
LIMITED LIABILITY COMPANY *SIA CITRUS SOLUTIONS*

(UNITED REGISTRATION NUMBER 50003752271)

ANNUAL REPORT 2017

**DRAWN UP IN ACCORDANCE WITH THE LAW ON THE ANNUAL FINANCIAL
STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS OF THE REPUBLIC OF
LATVIA**

AND INDEPENDENT AUDITORS' REPORT

Riga, 2018

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Information on the Company

Name of the Company:	Citrus Solutions
Legal status:	Limited liability company (SIA)
Number, place and date of registration:	50003752271, Riga, 28 June 2005
Legal address:	Ūnijas iela 52, Riga, LV – 1084, Latvia
Shareholder:	SIA <i>Lattelecom</i> (100%) Dzirnavu iela 105, Riga LV – 1011, Latvia Reg. No. 40003052786
Board:	Jūlija Grinberga – Chair of the Board (from 02.05.2012) Raimonds Gerbis - member of the Board (from 22.05.2015) Dace Mačujska - member of the Board (from 22.05.2015)
Outsourcing accountant:	Ilvija Gredzena – Head of the Accountancy department of Financial Service of SIA <i>Lattelecom</i>
Reporting year:	1 January 2017 – 31 December 2017
Auditors and addresses thereof:	Ernst & Young Baltic SIA License No. 17 Muitas iela 1A Riga, LV-1010, Latvia Diāna Krišjāne Sworn Auditor of the Republic of Latvia Certificate No. 124

MANAGEMENT REPORT

The Board of SIA *Citrus Solutions* (hereinafter *Citrus Solutions* or the Company) provides the management report about the reporting year ended 31 December 2017.

OVERVIEW OF COMMERCIAL OPERATIONS

The scope of operation of *Citrus Solutions* includes telecommunication infrastructure and building management system solutions, various security systems, external and internal power network solutions, design and construction of data centers, design, construction and maintenance of heating, ventilation and air conditioning systems, as well as other technical solutions related to low voltage and electrical networks, equipment and general management thereof, as well as engineering communication structures.

According to the clients' needs, *Citrus Solutions* offers integrated solutions that include full range of establishment and development services of infrastructure - starting with assessment and designing of the existing situation and ending with implementation and maintenance of the project.

Projects of *Citrus Solutions* implemented in 2017 reflect the Company's ability to integrate different solutions, as well as to manage full spectrum of internal network construction and hardware security in the construction object. The Company's clients appreciate the management of complex integrated projects and the ability to independently adapt to the client's changing needs, especially offering the best solutions and alternatives during the implementation of a project. For the second year *Citrus Solutions* is successfully implementing the construction of an optical network in Germany.

In 2017, the Company employed on average 215 employees, about 170 of which are highly qualified engineers and technical specialists. The qualification of technical employees was expanded in such areas as ventilation and conditioning systems; heat pumps; thermal testing of electrical installations; safety systems; BMS systems; Construction process; Construction standards, object documentation; laws, Cabinet regulations and building standards of the Republic of Latvia regulating the construction of electronic communication systems and networks; design skills using specialized software were mastered as well. Several regulated certificates related to the Company's operations were obtained. Employees also perfected social skills in different development courses such as innovation; confident leader; positive psychology; project management, risk, funds; efficient team management; team development. The Company's employees, as well as technical resources are located in the largest cities of Latvia.

To provide the necessary range of services for the clients, *Citrus Solutions* has concluded cooperation contracts with partners in Latvia and abroad on supply of equipment, cables, systems and technical materials, as well as for performing of construction work. Stabilizing the range of partners within one proposal for the clients are offered recruitment of different equipment, design and construction of telecommunication, electricity supply and other infrastructures.

The Company's management system is certified in accordance with the requirements of two internationally recognized standards - ISO 9001:2008 and ISO 14001:2004. Scope of certification: research and development, design, construction and maintenance of the automation, telematics, security and other low-voltage systems, electrical installations and telecommunication solutions, design, assembly and service of ventilation and conditioning systems. The certificates are valid until 30 April 2020.

Since 2006, the Company has *Certificate of Industrial Safety* that confirms the Company's right to perform work that contains state secrets, classified information of international organizations or foreign countries and the Company's ability to ensure protection of such information. The validity term of the *Certificate of Industrial Safety* of the Company is 30 April 2021. Since 2011, the Company has *Railway Security Certificate* that allows to perform works at the protected areas of railway, valid until 11 July 2021.

SHARE CAPITAL

At the end of 2017, *Citrus Solutions* share capital was increased by EUR 2,500,000 and is now EUR 3,570,999. It consists of 3,570,999 shares, with nominal value of EUR 1. SIA *Lattelecom* owns 100% of the share capital of *Citrus Solutions*.

MANAGEMENT REPORT (continued)

SHARES IN OTHER COMPANIES

Citrus Solutions holds 1.85% shares of *Pirmais slēgtais pensiju fonds*. The Company is only a formal shareholder, as all the risk arising from the operations of the pension fund and income is owned by the employees of *Citrus Solutions* – participants of the pension program.

OPERATING RESULTS

In the reporting year *Citrus Solutions* net turnover reached EUR 20.2 million.

