SIA
FLAMES GROUP

Annual Report

For 2016

Contents

Information on the Company

Name of the company	*SIA Flames group*
Legal status	*Limited Liability Company*
Number, place and date of registration	*40103248897, Riga, 16 September 2009*
Legal and postal address	*Kr.Barona iela 88, Riga, LV-1001*
Members of the Board and their positions	*Svjatoslavs Belozjerovs, Chairman of the Board*
Reporting year	*01.01.2016– 31.12.2016*
Auditors	*KPMG Baltics SIA* *Vesetas iela 7* *Riga, LV-1013* *Licence No. 55*

Management Report

Short description of the Company's activities in the reporting year

The key line of business of the Company is provision of telecommunication services and sales of telecommunication equipment.
The net sales of goods and services in 2016 amount to EUR 2 149 550.

Further development of the Company

The management plans that the Company will continue as a going concern and the operational plan for 2017 is to retain and increase the sales volume and minimise expenses.

Subsequent events

No significant subsequent events have occurred that would materially impact the presentation of the financial statements.

Suggestions on the coverage of losses

The management decided to cover the losses of the reporting year of EUR 6 839 from the retained earnings brought forward from previous years.

Svjatoslavs Belozjorovs
Chairman of the Board

10 May 2017

Profit and Loss Statement for 2016

	Note	2016 EUR	2015 EUR
Net sales	2	2 149 550	2 804 948
Cost of goods sold	3	(1 838 909)	(2 676 274)
Gross profit		**310 641**	**128 674**
Selling expenses	4	(110 417)	(82 280)
Administrative expenses	5	(204 922)	(153 305)
Other operating income	6	14 445	1 701
Other operating expenses	7	(14 856)	(24 808)
Interest and similar expenses	8	(1 730)	(962)
Loss before tax		**(6 839)**	**(130 980)**
Loss after corporate income tax		**(6 839)**	**(130 980)**
Loss for the reporting year		**(6 839)**	**(130 980)**

The accompanying notes on pages 10 to 21 form an integral part of these financial statements.

Svjatoslavs Belozjorovs
Chairman of the Board

Nadežda Gromova
Chief Accountant

10 May 2017

Balance Sheet as at 31 December 2016

Assets	Note	2016 EUR	2015 EUR
Long-term investments			
Intangible assets			
Other intangible assets		-	1 588
Total intangible assets	10	-	1 588
Fixed assets			
Other fixed assets		2 557	1 943
Total fixed assets	11	2 557	1 943
Total long-term investments		2 557	3 531
Current assets			
Stock			
Raw materials		893	893
Finished goods and goods for sale	12	110 895	73 264
Prepayments		55 393	22 892
Total stock		167 181	97 049
Receivables			
Trade receivables	13	134 459	85 573
Other receivables	14	37 653	17 651
Accrued income		-	4 534
Total receivables		172 112	107 758
Cash	15	82 697	49 083
Total current assets		421 990	253 890
Total assets		424 547	257 421

The accompanying notes on pages 10 to 21 form an integral part of these financial statements.

Balance Sheet as at 31 December 2016

Liabilities	Note	2016 EUR	2015 EUR
Shareholders' equity			
Share capital	16	2 828	2 846
Reserves		18	-
Retained earnings:			
retained earnings brought forward from previous years		71 802	202 782
profit/(loss) of the reporting year		(6 839)	(130 980)
Total equity		**67 809**	**74 648**
Liabilities			
Short-term liabilities			
Loans from credit institutions	17	-	35 742
Accounts payable to suppliers and contractors	18	264 238	134 637
Taxes and social contributions	19	11	64
Other liabilities	20	19 701	7 452
Accrued liabilities		72 788	4 878
Total short-term liabilities		**356 738**	**182 773**
Total liabilities		**356 738**	**182 773**
Total liabilities		**424 547**	**257 421**

The accompanying notes on pages 10 to 21 form an integral part of these financial statements.

