

SIA Stockholm School of Economics in Riga

Registration no. 40003162751

Strēlnieku street 4a, Riga, LV-1010, Latvia

Annual Report for the Year Ended 31 December 2017

Contents

	Page
Company Information	3
Management Report	4
Income Statement	6
Balance sheet	7
Notes to the financial statements	8
Independent Auditor's Report	

Company Information

Name of the Company	Stockholm School of Economics in Riga
Legal status of the Company	Limited liability company
Number, place and date of registration	40003162751 Riga, 13 November 1993
Registered address	Strēlnieku street 4a Riga LV-1010, Latvia
NACE code	85.42 Tertiary higher education
Shareholders	Rīgas Ekonomikas augstskolas – Stockholm School of Economics in Riga Foundation, reg. No. 40008164674 (100%), Strēlnieku street 4a, Riga, LV-1010, Latvia
Members of the Board	<i>Until 19 October 2016:</i> Paalzow Lars Anders Gustav, Chairman of the Board Diāna Pauna Raimonds Graudiņš <i>As of 19 October 2016:</i> Paalzow Lars Anders Gustav, Chairman of the Board Anders Sixten Georg Alex Alexandersson Raimonds Graudiņš
Financial year	1 January 2017 to 31 December 2017
Auditors	Edvards Merhels Certified auditor Licence No. 121 Merhels Revidenti Konsultanti SIA A licensed practice of certified auditors, Licence No. 1 Citadeles iela 12, Riga LV - 1010, Latvia

Management Report

Company's operations in the reporting period

The Stockholm School of Economics in Riga (henceforth the School, SSE Riga or Company) is an autonomous higher education establishment providing academic education. It operates under a trademark license agreement concluded with Stockholm School of Economics (henceforth SSE) on September 10, 2010. There is also a master agreement on education services concluded with SSE on July 1, 2012, specifying the terms for the involvement of SSE faculty in teaching and research activities carried out at the School.

The School offers two degree programmes, a three-year B.Sc. in Economics and Business and two-year part time Executive MBA (EMBA) programme. The Bachelor's degree programme is the main activity of the School. During the reference year 131 young students were admitted to the programme. The total number of students registered in the three year program fluctuated from 382 on January 1, 2017 to 384 on December 31, 2017. The Bachelor's programme students are mostly admitted from the Baltic states, but students from the Eastern Partnership countries (Belarus, Ukraine, Moldova and Georgia) are enrolled with the support of the Swedish Government Programme. The EMBA programme is also mainly focused on the Baltic states. The two-year modular-based programme broadens students' knowledge in business management, facilitates professional careers, and provides global collaboration opportunities within the SSE alumni network. The EMBA student group consists of 25-30 experienced managers with a variety of academic and professional backgrounds. During the reference year, 28 students were admitted to the programme, and the total amount of registered students was 82.

In addition to the degree programmes, the School offers executive training through open courses, as well as in-house courses tailor made to the customers' needs.

Educational activities in the field of media are organized within the School's Centre for Media Studies, which has become a hub for journalism professionals to exchange experiences, learn from renowned speakers and provide inspiration for new cooperation and projects. The Media Centre operation and its activities have been made possible thanks to the support by the Swedish foundation Anne-Marie and Gustaf Anders Stiftelse för Medieforskning. The highlights of the activities for the reporting period include educational activities for journalists from the Eastern Partnership countries, the Summer School on Investigative Reporting, and a number of various other projects and events.

The four main sources of revenue to support the core activity of the School, i.e. the Bachelor's programme, consist of:

- tuition fees for the B.Sc. studies;
- other educational activities (incl. Executive Education and EMBA) and research activities providing additional funds;
- donations;
- alumni contributions.

The donations and funds donated by the graduates are handed over to the School through Rīgas Ekonomikas augstskolas – Stockholm School of Economics in Riga Foundation (i.e. Shareholder, hereinafter referred to as the "Foundation"). The main strategic goal is to provide the lowest possible tuition fees in the bachelor programme in order to attract the most talented students. Thus, the support provided by the Foundation and other donors, as well as additional resources from other activities, has so far provided the School with an opportunity for the students from the Baltic states to receive substantial tuition fee waivers.