In 2017, the Company's largest projects were design, installation and warranty of video surveillance systems of Customs Control Points (Client – the State Revenue Service), installation of LAN network and server room construction in Riga, Triangula Bastions, 11. Novembra krastmala (Client – SIA Euro Live Properties), construction of engineering systems and electrical networks of Section A of VSIA "Paula Stradiņa Klīniskā universitātes slimnīca" (Client – SIA RERE būve), installation of the heating, ventilation and conditioning systems, water and sewerage systems, as well as electrical networks in a new hotel building project in Riga, Ministerejas b/n, 11. Novembra krastmala 33, Mārsaļu iela 32 (Client – SIA Homeland Būve).

In 2017, *Citrus Solutions* as the General Contractor continued reconstruction work of SIA Lattelecom office space, ensuring both performance of general construction work and systems.

In 2017, SIA *Citrus Solutions* continued construction of telecommunication networks in Germany, Bavaria region (Client – OFM Communications GmbH&Co KG). Revenue from operation in Germany in 2017 amounted to 3 million EUR.

Citrus Solutions normalized EBITDA¹ in 2017 was EUR 474 thousand, EBITDA profit margin was 2.3%.

The amount of capital investments during the reporting year reached EUR 416 thousand that was used for the renewal of production means and improvement of information technologies. In 2017 the Company paid EUR 2.052 million in Latvia and EUR 0.223 million in Germany in different taxes, considering the received re-payments.

In 2017, the Company's net loss amounted to EUR 487 thousand. The financial results of the Company were significantly affected by the write-off of deferred corporate income tax assets.

MANAGEMENT OF THE COMPANY

According to the Commercial Law, the Company's Articles of Association prescribe two-level management procedure, which, according to the decision of the Company's Shareholders' meeting of 11 November 2008, is executed by the Shareholders' meeting and Board.

In 2017 the Board of the Company consisted of: Miks Stūrītis (Chair of the board until 30.06.2017), Jūlija Grinberga (member of the Board until 30.06.2017, Chair of the Board from 01.07.2017), Raimonds Gerbis, Dace Mačujska.

DISCLOSABLE INTEREST

Citrus Solutions members of the Board and their family members or companies they manage do not own shares or share option contracts of *Citrus Solutions* or companies belonging to the *Lattelecom* group. The members of the Board do not have interest in contracts or agreements related to *Citrus Solutions*.

THE BOARD'S RESPONSIBILITY FOR THE ANNUAL REPORT

The board is responsible for preparation of the Company's financial statements on the basis of the Company's initial accounting records for each reporting period.

¹ Normalized EBITDA (profit from the operating activities before interest, taxes, depreciation, amortization, losses from disposal of fixed assets and termination benefits) there is mentioned as a ratio widely used in telecommunications industry and investors' environment although it is not a common accounting term and it should not be explained as an alternative to profit and cash flow from operating activity.

MANAGEMENT REPORT (continued)

THE BOARD'S RESPONSIBILITY FOR THE ANNUAL REPORT (continued)

The financial statements give a fair view of the Company's financial state at the end of the reporting year, operation result and cash flow for the reporting year.

The Board confirms that in the preparation of the financial statements for 2017 set out on pages 7 to 25 appropriate accounting methods were used consistently, and estimates and forecasts were cautiously executed. The Board confirms that the requirements of the Latvian legislation have been met and the financial statements have been prepared on the going concern basis.

The Board is responsible for appropriate accounting records and taking action to retain the Company's funds, detect and avoid fraud and other irregularities.

RISK MANAGEMENT

Operations of *Citrus Solutions* are subject to several risks caused by the business environment and market in which the Company operates. The most significant risks that could threaten *Citrus Solutions* operations in the future are such strategic risks as changes in the development of construction market, increase of subcontractors' prices, increase in construction worker remuneration, and lack of construction resources.

Operational risks are related with the ability to realize large and complex projects. The management of financial risks in relation to the Company's liquidity, currency and interest rate fluctuations and credit risk of cooperation partners is based on financial risk management policy of the *Lattelecom* group.

Citrus Solutions performs identification, evaluation of risks and develops operating plans to prevent, reduce or transfer risks to third parties that might have an adverse effect on the property, staff, finances or operating results of *Citrus Solutions*. To avoid financial losses in case any of the risks would materialize, part of those are insured. Currently *Citrus Solutions* has insurance cover in such areas as property, commercial termination, civil third party liability, construction specialists' civil third party liability and employees' insurance.

EVENTS AFTER THE END OF REPORTING YEAR

In the period since the last date of the reporting year till the signing of this report there were no considerable events that would significantly impact the results of the reporting year.

FURTHER DEVELOPMENT OF THE COMPANY

In the upcoming years, the Company's development is related to obtaining and implementation of orders of external clients (outside the *Lattelecom* group), which will be the main priority of the Company, as well as acquisition of the export market.

Ability to offer integrated solutions to clients has served as a competitive advantage of the Company that will help to obtain new contracts with a higher added value.

AUDITORS

Audit of the financial statements was performed by SIA "Ernst & Young Latvia" in accordance with the International Standards on Auditing.