Svjatoslavs Belozjorovs
Chairman of the Board

Nadežda Gromova
Chief Accountant

10 May 2017

Statement of Cash Flows for 2016

	Note	2016 EUR	2015 EUR
Cash flows from operating activities			
1. Profit or (loss) before taxes		(6 839)	(130 980)
Adjustments for:			
depreciation;		1 270	3 734
amortisation of intangible assets;		1 588	6 351
interest and similar expenses		1 730	962
2. Profit or loss before adjustments for the effect of changes to current assets and short term liabilities		(2 251)	(119 933)
Adjustments for:			
decrease in receivables;		(76 066)	76 537
(increase) or decrease of stock;		(70 132)	(16 343)
decrease of accounts payable to suppliers, contractors and other creditors;		209 707	(896)
3. Gross cash flows from operating activities		61 258	(60 635)
Interest paid		(1 730)	(962)
Refunded corporate income tax		11 712	10 491
Net cash flows from operating activities		**71 240**	**(51 106)**
Cash flows from investing activities			
Purchase of fixed and intangible assets		(1 884)	-
Net cash flows generated from investing activities		**(1 884)**	-
Cash flows from financing activities			
Loans received		-	35 742
Repayment of loans		(35 742)	-
Net cash flows from financing activities		**(35 742)**	**35 742**
Net decrease in cash and cash equivalents		**33 614**	**(15 364)**
Cash and cash equivalents at the beginning of the period		**49 083**	**64 447**
Cash and cash equivalents at the end of the period	15	**82 697**	**49 083**

The accompanying notes on pages 10 to 21 form an integral part of these financial statements.

Svjatoslavs Belozjorovs
Chairman of the Board

Nadežda Gromova
Chief Accountant

10 May 2017

Statement of Changes to the Shareholders Equity for 2016

	Share capital EUR	Statutory reserves and reserves set in the Articles of Association EUR	Retained earnings brought forward from previous years EUR	Profit/(loss) of the reporting year EUR	Total equity EUR
31.12.2014.	2 846	-	188 018	14 764	205 628
Profit of 2014 transferred to retained earnings of previous years	-	-	14 764	(14 764)	-
Loss for the reporting year	-	-	-	(130 980)	(130 980)
31.12.2015.	2 846	-	202 782	(130 980)	74 648
Loss of 2015 transferred to retained earnings of previous years	-	-	(130 980)	130 980	-
Loss for the reporting year	-	-	-	(6 839)	(6 839)
Denomination of shares	(18)	18	-	-	-
31.12.2016.	2 828	18	71 802	(6 839)	67 809

The accompanying notes on pages 10 to 21 form an integral part of these financial statements.

Svjatoslavs Belozjorovs
Chairman of the Board

Nadežda Gromova
Chief Accountant

10 May 2017

Notes to the Financial Statements

(1) Summary of significant accounting principles

Information on the Company's activities

The legal address of SIA Flames group (hereinafter – the Company) is Kr. Barona iela 88, Riga, Latvia. The Company was registered with the Commercial Register under the common registration number 40103248897 on 16 September 2009. The key line of business of the Company is the provision of telecommunication services. The operating activities according to NACE rev 2.0 classification:

- Other telecommunications activities (61.9);
- Computer programming, consultancy and related activities (62).

Basis of preparation

The financial statements were prepared in accordance with the law 'On Accounting' and the 'Annual Reports and Consolidated Annual Report Law' except for the derogation permitted by law with respect to the recognition of deferred tax.

The profit and loss statement was prepared according to the turnover costing method. The cash flow statement was prepared according to the indirect method. The financial statements are prepared on the historical cost basis.

Accounting principles

The financial statements were prepared in accordance with the following policies:

a) Going concern assumption that the Company will continue as a going concern;
b) Consistent valuation principles with those used in the prior year;
c) Items were valued in accordance with the principle of prudence, i.e.:
   - the financial statements reflect only the profit generated to the balance sheet date;
   - all incurred liabilities and current or prior year losses have been taken into consideration even if discovered within the period after the date of the balance sheet and preparation of the financial statements; and,
   - all amounts of impairment and depreciation have been taken into consideration irrespective of whether the financial result was a loss or profit.
d) Income and expenses incurred during the reporting year have been taken into consideration irrespective of the payment date or date when the invoice was issued or received; Expenses were matched with revenue for the reporting period.
e) Assets and liabilities have been valued separately.
f) The opening balance agrees with the prior year closing balance;
g) All material items, which would influence the decision-making process of users of the financial statements, have been recognised and insignificant items have been combined and their details disclosed in the notes.
h) Business transactions are recorded taking into account their economic contents and substance, not the legal form.