Financial result of the reporting year

In 2017 the School suffered a loss of EUR 324 790, unlike in 2016, which was concluded with a profit of EUR 1 251. There are several reasons for this, including the end of co-operation with the TeliaSonera Institute in the field of entrepreneurship and telecommunications in 2017 resulting in School continuing its research activities at its own expense. Due to reasons beyond the control of the School, in 2017, there was also no annual donation for the development of the library. However, the main reason is that the School for the first time covered the student tuition fee waivers for the Baltic states students from their own funds without support from the Foundation.

In 2017, the cost structure of the School changed - personnel costs increased as a result of the increase in the number of lecturers employed by the School, but the volume of outsourced education services has decreased. At the same time, the amount of projects carried out by the School's Media Centre has increased, which has also led to an increase in the corresponding costs.

Future perspectives and further development

The main challenge ahead of the School in a five-year perspective is to find means for keeping the tuition fee down for the B.Sc. students. In this context, it is crucial to maintain and further develop the contacts and cooperation with donors. Efforts are also directed to develop other business lines, which generate contribution necessary to cover the common costs of the School.

Another strategic alternative is to decrease the cost per student by increasing the number of students or by other means. This option is currently being scrutinized considering possibilities to expand the School and decrease common costs, as well as the costs of the faculty.

The School is also looking into the possibilities to increase the number of students in the EMBA programme. Since the EMBA programme to a large extent is a fixed cost business, an increase in the number of students would have an immediate impact on the School's financial performance.

Research and Development

The School participates in various European Union (hereinafter EU) and publicly-funded research and policy-oriented projects, as well as runs its own research activities and institutes. The School's research profile covers a wide range of fields. The main subjects include economics, entrepreneurship, creative industries, telecommunications and information technology, economic anthropology and education. Both faculty and student research is supported.

The School operates the Centre for Sustainability. The Centre organizes seminars and conferences as well as publishes reports on issues related to sustainable business. Furthermore, the Centre is active in the educational programmes of the School.

Financial risk management

(a) Currency risk:

The School renders its services in euros (EUR) and Swedish crowns (SEK). The purchases are primarily made in EUR and SEK. Taking into account the currencies that the School deals with, it is subject to currency risk only from transactions in SEK. This risk is minimized by matching sales transactions with purchase transactions in the same currency.

(b) Liquidity risk:

Liquidity risk is the risk that School will not be able to meet its liabilities timely and effectively. As part of prudent liquidity management, the School maintains sufficient cash reserves in its bank accounts. The School controls its liquidity risk also by planning payment terms for the borrowings and trade payables. The School has access to short-term finance from the Foundation.

(c) Credit risk:

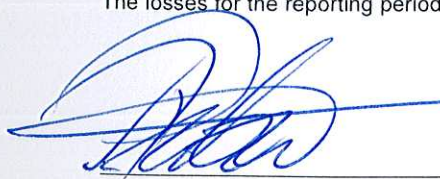
Credit risk is a risk of loss in case the borrower fails or refuses to meet the liabilities against the School. The School is subject to credit risk related to monetary resources and trade debtors. Management exercises continuous control of the credit risk by analysing the payment history of clients and keeping track of the outstanding balances.

Subsequent events

There have been no significant events since the last day of the reporting period and the date of signing these annual accounts that could have material effect on financial position and financial performance of the Company as reported in these accounts.

Board proposals for covering losses

The losses for the reporting period will be covered from the profit of the following periods.