On behalf of the Board

Chair of the Board _____/Jūlija Grinberga/

Riga, 29 January 2018

Profit or Loss Account
(according to period costs method)

	Notes	2017 EUR	2016 EUR
NET TURNOVER	1	20 219 379	28 166 160
Costs (capitalized) referenced to own long-term investments	2	19 678	-
Other operating income	3	320 880	313 401
Cost of materials:			
a) costs of raw materials and consumables;		(1 615 906)	(1 741 116)
b) other external costs		(85 775)	(92 458)
		(1 701 681)	(1 833 574)
Personnel costs:			
a) remuneration for work;		(4 213 541)	(4 614 626)
b) pensions from company funds;		(11 573)	(14 375)
c) state mandatory social insurance payments;		(1 002 096)	(1 121 706)
d) other social insurance costs		(171 132)	(209 017)
		(5 398 342)	(5 959 724)
Write-offs and value adjustments:			
a) depreciation and write off of fixed and intangible assets;	8, 9	(260 699)	(179 491)
b) write-off of the value of current assets if they exceed the amount of write-offs of the value that the relevant company considers to be ordinary	4	(42 553)	(37 545)
Other operating expenses	5	(13 071 087)	(20 266 208)
Interest payments and similar costs	6	(52 041)	(53 599)
PROFIT OR LOSS BEFORE TAXES		33 534	149 420
Corporate income tax	7	35 871	(158 144)
Revenues or expenses from changes in deferred tax assets or liabilities	7	(556 858)	99 060
PROFIT OR LOSS FOR THE ACCOUNTING YEAR		(487 453)	90 336

The notes form an integral part of these financial statements.

On behalf of the Board

Chair of the Board _____/Jūlija Grinberga/

Outsourcing accountant _____/Ilvija Gredzena/

Riga, 29 January 2018

Balance Sheet

ASSETS	Notes	31 December 2017 EUR	31 December 2016 EUR
LONG-TERM INVESTMENTS			
Intangible assets			
Other intangible assets		184 203	22 535
Total intangible assets	8	184 203	298 601
Fixed assets			
Buildings		3 565	3 950
Equipment and machinery		3 587	4 522
Other fixed assets and inventory		507 670	335 930
Creation of fixed assets and cost of construction sites in progress		143 860	120 372
Total fixed assets	9	658 682	464 774
Long-term financial investments			
Deferred tax assets	7	-	553 756
Total long-term financial investments		-	553 756
Total long-term investments		842 885	1 227 331
CURRENT ASSETS			
Inventories			
Raw materials, basic materials and consumables		857 050	1 289 637
Advance payments for goods		7 817	33 338
Total inventories	10	864 867	1 322 975
Debtors			
Trade receivables	11	2 822 508	2 161 234
Receivables from related companies	22	2 659 014	3 065 665
Other debtors	12	240 327	149 662
Prepaid expenses		3 489	3 984
Accrued income	13	4 649 332	3 331 492
Total debtors		10 374 670	8 712 037
Cash	14	360 514	253 337
Total current assets		11 600 051	10 288 349
TOTAL ASSETS		12 442 936	11 515 480

The notes form an integral part of these financial statements.

On behalf of the Board

Chair of the Board _____/Jūlija Grinberga/

Outsourcing accountant _____/Ilvija Gredzena/

Riga, 29 January 2018

Balance Sheet

LIABILITES	Notes	31 December 2017 EUR	31 December 2016 EUR
EQUITY			
Share capital (equity)	15	3 570 999	1 070 999
Retained profits of the reporting year		(487 453)	90 336
Total Equity		3 083 546	1 161 335
PROVISIONS			
Other provisions	16	334 492	363 168
Total provisions		334 492	363 168
CREDITORS			
Long-term creditors			
Next period revenue	20	-	13 062
Total long-term creditors		-	13 032
Short-term creditors			
Advanced payments from customers		702 603	616 910
Accounts payable	17	2 152 831	2 471 227
Debts to related companies	22	2 929 920	3 368 556
Taxes and State mandatory social insurance payments	18	278 806	190 156
Other creditors	19	1 671	1 127
Deferred income	20	15 815	19 524
Accrued liabilities	21	2 943 252	3 310 445
Total short-term creditors		9 024 898	9 977 945
TOTAL LIABILITES		12 442 936	11 515 480

The notes form an integral part of these financial statements.

On behalf of the Board

Chair of the Board _____/Jūlija Grinberga/

Outsourcing accountant _____/Ilvija Gredzena/

Riga, 29 January 2018

Statement of Changes in Equity

	Share capital (equity) EUR	Reserves EUR	Retained profits EUR	Total EUR
Balance at 31 December 2015	1 071 999	(12 935)	541 108	1 599 172
Dividends paid	-	-	(541 108)	(541 108)
Profits of the reporting year	-	-	90 336	90 336
Financial instrument revaluation reserve	-	12 935	-	12 935
Balance at 31 December 2016	1 071 999	-	90 336	1 161 335
Increase of equity	2 500 000	-	-	2 500 000
Dividends paid	-	-	(90 336)	(90 336)
Profits of the reporting year	-	-	(487 453)	(487 453)
Balance at 31 December 2016	3 570 999	-	(487 453)	3 083 546

The notes form an integral part of these financial statements.

