EUR	% from share capital	Amount of shares	EUR
Bearer shares – public	71.5%	656 356	918 898	71.5%	656 356	918 898
Closed-issue shares (ordinary shares with volting rights)	28.5%	261 788	366 503	28.5%	261 788	366 503
	100%	**918 144**	**1 285 401**	**100%**	**918 144**	**1 285 401**

Shareholders as of 31 December 2019 and their positions	Position in Company	% from share capital
AS"Kurzemes atslēga"	Shareholder	48.36%
Olivers Wiederholds	Shareholder	17.12%
SIA "Aizputes atslēgas"	Shareholder	15.26%
Others	Shareholder	19.22%
Pēteris Frīdenbergs	Chairman of the Board	0.04%
		100%

Other members of the Board and the Supervisory Board do not possess the shares of the Company.

Notes (continued)

(13) Share capital (continued)

Information pursuant to the requirements set out in Financial Instrument Market Law section 56.1 - information to be additionally included in the financial statements:

Regulatory requirements	**Compliance**
Information on the capital structure, share categories, the rights and obligations arising from each category of the shares and the percentage of the share capital, by specifying separately the number of the shares which are not included in regulated markets	Total amount of issued shares are 914 144. 656 356 are bearer' shares, which are circulated in the regular market. 261 788 are registered ordinary shares with voting rights.
Details on the restrictions applicable to share transfers or the need to get the consent of the Company or other shareholders for the alienation of the shares	None
Persons who have directly or indirectly acquired a substantial holding in the Company, as well as their interests	AS "Kurzemes atslēga" 48,36%
Shareholders who have special control rights; description of the rights	None
The manner in which the Company will use the voting rights arising from the shares of employees if they are not used by employees themselves	Such category of shares does not exist
Voting limitations in case of the maximum voting rights are set, independently of the amount of voting shares owned, as well as the shareholder rights to share of profit, which is not related to the shares directly proportionally owned by them and other similar limitations	None
Shareholders' agreement, which is known to the Company and can result in restrictions on the transfer of the shareholders' equity or voting rights to other persons, including the terms and conditions providing for a prior approval of such transfer	None
Terms governing the election of Board members, changes in the composition of the Board and amendments of Articles of Association	In accordance with the Articles of Association and legislative requirements.
The authority of the members of the board, including the authority to issue or to repurchase shares	The authority of the members of the board is determined in the Commercial Law. The members of the Board are not authorised to issue or to repurchase shares without the authorisation of the shareholders' meeting.
All significant agreements and contracts, concluded by the Company under which in the case of change of the control they will become effective, the term of which will expire or which will be modified, as well as the effect of their entry into force, termination or amendment	None
All agreements between the Company and its members of the board, providing for the payment of compensation in the event of the loss of the office, when they are dismissed without sufficient case or when they are dismissed after expressing the offer to repurchase the shares.	None

(14) Loans from credit institutions

	31.12.2019. EUR	31.12.2018. EUR
Borrowing from AS Luminor (credit line):		
- short-term part – repayable within 1 year	23 002	15 876
	23 002	**15 876**

On 22 August 2019 the Company prolonged the credit line agreement amounting to 47,000 EUR for one more year. Interest is payable based on EURIBOR + 5% p.a.The Company's inventories amounting to 679 936 EUR as at 31 December 2019 (31.12.2018: 805 770 EUR) have been pledged as collateral towards AS Luminor. The collateral agreement was signed on 26 August 2009.

Notes (continued)

(15) Advances from customers

	31.12.2019. EUR	31.12.2018. EUR
Latvian customers	2 933	421
Foreign customers	100	33 832
	3 033	**34 253**

(16) Trade creditors

Latvian creditors	93 996	76 700
Foreign creditors	14 809	424
	108 805	**77 124**

(17) Accounts payable to affiliated companies

AS "Kurzemes atslēga"	23 544	43 359
	23 544	**43 359**

(18) Taxes and the state compulsory social insurance contributions

Corporate income tax	18	-
Value added tax	2 934	-
State compulsory social insurance contributions	16 283	15 456
Personal income tax	5 615	5 092
Natural resource tax	280	274
State risk duty	31	64
	25 161	**20 886**