Lars Anders Gustav Paalzow
Chairman of the Board



Anders Sixten Georg Alex
Alexandersson
Member of the Board



Raimonds Graudins
Member of the Board

Riga, 3 April 2018

Income Statement

	Notes	2017 EUR	2016 EUR
Net sales		2 679 424	2 543 251
Other operating income	2	1 386 429	1 430 582
		4 065 853	3 973 833
Personnel costs	3	(1 166 768)	(957 487)
Depreciation and amortization	5,6	(91 020)	(90 613)
Other operating expenses	4	(3 130 639)	(2 920 344)
Other interest expenses and similar expenses		(2 218)	(4 138)
		(4 390 645)	(3 972 582)
Profit/(loss) before corporate income tax		(324 790)	1 251
Corporate income tax for the financial year		-	-
Profit/(loss) for the financial year		(324 792)	1 251

The accompanying notes on pages 8 to 13 are an integral part of these financial statements.

Balance sheet

	Notes	31.12.2017 EUR	31.12.2016 EUR
Assets			
Non-current assets			
Intangible fixed assets	5	2 337	4 674
Tangible fixed assets			
Buildings	6	743 273	773 349
Other fixed assets and inventory	6	139 499	126 091
		882 772	899 440
		885 109	904 114
Current assets			
Inventory		-	690
Debtors			
Trade receivables	7	123 530	74 409
Other debtors	8	96 163	74 476
Prepaid expenses		66 080	53 969
Accrued income	9	204 903	444 291
		490 676	647 145
Cash	10	522 499	720 753
		1 013 175	1 368 588
Total assets		1 898 284	2 272 702
Liabilities and Shareholder's Equity			
Shareholder's equity			
Share capital	11	1 398 800	1 398 800
Reserves			
a) Other reserves		25	25
Retained earnings brought forward			
a) accumulated losses		(621 220)	(622 471)
b) profit/(loss) for the current financial year		(324 792)	1 251
		452 813	777 605
Provisions:			
Other provisions	12	30 557	20 142
		30 557	20 142
Current liabilities:			
Advances from customers		8 750	8 620
Payables to suppliers		113 844	101 474
Payables to related entities		25 783	-
Tax liabilities	13	47 995	49 711
Deferred income	14	1 073 452	1 215 884
Accrued expenses		145 090	99 266
		1 414 914	1 474 955
Total liabilities and shareholder's equity		1 898 284	2 272 702

The accompanying notes on pages 8 to 13 are an integral part of these financial statements.

Notes to the financial statements

1. Summary of significant accounting policies

Overall considerations

These financial statements have been drawn up in accordance with the Act of the Republic of Latvia on Standalone and Consolidated Annual Reports and the Cabinet of Ministers regulations thereof insofar they apply to small entities.

Disclosure of certain income statement items has been changed in comparison to disclosure practices used in 2016 to improve the quality of information. Corresponding information for last year has been modified to be in line with classification criteria used during the reporting period.

Use of estimates and assumptions

The management relies on certain estimates and assumptions when preparing the financial statements, which have impact on specific profit and loss items and the balance sheet as well as on the expected amount of liabilities. Future events may influence assumptions that provide the basis for the estimates. Any changes in the estimates and their impact are reflected in the financial statements at the time they occur.

Significant management judgement and estimation uncertainty

Provisions for guaranteed student loans. At close of each reporting year the School reviews validity of algorithm used to assess provisions for guaranteed student loans. As at 31 December 2017 there were no indications in place triggering revision of existing computation practices for assessment of provisions for guaranteed student loans.

Revenue recognition for research projects. Revenues pertinent to unfinished projects at close of the reporting year are assessed on a project by project basis with reference to amount of expenses incurred thereof by close of the reporting year, total budgeted expenses and contractual provisions.

Useful life of fixed assets. Management reviews the useful lives of depreciable assets at each reporting date. No changes to that end were made as of the year ended on 31 December 2017.

Fair values of financial assets and liabilities

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Foreign currencies

The functional and presentation currency of the School is euro (EUR). The transactions in foreign currency are translated into euro applying the functional currency rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated into euro applying the official exchange rate established by the European Central Bank at the last day of the reporting year. Foreign exchange gains and losses are recognised in the income statement.

Revenue recognition

Tuition fees: Income from the tuition fees in B.Sc. and EMBA program is recognized proportionally to the volume of services provided during the reporting period. Study fees becoming receivable or received during the reporting year, which relate to preceding study period, are accounted as deferred income. Study fees, which relate to the period under review, but where invoices have not yet been raised, are accounted as accrued income.