On behalf of the Board

Chair of the Board _____/Jūlija Grinberga/

Outsourcing accountant _____/Ilvija Gredzena/

Riga, 29 January 2018

Cash Flow Statement

(according to the indirect method)

	Notes	2017 EUR	2016 EUR
Cash flows from operating activities			
Profit before taxes		33 534	149 420
Adjustments:			
- amortization of intangible assets;	8	54 950	28 515
- depreciation of fixed assets;	9	205 749	150 976
- other income from interest and similar income	5, 3	(77 693)	(24 764)
- provisions (excluding provisions for doubtful debts);	16	(28 676)	(255 185)
- net exchange rate fluctuations;		19 292	5 910
- interest payments and similar expenses	6	32 052	27 257
Profit before adjustments for the effect of changes to current assets and short term liabilities		82 156	82 156
Decrease (increase) in accounts receivable		4 605 776	4 605 776
Decrease (increase) in inventories		918 970	918 970
Increase (decrease) in accounts payable to suppliers, contractors and other creditors		(1 313 996)	(1 313 996)
Gross cash flows from operating activities		4 292 906	4 292 906
Interest paid		(25 803)	(25 803)
Corporate income tax paid	18	(206 826)	(206 826)
Net cash flows from operating activities		4 060 277	4 060 277
Cash flows from investing activities			
Purchase of fixed and intangible assets		(157 233)	(157 233)
Income from disposal of fixed and intangible assets		25 349	25 349
Net cash flows from investing activities		(131 884)	(131 884)
Cash flows from financing activities			
Proceeds from investing in shares and bonds or equity interests		2 500 000	-
Loans received		4 027 127	2 597 268
Repayment of loans		(4 204 399)	(6 312 142)
Dividends paid		(90 336)	(541 108)
Net cash flows from financing activities		(2 232 392)	(4 255 982)
Result of fluctuations in the foreign currency exchange rates		(19 292)	(5 910)
Net (decrease) / increase of cash and cash equivalents		107 177	(333 499)
Cash and cash equivalents at the beginning of the reporting year		253 337	586 836
Cash and cash equivalents at the end of the reporting year	14	360 514	253 337

The notes form an integral part of these financial statements.

On behalf of the Board

Chair of the Board _____ / Jūlija Grinberga /

Outsourcing accountant _____ / Ilvija Gredzena /

Riga, 29 January 2018

Notes to Financial Statements

Accounting Policies

GENERAL INFORMATION

The Limited Liability Company *Citrus Solutions* (hereinafter *Citrus Solutions* or the Company) was established and registered in the Commercial Register of the Republic of Latvia on 28 June 2005 under the unified registration number 50003752271, its legal address is Ūnijas iela 52, Rīga. The Company's parent company is *Lattelecom*, which holds 100% of the Company's share capital. The main business lines of *Citrus Solutions* are construction and servicing of telecommunication infrastructure for corporate clients. The number of employees at *Citrus Solutions* at the end of the reporting year was 214.

ACCOUNTING AND ASSESSMENT PRINCIPLES

Basis of the preparation of financial statements

The financial statements have been prepared in accordance with the laws "On Accounting" and "Law on Annual Statements and Consolidated Annual Statements" of the Republic of Latvia, except for the position "Deferred tax assets", which is recognized and assessed in accordance with requirements of the International accounting standard No 12 "Income tax". The Company is a subsidiary of the *Lattelecom* group and the consolidated statement of the group is prepared in accordance with requirements of the International accounting standards.

The financial statements have been prepared on the historical cost measurement principle basis.

All amounts disclosed in the financial statements are provided in euro (EUR), if not stated otherwise.

The reporting period is the calendar year. The balances on 31 December 2017 represent the financial state of the Company at the end of the day.

The profit or loss account was prepared according to the period costs method.

The cash flow statement is prepared applying the indirect method.

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 of the balance sheet date are classified as short term.

Applied accounting principles

The items of financial statements were evaluated in accordance with the following accounting principles:

- a) assumption that the Company will continue to operate;
- b) the same valuation methods will be used as in the previous year;
- c) evaluation was done with due caution:
 - the financial statements reflect only the profit generated to the date of the balance sheet;
 - all expected risk amounts and losses incurred during the reporting year or prior years have been taken into consideration even if discovered in the period of time between the balance sheet date and the date of preparation of the financial statements;
 - all impairments 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 indicated 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.

Accounting Policies (continued)

Related parties

The Company considers that related parties are the group's parent company and subsidiaries in the group, as well as other companies which may have a significant impact on the Company's activities.

Other related parties of the Company are the highest level managers of the Company and their close family members, as well as companies under the control or significant influence of such individuals.

Foreign currency revaluation

Transactions in foreign currency are translated into euro on the basis of the reference exchange rate published by the European Central Bank (hereinafter "ECB") that is effective at the beginning of the day when the transaction takes place, however, the last available foreign currency exchange rate that can be used in accounting is applied, if the transaction date is a business day in Latvia but it does not have a published foreign currency exchange rate to be used in accounting, as according to the calendar of foreign currency exchange rate publishing source it is a holiday. Profit or loss resulting from these transactions, as well as resulting from revaluation of monetary assets and liabilities denominated in the local currency is recognized in the profit or loss account.

At the end of the year financial assets and liabilities in foreign currency are revalued on the basis of exchange rate set by the ECB effective on the last day of the reporting period and all relevant fluctuations of currency rate are disclosed in profit or loss account.

Euro exchange rate against currencies in which the Company has had transactions:

	31 December 2017	31 December 2016
USD	1.1993	1.05410

Intangible assets

Intangible assets include trademarks, software licenses, capitalized project groups' staff expenses and service expenses related to implementation of software. If a software is an integral part of equipment and it cannot operate without the specific program, software is recognized under fixed assets.

Intangible assets are recognized at purchase costs, deducting accumulated amortization and accrued losses from value reduction. Intangible assets are amortized by linear method over their useful life (over 3 to 5 years).