(19) Other creditors

Salaries	26 920	25 734
Damage to health liability	1 323	1 278
Other creditors	432	427
	28 675	**27 439**

(20) Accrued liabilities

Accrued unused annual leave expenses	28 942	27 988
Accrued liabilities towards suppliers	11 006	8 732
	39 948	**36 720**

(21) Average amount of employees

	2019	2018
Members of the Board	3	3
Members of the Supervisory Council	5	5
Other employees	68	74
	76	**82**

Notes (continued)

(22) Management remuneration

	2019 EUR	2018 EUR
Members of the Board		
· salary	11 070	11 531
· state compulsory social insurance contributions	2 520	2 631
	13 590	14 162
Members of the Supervisory Council		
· salary	8 892	8 892
· state compulsory social insurance contributions	2 142	2 142
	11 034	11 034

(23) Related party transactions

The related parties of the Company are AS "Kurzemes atslēga" and Liepājas rajona SIA "Gutta ".

The Company engaged in the following transactions with related parties:

(a) Sale of gods and rendering of services

	2019 EUR	2018 EUR
Sale of goods:		
- Liepājas rajona SIA firma "Gutta"	31 318	23 561
Rendering of services:		
- AS "Kurzemes atslēga"	120	-
- Liepājas rajona SIA firma "Gutta"	3 418	-
	34 856	23 561

(b) Purchase of goods and services

	2019 EUR	2018 EUR
Purchase of goods:		
- AS "Kurzemes atslēga"	152 409	220 412
- Liepājas rajona SIA firma "Gutta"	3 391	59 369
Purchase of services:		
- AS "Kurzemes atslēga"	2 212	2 212
- Liepājas rajona SIA firma "Gutta"	1 610	4 817
	159 622	286 810

(a) Debtors arrising from transactions with related parties

	31.12.2019. EUR	31.12.2018. EUR
Associated companies	120	-
	120	-

(b) Creditors arrising from transactions with related parties

Associated companies	23 544	43 359
	23 544	43 359

Notes (continued)

(24) Management's proposal of loss coverage

The management proposes to cover the loss of 2019 from the prfit of following years.

(25) Remuneration of auditor

	2019 EUR	2018 EUR
Audit o financial statements	4 000	2 000
	4 000	**2 000**

(26) Subsequent events

After the end of the reporting year, in March 2020 limitations arising from the spread of the coronavirus have been put in place in the Republic of Latvia and in other countries. The development of the situation is not predictable therefore an economic uncertainty prevails. The management of the Company is constantly contemplating the situation. The Company complies with all legal restrictions. Since the Company's production is related to machinery, remote work is not possible. There is a visible tendency of falling sales and the debtors' payment discipline is deteriorating. The management of the Company considers that the spread of the coronavirus will have a limited effect on the operations of the Company.

Except for the above, there are no subsequent events since the last date of the reporting year, which would have a significant effect on the financial position of the Company as at 31 December 2019.

The Annual Report was prepared by the chief accountant Irēna Burve.

The Financial statements set out on pages 8 to 23 were signed on 24 March 2020 by:

Pēteris Frīdenbergs
Chairman of the Board

Aiga Ozola
Member of the Board

Voldemārs Magone
Member of the Board

Irēna Burve
Chief accountant

INDEPENDENT AUDITOR'S REPORT

To the shareholder of AS KURZEMES ATSLĒGA 1

Our Qualified Opinion on the Financial Statements

We have audited the accompanying financial statements of AS KURZEMES ATSLĒGA 1 ("the Company") set out on pages 8 to 23 of the accompanying annual report, which comprise:

- the balance sheet as at 31 December 2019,
- 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, except for the effects and possible effects of the matters described in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements give a true and fair view of the financial position of AS KURZEMES ATSLĒGA 1 as at 31 December 2019, 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 Qualified Opinion

As at 31 December 2019, the Balance sheet of the Company includes punches and preforms amounting to EUR 166 883. These assets are used in the production of the Company's goods and should therefore be recorded within Fixed assets, with the respective depreciation calculation. If the Company had recorded these assets within Fixed assets, the Fixed assets would amount to EUR 702 464 and the Inventories would amount to EUR 513 053 as at 31 December 2019.