Revenues from projects: The School has concluded contracts about projects that start and end in different reporting periods. At the end of the year revenues thereof are assessed separately on a project by project basis with reference to amount of expenses incurred during the reporting year.

Other revenues: Revenues from services are recognized at the time when they occur.

Income from operating lease: Income from operating lease contracts is included in the profit and loss account in accordance with the straight-line method over the term of the lease.

Donations: Donations are recognized in profit and loss statement in the period when they are received or during the period, when expenses or losses subject to compensation were incurred.

Net sales

Net sales are comprised of revenues from B.Sc., EMBA, and Executive Education programs carried out during the reporting period.

Intangible fixed assets

The School recognises only the purchased for intangible fixed assets. These are stated at cost less accumulated amortisation. Amortisation is calculated on a straight-line basis to write down the cost of intangible assets over the estimated useful economic life as follows:

	%
Intangible assets	33.33

Computer software maintenance costs are expensed as incurred.

Tangible fixed assets

Purchases of individual tangible fixed assets exceeding EUR 350 and expected to be in use for more than a year are capitalised.

Tangible fixed assets are stated at their historic cost less accumulated depreciation and accumulated impairment losses, if any. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life, as follows:

	%
Building and its components	2
Roofs of the buildings	10
Furniture	20
Portable computers	50
Other fixed assets and intangible assets	33.33

Maintenance and repair costs are expensed as incurred unless they extend the useful economic life and/ or improve the economic potential of the underlying asset.

Gains or losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement during the period in which they are incurred.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Loans

Loans are recognised upon disbursement of funds to borrower. They are derecognised when the contractual rights to the cash flows from the loan expire, or when the loan and all substantial risks and rewards are transferred. Loans are recognized at their initial value.

Trade receivables

Receivables are recognized at net amount due, which is calculated as book value less provisions for doubtful trade receivables. Provisions are valued at the amount, which is doubtful to be received. The School recognizes provisions based on an individual assessment of the recoverability of each receivable.

Borrowings

Borrowings are recognised at proceeds received less net of transaction costs incurred. Interest charges and commissions related to the borrowings are recognized as costs, and they are included in the profit and loss once incurred.

Deferred income

Study fees paid by the students that relate to the next study year are accounted as deferred income.

If the School receives special purpose donations, they are used for the specified purpose. Part of special purpose donations, which is received during the reporting period, but relates to subsequent financial periods, is regarded as deferred income.

Corporate income tax

Corporate income tax is provided for on profit calculated in accordance with Latvian tax legislation.

Provisions

Provisions are recognised when the School has a present obligation as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and when a reliable estimate can be made of the amount of the obligation.

Guarantees: The School has concluded contracts with banks for guaranteed study loans. According to the contracts, banks provide information to the School about the actual amounts of overdue loans. Based on this information and experience to date, the School makes provisions for the total amount of student loans considered as bad or doubtful by assuming that half of such loans as reported by banks as of the end of the reporting period will not be recovered.

Provisions for costs of lecturers: These provisions are comprised of costs pertinent to activities of lecturers whose amount or timing of settlement are uncertain.

Accrued liabilities

Accrued expenses are comprised of liabilities to suppliers for services and goods received during the reporting period, when purchase invoices have not been received up to the balance sheet date. Further they include accrual for unused annual leave of personnel.

Liability for unused annual leave is estimated with reference to the number of unused holiday days and an employee's average pay during 6 months up to the balance sheet date.

Related parties

Related undertaking is defined as the sole shareholder of the School.

Related parties are defined as SSE, the sole shareholder of the School, Members of the Management Board, their close relatives and companies in which they have a control or significant influence.