A new law on the preparation of annual reports and consolidated annual reports applicable in Latvia, which applies to these financial statements

Effective from 1 January 2016, the new Annual Reports and Consolidated Annual Reports Law and the related Cabinet of Ministers Regulation No. 775 entered into force in Latvia superseding the Annual Reports Law and the related Cabinet of Ministers Regulations No. 488 and 481 that were used as the framework for preparing the financial statements for the previous year.

Notes to the Financial Statements

According to the new law, balance sheet items *Investment Property, Biological Assets, Deferred Tax Assets, Long-term Investments Held for Sale* and *Deferred Tax Liabilities* are to be used only by a company that following an exemptions stipulated in the law, recognises and measures these items in accordance with the International Accounting Standards (international Financial Reporting Standards as adopted by the EU).

The new law further simplifies the preparation of financial statements of small and medium-sized companies but, meanwhile, stipulates that the financial statements should give a true and fair view of the company's financial position and profit or loss and of its cash flows.

The Company meets the definition of a small company.

The management believes that the accounting policies used in the preparation of these financial statements are largely consistent with those used last year.

Related parties

Related parties represent both legal entities and private individuals related to the company in accordance with the following rules.

a) A person or a close member of that person's family is related to a reporting entity if that person:

i. has control or joint control over the reporting entity;
ii. has a significant influence over the reporting entity; or
iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

b) An entity is related to a reporting entity if any of the following conditions applies:

i. The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member):
iii. Both entities are joint ventures of the same third party:
iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity;
v. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
vi. The entity is controlled, or jointly controlled by a person identified in (a).
vii. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity);
viii. The entity or any member of the group to which the entity belongs provides management personnel services to the entity or the parent of company of the entity.

Related party transaction – A transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

Financial instruments and financial risks

Financial instrument is an agreement that simultaneously results in financial assets of one party and financial liabilities or equity securities of the other party.

The key financial instruments held by the Company are financial assets such as trade receivables and other receivables and financial liabilities, accounts payable to suppliers and contractors and other creditors arising directly from its business activities.

Notes to the Financial Statements

Financial risks connected with the Company's financial instruments, financial risk management

Key financial risks related to the Company's financial instruments are:

- Currency risk - risk that the Company may suffer unexpected losses arising from fluctuations in the foreign exchange rates. The currency risk arises from sales, purchases and other monetary assets and liabilities denominated in USD.
- Liquidity risk – risk that the Company will not be able to meet its financial liabilities in due time.

Management has implemented the following procedures to control the key risks.

Currency risk

For the purposes of currency risk management, the Company's management performs regular oversight to ensure that the currency structure of assets and liabilities is matched.

Liquidity risk

The Company manages liquidity risk by maintaining appropriate amounts of cash and cash equivalents.

Use of derivatives

Derivatives are not used for hedging risks.

Reporting period

The reporting period is the 12 months from 1 January 2016 to 31 December 2016. Currency unit and revaluation of foreign currency

Currency unit and revaluation of foreign currency

All amounts in these financial statements are expressed in the Latvian national currency – euro (EUR).

Transactions in foreign currencies are translated into euros at the reference exchange rate published by the European Central Bank as at the transaction date.

All monetary asset and liability items were revalued to euros according to the reference exchange rate published by the European Central Bank on the reporting date. Non-monetary items of assets and liabilities are revalued to euros in accordance with the reference exchange rate published by the European Central Bank on the transaction date.

	30.12.2016.	**31.12.2015.**
USD	1.0541	1.0887

Profit or loss arising from the fluctuations in the exchange rate on assets and liabilities denominated in a foreign currency are recognized in the profit and loss statement in the respective period in which the fluctuation occurs.

Estimates and judgments

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. The actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Changes in the accounting estimates are recognised in the period when those estimates are reviewed and in the future periods.

Key sources of estimation uncertainty are the following:

Notes to the Financial Statements

(i) Impairment

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the profit and loss statement.