On each balance sheet date, it is assessed whether certain indications exist that would show that the value of an asset might be decreased. The recoverable value of intangible assets not ready for use is determined every year regardless of the fact whether indications exist that would show that the value of an asset might be decreased. For purposes of impairment assessment, intangible assets are divided in groups so that they would represent as small of a unit as possible for which it is possible to determine the amount of cash flow.

If the book value of an intangible asset exceeds the expected recoverable amount, which is the highest of the net realizable value and value in use, then its book value is immediately reduced to the recoverable value, including the difference in the profit or loss account.

Fixed assets

Fixed assets are carried at purchase costs, deducting accumulated depreciation and accrued losses from value reduction. Depreciation of fixed assets is calculated by linear method, allocating the equally purchase costs of fixed assets until the expected disposal value to the forecast length of useful life of fixed assets:

	Useful life in years
Buildings	7
Energy equipment	10
Other fixed assets	3 – 5

Accounting Policies (continued)

Fixed assets (continued)

Useful life of fixed assets is reviewed at least once a year. Impact caused by changes in the useful life is disclosed in the profit or loss account in the period when the changes incurred and in next periods.

If the book value of a fixed asset exceeds the expected recoverable amount, which is the highest of the net realizable value and value in use of a fixed asset, then its book value is immediately reduced to the recoverable value, including the difference in the profit or loss account.

Current maintenance and repair costs of tangible assets are recognized in the profit or loss account period as incurred.

Profit or loss from disposal of fixed assets are determined by comparing revenue from sales with balance value of fixed assets and are included in the profit from operating activities.

Accounting of lease contracts

Lease transactions that essentially transfer all risks and rewards characteristic of property rights to the object to the lessor are classified as finance lease transactions. All other lease transactions are classified as operating lessee transactions.

(i) The company is a lessor

If the Company's assets are involved in the operating lease, income from operating lease is included in the profit or loss account by linear method during lease period. The initial direct costs arising from the lease transaction are included in the book value of the leased asset and recognized in the profit or loss account in the period, when income from the sales is recognized.

When the Company is a lessor under financial lease terms, it discloses the leased asset in the balance sheet as accounts receivable that is equal to the current value of lease payment. Revenue from lease is included in the profit or loss account in the lease contract period applying a constant periodical interest rate for the balance of claims.

(ii) The company is a lessee

Payments made in accordance with the operating lease contract are included in the profit or loss account by linear method over the period of lease.

If the Company is a lessee under financial lease terms, in the balance sheet the Company includes fixed asset and liabilities at the lowest of the fixed asset's fair value at the beginning of the lease or current value of minimum lease payment. Each lease payment is divided in reduction of liabilities and financial payment that is calculated applying consistent interest rate to the remaining value of liabilities. Interest payments are recognized in the profit or loss account during the period of lease. Leased fixed asset is amortized over the shortest of the lease terms or useful life.

Inventories

Inventories are evaluated by the lowest of the purchase costs or net sales value. Purchase value is determined applying the average weighted inventories evaluation method. In cases, when the net sales value of inventories is lower than weighted average purchase price, appropriate provisions are created for these inventories to reduce their value to net sales value.

Accounts receivable

Accounts receivable represent amounts to be repaid in less than one year and reflected in the balance sheet, deducting provisions for doubtful or bad debts.

Provisions for doubtful debts are created in cases, when the Company's management believes that the recoverability of these liabilities is uncertain.

Accounting Policies (continued)

Accounts receivable (continued)

Provisions for doubtful accounts receivable are calculated based on the information about the financial state of the respective debtor and debt recovery, as well as analysis of the debt age structure. Provisions for the separate accounts receivable are made in cases when there are an objective evidence that recovery of these accounts receivable is doubtful. General provisions for the doubtful accounts receivable are calculated based on the analysis of debt age. In the reporting year the following provisions rates were applied:

Accounts receivable (delay in days)	1 – 30	31 – 90	91 – 180	181 – 365	> 365
Rate of provisions, %	2	15	60	85	100

Bad debts are written off, when their recovery is considered as impossible.

Cash and cash equivalents

Cash and cash equivalents are bank account balances, cash in transit and bank deposits, the initial term of which do not exceed three months.

Loans

Loans are recognized at purchase value that is the fair value of the received compensation, deducting transaction costs that are directly attributable to receipt of a loan. In the next periods loans are evaluated at amortized purchase value, using effective interest rate method. Revenue or loss are recognized in the profit or loss account as interest income or expenses when liabilities are excluded from the balance sheet, using amortization process. Part of loans, repayment term of which exceeds 12 months, is included in the long-term liabilities.

Provisions

Provisions are made in cases when the Company, as a result of past events, has current legal liabilities or caused as a result of practice and it is expected that resources of economic value will be necessary to settle these liabilities and it possible to estimate the amount of these liabilities reliably. In the balance sheet provisions are reflected, indicating as precisely as possible the amount of expenses, which is necessary to settle liabilities in the amount disclosed at the balance sheet date. Provisions are used only in relation to expenses for which they were initially created and they are reduced in case the possible outflow of resources cannot be estimated.

At the end of the reporting year, there provisions have been created for guarantee repairs, evaluating conditions of contracts concluded with clients and the respective projects. Provision is created as certain percentage from revenue of implemented projects for the guarantee period defined in the contract. The provision percentage is determined, based on the historical experience of the Company in similar projects and other available information.

Accrued liabilities

Accrued liabilities are clearly known amounts of settlement with suppliers and contractors for goods or services received in the reporting year, if a relevant payment document has not been received at the balance sheet date.