	2017 EUR	2016 EUR
2. Other operating income		
Revenue from foreign grants for education, research and journalism development activities	1 134 420	865 543
Revenue from lease and conference organization	164 857	175 610
Revenue from donations	70 851	370 098
Grants from state institutions	8 870	8 826
Other operating income	7 431	10 505
	1 386 429	1 430 582
3. Personnel costs		
Remuneration for work	(927 746)	(758 799)
Social insurance contributions	(218 187)	(178 022)
Contributions made to pension plans, including health insurance premiums	(20 835)	(20 666)
	(1 166 768)	(957 487)

	2017 EUR	2016 EUR
4. Other operating expenses		
Fees for subcontracting services for education, research and journalism development activities	(1 855 356)	(1 654 854)
Administration and travel expenses	(337 641)	(334 654)
Rent and maintenance of premises	(268 335)	(276 249)
Non-recoverable input VAT	(200 495)	(187 337)
Marketing and representation expenses	(189 351)	(166 587)
ERASMUS scholarships and other student costs	(142 565)	(159 058)
Procurement of books, periodicals, licences and data bases	(136 896)	(141 605)
	(3 130 639)	(2 920 344)
5. Intangible fixed assets		
		Other intangible assets EUR
Cost		
31.12.2016		11 960
Additions		-
Disposals		(4 950)
31.12.2017		7 010
Accumulated amortisation		
31.12.2016		(7 286)
Charge for the year		(2 337)
Disposals		4 950
31.12.2017		(4 673)
Net book value as at 31.12.2016		4 674
Net book value as at 31.12.2017		2 337

	Buildings and constructions EUR	Other fixed assets EUR	Total EUR
6. Tangible fixed assets			
Cost			
31.12.2016	1 435 796	395 813	1 831 609
Additions	-	72 496	72 496
Disposals	-	(78 640)	(78 640)
31.12.2017	1 435 796	389 669	1 825 465
Accumulated depreciation			
31.12.2016	(662 447)	(269 722)	(932 169)
Charge for the year	(30 076)	(58 607)	(88 683)
Disposals	-	78 159	78 159
31.12.2017	(692 523)	(250 170)	(942 693)
Net book value as at 31.12.2016	773 349	126 091	899 440
Net book value as at 31.12.2017	743 273	139 499	882 772

The building at Strēlnieku street 4a, Riga, which has been contributed to the School by shareholder, cannot be expropriated, pledged or otherwise encumbered. If the School is dissolved, then the state invested building shall be transferred to the University of Latvia. If the University of Latvia fails to use the building in accordance with the functions stipulated in its Constitution, the building shall be returned to the state without compensation.

	31.12.2017 EUR	31.12.2016 EUR
7. Trade receivables		
Trade receivables, gross	134 780	80 409
Less: specific bad and doubtful debt provisions	(11 250)	(6 000)
	123 530	74 409

8. Other debtors		
Due from students*	41 939	26 692
Overpaid taxes	11 315	8 867
Other debtors	84 848	65 609
	138 102	101 168
Provisions for students' debts	(41 939)	(26 692)
	96 163	74 476

* The School has signed agreements with Latvian registered credit institutions, acting as guarantor for student loans provided for studies at SSE Riga. During 2017 the School had to fulfil the guarantee obligations in amount of EUR 16 787. The School has taken over claims against the students and initiated the debt collection process.

9. Accrued income		
Accrual for the grant provided by the shareholder	-	220 000
Accrued income from donations to be received*	-	52 342
Accrued income from EU and government funded projects*	175 703	138 099
Accrued income from EMBA program	29 200	33 850
	204 903	444 291

* The reclassification was made in the corresponding information for the previous year – accrued income to be received from the foundation "Anne-Marie och Gustaf Anders Stiftelse för mediaforskning" of EUR 55 000 was reclassified from item "Accrued income from donations to be received" to the item "Accrued income from EU and government funded projects".

10. Cash		
Cash at bank	522 367	718 538
Cash in hand	132	2 215
	522 499	720 753

Cash at bank inter-alia includes EUR 12 252 which are held in the Treasury of the Republic of Latvia. These funds can be used only for payments under ERASMUS scheme.

11. Share capital

Registered and paid-up share capital consists of 100 ordinary shares with a nominal value of EUR 13 988 each.