(ii) Useful lives of fixed and intangible assets

Management estimates the useful lives of fixed and intangible assets in proportion to the expected duration of use of the asset (its expected capacity or effectiveness) based on historical experience with similar fixed assets and future plans. According to management estimates, the useful lives of certain fixed and intangible assets are the following:

Intangible assets:	
Other intangible assets	5 years
Fixed assets:	
Other fixed assets	3 years

(iii) Net realizable value of stock

Stock is carried at the lower of cost and net realizable value. Accordingly, the management has to estimate the value of inventories whenever there are indications that the carrying amount of inventories may have decreased below their cost. If this has occurred, stock is written down to net realizable value, i.e., the estimated selling price in the ordinary course of business less the estimated cost of completion and the estimated costs necessary to make the sale.

(iv) Valuation of receivables

A number of significant risks and uncertainties are inherent to the process of monitoring financial assets and estimating impairment. These risks and uncertainties include the risk the Company's assessment of the clients' ability to meet all their liabilities will change according to changes in the clients' credit ratio and the risk that the economic situation will deteriorate beyond expected.

Receivables are valued according to the principle of prudence and recognized at net amount due less allowances for doubtful loans and trade receivables.

Doubtful debt allowances are recognized based on an individual management assessment of the recoverability of each receivable.

Revenue recognition

Income from services
Income from services provided is recognized in the profit and loss statement as generated.

Income from sales of goods
Revenue from the sales of goods is recognized in the profit and loss statement after the risks and rewards of ownership are transferred to the client.

Long and short-term classification

Amounts whose terms of receipt, payment or write off are due more than one year after the balance sheet date are classified as long term. Amounts to be received, paid or written off within one year are classified as short-term.

Notes to the Financial Statements

Lease transactions

Operating lease

Payments for operating lease are recognized in the profit and loss statement on a straight-line basis over the period of lease.

Intangible and fixed assets

Intangible assets and fixed assets are recognised at historical cost, less accumulated amortization and depreciation. Amortization and depreciation is calculated from the first day of the month following their putting to operation until the first day of the month following their disposal. Amortization and depreciation is calculated on a straight-line basis and written-off over the useful lives of the assets.

The depreciation method is reviewed at least on an annual basis, at the year-end.

Stock

Stock has been valued according to the FIFO method.

Stock accounting is based on the perpetual method.

Corporate income tax

Corporate income tax comprises current and deferred tax. Corporate income tax is recognized in the profit and loss statement except to the extent it refers to items recognized directly in equity.

Current tax
Current tax is calculated in accordance with the law "On Corporate Income Tax" by setting the amount of taxable income and applying a tax rate of 15%.

Deferred tax
Deferred tax is provided on all temporary differences between the carrying amounts of assets and liabilities for financial reporting using the balance sheet method providing for purposes and the amounts used for taxation purposes. These differences have primarily occurred due to different depreciation rates used for fixed assets in tax accounting and financial accounting, recognized provisions and tax losses available to be carried forward according to the tax declaration.
Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realised.
Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax is calculated based on the current statutory rate of 15%.
Deferred tax assets and liabilities are offset when legally permissible and these assets and liabilities relate to revenues administered by the same tax authority.
As at 31 December 2016 and 31 December 2015, the Company had a deferred tax asset, which was not recognised.

(2) Net sales

Net sales represents revenue generated during the reporting period from the basic activities of the Co-operative – sales of products and services, net of value added tax and discounts.

Line of business	2016 EUR	2015 EUR
Telecommunication services	1 429 542	2 195 768
Sales of telecommunication equipment	678 503	604 586
SMS services	41 505	4 594
	2 149 550	**2 804 948**

Net sales by geographic markets:

	2016 EUR	2015 EUR
EU countries	952 010	885 069
Third countries	1 187 923	1 890 488
Latvia	9 617	29 391
	2 149 550	**2 804 948**

(3) Cost of goods sold

Cost of goods sold represents costs incurred for generating net sales – such as costs of services recognized at acquisition cost, and costs related to purchase of services.