As of the end of the reporting year, the accrued expenses of unused vacations, accrued expenses for bonuses for performance results in the reporting year, termination benefits and other accrued expenses for which services have been received in the reporting year have been created. The accrued expenses for unused vacations are calculated by multiplying the number of unused vacation days of an employee with the average day salary of the employee. The accrued expenses for bonuses are created on the basis of the assessment of the Company's and individual goals completion in accordance with the bonus scheme implemented in the Company. The accrued expenses for termination benefits are created in accordance with termination rates determined by the trade union on the basis of the annual salary and time an employee has worked in the Company. The compulsory state social security contributions are added to the accrued expenses for unused vacations, bonuses and termination benefits.

Accounting Policies (continued)

Possible liabilities and assets

Possible liabilities are not disclosed in the financial statements. Information on the possible liabilities is disclosed in the note, except for cases, when the probability of outflow of resources that include economic benefits is immaterial. Possible assets are not disclosed in the financial statements but information is disclosed in the notes, if inflow of economic benefits is probable.

Pension fund

The amount of payments to the pension fund, within prescribed limit, is chosen by each employee independently.

Payments to the pension fund are accounted as expenses in the period when the respective employee has provided the services stipulated in the labor contract.

The Company holds 1.85% of AS *Pirmais Slēgtais Pensiju Fonds* shares, however, the Company is only a formal shareholder. Investment in the share capital of the fund was written off as expenses as at the date of establishment, as risks and rewards related to the pension fund are related only to the participants of the pension plan – employees of the Company.

Income taxes

Income taxes represent the Corporate Income Tax and Deferred tax for the reporting year. *Corporate Income Tax* for the reporting year is calculated by applying the tax rate of 15% determined in the law.

According to the Law on Corporate Income Tax of the Republic of Latvia, starting from 1 January 2018 legal entities will not be required to pay income tax on their profits. Corporate income tax will be paid on divided profits and relatively divided profits. Thus, in Latvia, there will be no differences between the value of assets, determined for the purposes of tax calculation, and the book value, which could result in assets or liabilities of the deferred income tax. Starting from 1 January 2018 a 20% tax rate from the gross amount or 20/80 of the net cost will apply to divided profits or relatively divided profits. Corporate income tax on dividend payments is recognized in the profit or loss statement as expenses in the reporting period when the respective dividends were declared, and for other items of relative profits – at the time when the expenses incurred during the reporting year.

For accrued expenses, for which no external supporting documents were received as at the date of submission of the Corporate Income Tax declaration, the Company corrects the taxable income. The adjusted amounts are determined according to account balances of the accrued liabilities, reducing those by the amount of expenses on the basis of the external supporting documents.

Deferred tax assets and liabilities

Law on Corporate Income Tax in force until 31 December 2017 determined differences between values of assets and liabilities that are used for tax calculations and their value in the accounting records. Deferred tax was calculated by applying the liability method to all temporary differences between values of assets and liabilities that were used for tax calculations and their value in the accounting records. In order to determine the amount of deferred assets and liabilities, tax rates were used that were expected in the periods when the respective asset would be used or liabilities settled based on the tax rates on balance sheet date.

In accordance with the amendments to the legislation of the Republic of Latvia, which came into force on 1 January 2018, in 2017 assets and liabilities of deferred tax are not recognized. Assets and liabilities of deferred tax accrued in previous years' accounts, are written-off in the profit and loss account for 2017. According to the International Standard on Accounting, amendments to the legislation shall be reflected in the financial statements of the period during which these amendments came into force.

Revenue recognition

Revenue is recognized when goods are delivered and services are provided.

Revenue from sales of goods are recognized at the time of delivery, if material risks and rewards related to property rights are transferred to the buyer and the seller does not retain further management rights that usually are related to property rights, not real control over the goods sold.

Revenue for the services provided are recognized at the moment when services are provided, on the basis of time spent.

Interest income is recognized in the profit or loss account applying the effective interest rate method.

Long-term contracts

Long-term contract is a specific contract on establishment of the object or set of assets. Set of assets are assets that are closely related or mutually dependent upon the project, technology and function, or

due to their final purpose or use.

Accounting Policies (continued)

Long-term contracts are contracts specifying that works shall be commenced in one financial reporting period and completed in other, although the total term for completion may be less than 12 months.

If the result of a long-term contract can be reliably estimated, revenue and expenses related to such contract are recognized in the profit or loss account as income and expenses, considering the stage of completion of the contractual works in per cent at the balance sheet date. If the result of a long-term contract cannot be reliably estimated, revenue is recognized to the extent it is possible to recover the expenses related to the contract and a part of the expected profit is not recognized. Expenses related to contract are recognized when incurred. The stage of completion is assessed in per cent, on the basis of costs of work accomplished. Expected losses from the contract are recognized as expenses in the profit or loss account.

Dividends

Dividends are recognized in the financial statements in the period when the Company's shareholders general meeting confirm payment of dividends.

Events after the balance sheet date

Amounts recognized in the financial statements are adjusted considering events after the balance sheet date, which provide additional information about the Company that was true at the balance sheet date (adjusting events). Events after the balance sheet date that are not considered adjusting are reflected in the note of the financial statements, if they are significant.

Comparative figures

In cases, when the classification of certain items of the financial statements is changed to provide a more fair view on the Company's financial state, the comparative figures of its operating results and cash flows are adjusted in accordance with the new classification.