12. Other provisions

	Provisions for guaranteed student loans EUR	Provisions for costs of lecturers EUR	Total EUR
31.12.2016	20 142	-	20 142
Charge for the year	8 802	18 400	27 202
Reversal of the charge for the year	(16 787)	-	(16 787)
31.12.2017	12 157	18 400	30 557

	31.12.2017 EUR	31.12.2016 EUR
13. Tax liabilities		
Value added tax	47 995	49 711
	47 995	49 711
14. Deferred income		
For B.Sc. study program	693 262	715 984
For EMBA study program	208 450	340 950
For Executive Education study programs	23 990	84 977
For foreign grants for education, research and journalism development activities	147 750	73 973
	1 073 452	1 215 884

15. Personnel information

	2017	2016
Average number of persons employed in the School during the year	53	48

16. Off the balance sheet liabilities

- In 2008 the School concluded agreements with Latvian-registered credit institutions for provision of study loans to its students. Students receive the loans in accordance with the schedule set out in the contracts. The total guaranteed amount to the credit institutions as of 31 December 2017 constitutes EUR 1 002 544 (31.12.2016: EUR 894 729).
- The future minimum lease payments under operating leases of premises as at 31 December 2017 stand at EUR 13 900, exclusive of VAT (31.12.2016: EUR 13 900 exclusive of VAT). They are payable within 1 year.
- In accordance with the Taxes and Duties Act of the Republic of Latvia, tax authorities are entitled to adjust any tax computation made by companies within 3 years from their maturity day (5 year period apply to transfer pricing examinations). These financial statements do not include any possible corrections that might arise as a result of such SRS examinations.

17. Trademark license agreement

On 10 September 2010, the School entered into an open-ended agreement with SSE about the exclusive rights to use the SSE brand name for Bachelor and Master Study programs provided in the Republic of Latvia. The contract stipulates that royalties for the rights to use the trademarks amounting to 2.5% of gross income should be paid starting with the financial year beginning at 1 July 2016. However, the Founders' Agreement signed on 11 August 2010 specifies that the royalties under the Licence Agreement are payable to SSE only, if SSE Riga has generated sufficient net profit in the particular year. As no such net profit was generated in 2017 and 2016, no royalty fees were calculated in 2017 and 2016.

Approval of annual report The financial statements on pages 6 to 13 were approved by the Board of Directors on 3 April 2018.



Lars Anders Gustav Paalzow
Chairman of the Board



Anders Sixten Georg Alex
Alexandersson
Member of the Board



Raimonds Graudiņš
Member of the Board

The financial statements were prepared by Ilga Beča, the School's financial controller.



Ilga Beča
Financial controller

**Independent auditor's report
to the shareholder of Stockholm School of Economics in Riga SIA**

Our Opinion on the Financial Statements

1. We have audited the accompanying financial statements of Stockholm School of Economics in Riga SIA ("the Company") set out on pages 6 to 13 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, and
 - the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes.
2. In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2017, and of its financial performance for the year then ended in accordance with the Act of the Republic of Latvia 'On Standalone and Consolidated Annual Reports'.

Basis for Opinion

3. In accordance with the Act 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.
4. 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 Act 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 Act on Audit Services of the Republic of Latvia.
5. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Reporting on Other Information

6. The Company management is responsible for the other information. The other information is comprised of the Management Report, as set out on pages 4 to 5 of the accompanying Annual Report.
7. 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* section of our report.
8. 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.
9. 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

10. In addition, in accordance with the Act '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 Act 'On Standalone 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 Act 'On Standalone and Consolidated Annual Reports' of the Republic of Latvia.

Responsibilities of Management and Those Charged with Governance for the Financial Statements


11. Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with the Act 'On Standalone 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.
12. 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.
13. Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

14. 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.
15. 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.

16. 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.

Merhels Revidenti Konsultanti SIA
Licensed audit firm, licence No.1



Edvards Merhels
Member of the Board
Certified auditor, certificate No. 121

Riga, 6 April 2018