	2016 EUR	2015 EUR
Costs related to purchase of services	1 357 454	2 267 798
Cost of goods sold	445 860	389 074
Server rent	13 473	19 402
Costs of SMS services	22 122	-
	1 838 909	**2 676 274**

(4) Selling expenses

	2016 EUR	2015 EUR
Advertisement and representation expenses	21 594	2 526
Delivery of goods	56 766	50 389
Changes in allowance for doubtful trade receivables	31 690	15 969
Packaging materials	162	4 167
Repair costs	205	50
Provision for stock	-	9 179
	110 417	**82 280**

(5) Administrative expenses

	2016 EUR	2015 EUR
Expenses for external specialists	179 033	131 596
Expenses on cash turnover	10 272	7 951
Personnel costs	4 440	4 320
Compulsory state social security contributions	1 048	1 019
Communication services	2 007	858
Business trips	497	-
Legal services	14	-
Risk duty	4	4
Other expenses	7 607	7 557
	204 922	**153 305**

(6) Other operating income

	2016 EUR	2015 EUR
Decrease of provisions	9 179	-
Other income	2 078	1 701
Foreign exchange gain	3 188	-
	14 445	**1 701**

(7) Other operating expenses

	2016 EUR	2015 EUR
Amortization of intangible investments	1 588	6 351
Audit of financial statements	7 163	6 954
Loss on the fluctuations of currency exchange rates	-	1 553
Depreciation	1 270	3 734
Loss from writing off doubtful receivables	4 826	6 115
Fines	9	100
Other expenses	-	1
	14 856	**24 808**

(8) Interest and similar expenses

	2016 EUR	2015 EUR
Interest on the overdraft	1 730	962
	1 730	**962**

(9) Corporate income tax for the reporting year

Corporate income tax recognised in the profit and loss statement

	2016 EUR	2015 EUR
Current tax	-	-
Deferred tax	-	-
	-	-

Reconciliation of effective income tax rate

Income tax amounts disclosed for the years ended 31 December 2016 and 2015 are different from the amounts calculated by applying the statutory rate to the Company's profit before taxes as reflected below:

	2016 EUR	2015 EUR
Profit before corporate income tax	(6,839)	(130,980)
Theoretically calculated corporate income tax, 15%	(1,025)	(19,647)
Effect of non-deductible expenses	4,654	3,057
Effect of changes in unrecognized deferred tax asset	(3,629)	
Corporate income tax for the reporting year	-	-

Unrecognized deferred tax asset
A deferred tax asset on losses carried forward was not recognized as it cannot be measured reliably if future taxable profit will be available to use against this asset. Tax losses do not expire.

Deferred tax relates to the following temporary differences:

	2016 EUR assets	2016 EUR liabilities	2015 EUR assets	2015 EUR liabilities
Depreciation	-	(279)	-	(12)
Tax losses brought forward	11 711	-	14 533	-
(Unrecognized deferred tax asset)	(10 892)	-	(14 521)	-
Net deferred tax asset	-	-	-	-

Notes to the Financial Statements

(10) Intangible assets

	Other intangible assets EUR
Historical cost	
31.12.2015.	**31 758**
31.12.2016.	**31 758**
Accumulated amortization	
31.12.2015.	**30 170**
Calculated amortization	1 588
31.12.2016.	**31 758**
Balance as at 31.12.2015	**1 588**
Balance as at 31.12.2016	**-**

(11) Fixed assets

	Other fixed assets EUR
Historical cost	
31.12.2015.	**14 309**
Additions	1 884
31.12.2016.	**16 193**
Accumulated amortization	
31.12.2015.	**12 366**
Calculated amortization	1 270
31.12.2016.	**13 636**
Balance as at 31.12.2015	**1 943**
Balance as at 31.12.2016	**2 557**

(12) Finished goods and goods for sale

	2016 EUR	2015 EUR
Goods for sale	110 896	82 443
Provision for slow moving goods	-	(9 179)
	110 896	**73 264**

(13) Trade receivables

	2016 EUR	2015 EUR
Trade receivables, gross value	189 009	108 433
Allowance for doubtful debts	(54 550)	(22 860)
	134 459	**85 573**

(14) Other receivables

	2016 EUR	2015 EUR
Overpaid taxes	37 653	17 651
	37 653	**17 651**

(15) Cash

By currency:		2016		2015	
		Currency	EUR	Currency	EUR
Current account	EUR	-	38 466	-	20 116
Current account	USD	46 624	44 231	31 535	28 966
			82 697		**49 083**

(16) Share capital

After denomination of the capital, the share capital of the Company as at 31 December 2016 amounted to EUR 2 828. The share capital consists of an investment made by 1 shareholder and it is divided into 101 shares with the nominal value of EUR 28.