Application of assessments and significant assumptions

Preparing the financial statements, the management, in accordance with Latvian Accounting Regulations, has to rely on certain estimates and assumptions related to recognition of assets, liabilities, revenues and expenses and contingent liabilities. Estimates are mainly related to recognition of revenues from long-term contracts, useful life of fixed assets, provisions for guarantee repairs, provisions for doubtful debts and obsolete stocks, as well as fixed assets impairment evaluation. Although these estimates are based on comprehensive management information on current events and activities, actual results may differ from these estimates.

1. NET TURNOVER

	2017	2016
	EUR	EUR
Income from construction of engineering systems and infrastructure	16 016 058	23 698 680
Income from servicing and maintenance services provided to electronic communication network	2 501 631	2 710 503
Income from sale of materials	1 701 690	1 756 977
Total	20 219 379	28 166 160

2. COSTS (CAPITALIZED) REFERENCED TO OWN LONG-TERM INVESTMENTS

	2017	2016
	EUR	EUR
Personnel costs	17 086	-
Other costs	2 592	-
Total	19 678	-

3. OTHER OPERATING INCOME

	2017	2016
	EUR	EUR
Income from lease of fixed assets	6 479	7 495
Gain on disposal of fixed assets	77 693	24 764
Obsolete inventories used	126 724	-
Recovered receivables	-	232 634
Other income	109 984	48 508
Total	320 880	313 401

4. WRITE-OFF OF THE VALUE OF CURRENT ASSETS

	2017	2016
	EUR	EUR
Write-off accounts receivable and creation of provisions	(29 823)	(21 738)
Costs of write-off inventories	(12 730)	(19 099)
Provisions for slow moving inventories	-	3 292
Total	(42 553)	(37 545)

5. OTHER OPERATING COSTS

	2017	2016
	EUR	EUR
Engineering systems, infrastructure construction services costs and material costs	(10 097 264)	(17 462 457)
Network, equipment maintenance services costs and material costs	(863 716)	(732 738)
Car lease, maintenance costs	(838 123)	(1 029 809)
Other costs of economic activity	(503 157)	(134 904)
Office and administrative expenses	(379 088)	(437 461)
Rent and maintenance of premises, public utilities	(212 537)	(261 476)
IT services costs	(177 202)	(207 363)
Total	(13 071 087)	(20 266 208)

6. INTEREST INCOME AND EXPENSES

	2017	2016
	EUR	EUR
Interest payments and similar costs		
on loans	(32 052)	(27 257)
net losses from exchange rate fluctuations	(19 989)	(26 342)
Total	(52 041)	(53 599)

7. INCOME TAXES

	2017	2016
	EUR	EUR
Corporate income tax:		
- reporting year	(19 148)	(153 296)
- correction of the previous year*	55 019	(4 848)
Deferred tax	(92 166)	99 060
Write-off of deferred tax	(464 692)	-
Total	(520 987)	(59 084)

* Correction of Corporate Income Tax for the previous year refers to the accrued expenses, the external supporting documents of which were not received at the date of the annual statement and therefore those were considered as expenses that are not deductible in the calculation of the Corporate Income Tax, while at the date of submission of the Corporate Income Tax declaration the external supporting documents were received and the taxable income adjustment was not necessary.

The mentioned correction does not have an impact on the total corporate and deferred tax expenses, as the deferred tax assets is recognized for the amount of accrued liabilities that is corrected in the tax calculation.

Actual income tax comparison with theoretical calculations:

	2017	2016
	EUR	EUR
Profit before taxes	33 534	149 420
Theoretically calculated corporate income tax - 15%	5 030	22 413
Tax correction for:		
expenses that are not deductible, determining taxable income	21 243	18 377
other	30 022	18 294
Write-off of deferred tax	464 692	-
Total	520 987	50 084

Changes of deferred tax

	2017	2016
	EUR	EUR
Balance at the beginning of the reporting year	553 756	454 696
Income of deferred tax	(89 064)	99 060
Balance at the end of the reporting year	464 692*	553 756

In the Balance sheet position "Deferred tax assets" includes the following amounts:

	31.12.2017	31.12.2016
	EUR	EUR
From temporary differences between the fixed assets value in the balance sheet and tax calculation purpose	(45 851)	(37 056)
From provisions for obsolete inventories	16 864	35 873
From doubtful accounts receivable	-	-
From accrued liabilities and provisions	493 679	554 939
Deferred tax asset*	46 692*	553 756

*Assets of deferred tax have been written-off in the profit or loss statement 2017 in accordance with the amendments of the legislation of the Republic of Latvia, which came into force on 1 January 2018.

8. INTANGIBLE ASSETS

	Other Intangible assets EUR	Creation of Intangible assets EUR	Total EUR
Purchase value			
31 December 2016	272 076	22 535	294 611
Purchased	-	30 552	30 552
Put into operation	33 753	(33 753)	-
31 December 2016	305 829	19 334	325 163
Amortization			
31 December 2016	(86 010)	-	(86 010)
Amortization	(54 950)	-	(54 950)
31 December 2017	(140 960)	-	(140 960)
Remaining value			
31 December 2016	186 066	22 535	208 601
31 December 2017	164 869	19 334	184 203

In 2017 capital investment in the intangible assets was EUR 30 552 (In 2016 - EUR 168 391).