The Company has been incurring net losses for a number of years and the financial result of 2019 was a net loss of EUR 212 221. These circumstances indicate that the carrying amount of the Fixed assets and punches and preforms as at 31 December 2019 amounting to EUR 702 464 may exceed their recoverable amount. The management of the Company has performed an impairment assessment and has not identified impairment as at 31 December 2019. We were not able to satisfy ourselves as to the reasonability of the management's assumptions on the future cash flows, therefore we were not able to satisfy ourselves as to the amount of the possible impairment as at 31 December 2019 using other audit procedures

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 International Code of Ethics for Professional Accountants (including International Independence Standards) 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 International Code of Ethics for Professional Accountants (including International Independence Standards) 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 qualified 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.

In addition to the matters described in the *Basis for Qualified Opinion* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key Audit Matters	Audit Procedures Related to Key Audit Matters
Valuation of Inventories As disclosed in the Balance sheet of the Company, the Inventories amount to EUR 679 936 (including punches and preforms) as at 31 December 2019. Among the most significant inventories are finished goods and goods for sale, materials, work-in-process and other inventories. The amount of inventories in the balance sheet is material and inventories are therefore considered a key audit matter.	We interviewed the management of the Company with respect to the valuation of inventories and we identified that inventories are monitored regularly concerning their age. We participated in the stock take and observed the stock take procedure. On a sample basis we tested if the data in the accounting system complies with the amounts in the warehouse. We analysed the ageing report of the inventories. We assessed the accuracy and completeness of the disclosures in the notes of the financial statements concerning the slow moving and old inventories of the Company.
Valuation of Receivables As disclosed in the Balance sheet of the Company, the Receivables amounted to EUR 145 294, incl. Trade receivables of EUR 134 249, as at 31 December 2019. The recoverable amounts of receivables and the necessary amount of provisions for bad and doubtful receivables are significantly influenced by the management's subjective judgement. The amount of receivables in the balance sheet is material and receivables are therefore considered a key audit matter	We interviewed the management of the Company, assessed their objectivity with respect to their assessment of the financial positions of the debtors and the possibility to recover the debts. While assessing the recoverability of the receivables, we analysed the term-structure of the receivables. On a sample basis we sent external confirmations to satisfy ourselves that the valuation of the receivables is not materially misstated. We compared the Company's provisions for bad and doubtful receivables with our calculation. We assessed the accuracy and completeness of the disclosures in the notes of the financial statements concerning the provisions for bad and doubtful receivables of the Company.
Going Concern The financial statements of the Company for the year ended 2019 have been prepared on the going-concern basis. Going-concern is the fundamental basis of the preparation of the financial statements therefore it has been considered a key audit mater because the financial result of the operations of the Company has been a loss for a number of years, including 2019 amounting EUR 212 221.	We interviewed the management of the Company on their assessment of the financial results and the financial position of the Company as at 31 December 2019, including on their vision on the planned financial result for 2020. We analysed the Company's liquidity ratios and assessed whether the current assets of the Company exceed its current liabilities as at 31 December 2019. We assessed whether the net assets of the Company are positive.

Reporting on Other Information

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

- Information about the Company, as set out on page 3 of the accompanying Annual Report,
- the Management Report, as set out on pages 4 and 5 of the accompanying Annual Report,
- the Statement on Management Responsibility, as set out on page 6 of the accompanying Annual Report,
- the Corporate Governance Report, as set out on page 7 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.

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.

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.

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, and third paragraph 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, and third paragraph 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 to audit the financial statements of AS KURZEMES ATSLĒGA 1 for the year ended 31 December 2019. Our total uninterrupted period of engagement is 1 year, covering the periods ending 31 December 2019 to 31 December 2019.

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 Gatis Sviklis.

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Latvia

Certified auditor in charge:
Gatis Sviklis
Certificate No. 202

Riga, Latvia
24 March 2020