(17) Loans from credit institutions

		2016		2015	
Short term		Currency	EUR	Currency	EUR
Overdrafti	USD	-	-	38 912	35 742
			-		**35 742**

Overdrafti
The short term loan represents an overdraft on the current account. The maximum amount of overdraft is USD 65 000. The overdraft matures on 30 October 2016 and carries an annual interest rate of 14%. The overdraft was fully repaid in April 2016. The agreement will not be extended.

(18) Accounts payable to suppliers and contractors

	2016 EUR	2015 EUR
Accounts payable to suppliers and contractors	264 238	134 637
	264 238	**134 637**

Notes to the Financial Statements

Accounts payable to suppliers and contractors by currency:	2016		2015	
	Currency	**EUR**	**Currency**	**EUR**
EUR	-	153 014	-	8 153
USD	117 241	111 224	137 703	126 484
		264 238		**134 637**

(19) Taxes and social contributions

Type of tax	**Balance 31.12.2015 EUR**	**Calculated in 2016 EUR**	**Repaid/(paid) in 2016 EUR**	**Balance as at 31.12.2016 EUR**
Corporate income tax	(13 020)	-	11 712	(1 308)
Value added tax	(4 631)	(110 594)	78 880	(36 345)
Social contributions	-	1 514	(1 514)	-
Personal income tax	64	915	(968)	11
Risk duty	-	4	(4)	0
	(17 587)	**(108 161)**	**88 106**	**(37 642)**

Including:		
Overpaid taxes	**(17 651)**	**(37 653)**
Tax liabilities	**64**	**11**

Overpaid taxes are disclosed under Other receivables.

(20) Other liabilities

	2016 EUR	**2015 EUR**
Remuneration	220	1 521
Due to staff	6 009	1 666
Calculated but unpaid VAT	9 659	4 023
Other liabilities	3 813	242
	19 701	**7 452**

Notes to the Financial Statements

(21) Number of employees

	2016	2015
Average number of employees in the reporting year	1	1

(22) Personnel costs

Type of costs	2016 EUR	2015 EUR
Remuneration	4 440	4 320
Compulsory state social security contributions	1 048	1 019
	5 488	**5 339**

In the reporting year, Chairman of the Board did not receive additional remuneration for his work on the Board.

(23) Going concern

The financial result of the reporting year is a loss of EUR 6 839 and during the reporting year revenue of the Company decreased by 23% compared to 2015. In 2016 and 2017, the Company signed a number of cooperation agreements with new clients in the field of telecommunications and SMS services. The operating result (unaudited) of the first three months of 2017 is a loss, but the management forecasts that the result for the full 2017 financial year will be a profit. Company is equity financed, working capital is positive, the cash flows in 2016 were positive and the overdraft was fully repaid in April 2016. The management believes that the Company will continue as a going concern in the foreseeable future and there is no substantial doubt about the Company's ability to continue as a going concern.

Svjatoslavs Belozjorovs
Chairman of the Board

Nadežda Gromova
Chief Accountant

10 May 2017

KPMG Baltics SIA
Vesetas iela 7
Riga, LV-1013
Latvia

Telephone +371 67038000
Telefax +371 67038002
kpmg.com/lv

Independent Auditors' Report

To the shareholder of SIA Flames Group

Our Opinion on the Financial Statements

We have audited the accompanying financial statements of SIA Flames Group ("the Company") set out on pages 5 to 21 of the accompanying Annual Report, which comprise:

- the balance sheet as at 31 December 2016,
- 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 SIA Flames Group as at 31 December 2016, 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 *Auditors' Responsibility 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 the '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.

Reporting on Other Information

The Company's management is responsible for the other information. The other information is the Management Report, as set out on page 4 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* 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

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.

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.

Auditors' 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 auditors' 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 auditors' 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 auditors' 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.

KPMG Baltics SIA
Licence No 55

Ondrej Fikrle
Partner pp KPMG Baltics SIA
Riga, Latvia
10 May 2017

Valda Užāne
Latvian certified auditor
Certificate No 4

This report is an English translation of the original Latvian. In the event of discrepancies between the two reports, the Latvian version prevails.