9. FIXED ASSETS

	Buildings EUR	Equipment and machinery EUR	Other fixed assets and inventory EUR	Creation of fixed assets EUR	Total EUR
Purchase value					
31 December 2016	6 382	84 490	3 204 275	120 372	3 415 519
Purchased	-	-	-	403 802	403 802
Put into operation	581	-	379 733	(380 314)	-
Excluded in the reporting year	-	(2 406)	(686 536)	-	(688 942)
31 December 2017	6 963	82 084	2 897 472	143 860	3 130 379
Depreciation					
31 December 2016	(2 432)	(79 968)	(2 868 345)	-	(2 950 745)
Depreciation	(967)	(935)	(203 847)	-	(205 749)
Excluded in the reporting year	-	2 406	682 391	-	684 797
31 December 2017	(3 399)	(78 497)	(2 389 801)	-	(2 471 697)
Remaining value					
31 December 2016	3 950	4 522	335 930	120 372	464 774
31 December 2017	3 564	3 587	507	143 860	658 682

In 2017 capital investment in the fixed assets was EUR 403 809 (In 2016 - EUR 247 455).

The additions of fixed assets include personnel and other costs that are directly related with introduction of fixed assets and are capitalized on basis of the amount of spent hours in these project. In 2017 capitalized expenses amounted to EUR 19 678, while in 2016 no expenses were capitalized (Note 2).

The Company in its economic activity uses also fully depreciated intangible assets and fixed assets. The initial purchase value of these intangible assets and fixed assets is EUR 1 505 233 (In 2016 - EUR 2 448 590).

10. INVENTORIES

	31.12.2017	31.12.2016
	EUR	EUR
Raw materials and materials	969 479	1 528 790
Provision for obsolete and slow-moving goods	(112 429)	(239 153)
Advance payments for goods	7 817	33 338
Total Inventories	864 867	1 322 975

Provision for obsolete and slow-moving goods

	2017	2016
	EUR	EUR
Provisions at the beginning of reporting year	239 153	242 445
Created/(reduced) provisions in the reporting year, net	(126 724)	(3 292)
Provisions at the end of reporting year	112 429	239 153

11. TRADE RECEIVABLES

	31.12.2017	31.12.2016
	EUR	EUR
Accounts receivable	2 963 990	2 272 893
Provision for doubtful debts	(141 482)	(111 659)
Total trade receivables	2 822 508	2 161 234

Movement of provisions for doubtful and bad debts

	2017	2016
	EUR	EUR
Provisions at the beginning of reporting year	326 921	326 921
Written off doubtful accounts receivable	(4 366)	(4 366)
Recovered doubtful accounts receivable	(232 634)	(232 634)
Created provisions for doubtful accounts receivable	21 738	21 738
Provisions at the end of reporting year	111 659	111 659

12. OTHER DEBTORS

	31.12.2017	31.12.2016
	EUR	EUR
Advanced payments to foreign suppliers	900	-
Overpaid taxes (Notes 18)	120 364	37 789
Advanced payments to Latvian suppliers	44 376	61 856
Other debtors	2 033	-
Settlements with employees	72 654	50 017
Total other debtors	240 327	149 662

13. ACCRUED INCOME

	31.12.2017	31.12.2016
	EUR	EUR
Accrued income*	4 649 332	3 331 492
Total accrued income	4 649 332	3 331 492

* Accrued income for the construction projects in progress are recognized on the basis of percentage of completion at the balance sheet date.

14. CASH

	31.12.2017	31.12.2016
	EUR	EUR
Cash in banks	360 514	253 337
Total cash	360 514	253 337

15. SHARE CAPITAL (FIXED CAPITAL)

At the end of 2017 share capital of *Citrus Solutions* was EUR 3 570 999 and it consisted of 3 570 999 shares with nominal value of each share EUR 1. SIA *Lattelecom* holds 100% of *Citrus Solutions* share capital.

16. PROVISIONS

Movement in provisions for warranty repairs

	2017 EUR	2016 EUR
Provisions at the beginning of reporting year	363 168	618 326
Created/ (reduced) provisions in the reporting year, net	(28 676)	(255 158)
Provisions at the end of the reporting year	334 492	363 168

17. ACCOUNTS PAYABLE TO SUPPLIERS AND CONTRACTORS

	31.12.2017 EUR	31.12.2016 EUR
Settlements with suppliers	2 152 831	2 471 227
Total accounts payable to suppliers and contractors	2 152 831	2 471 227

18. TAXES AND STATE MANDATORY SOCIAL INSURANCE PAYMENTS

(a) Tax payments in Latvia

	Balance 31.12.2017 EUR	Balance 31.12.2016 EUR
Corporate income tax (Notes 7)	(98 276)	5 969
Value added tax	140 787	(29 297)
State mandatory social insurance payments	133 877	184 060
Business risk fee	77	84
Personal income tax	-	43
Total taxes	176 465	160 859

(b) Tax payments in Germany

	Balance 31.12.2017 EUR	Balance 31.12.2016 EUR
State mandatory social insurance payments	(3 254)	-
Personal income tax	4 065	-
Corporate income tax (Notes 7)	(3 693)	-
Value added tax	(15 141)	(8 492)
Total taxes	(18 023)	(8 492)

	EUR	EUR
Total taxes (a), (b)	158 442	152 367
Total	158 442	152 367
including tax liabilities	278 806	190 156
overpaid taxes	(120 364)	(37 789)

19. OTHER CREDITORS

	31.12.2017 EUR	31.12.2016 EUR
Settlements with the pension fund	880	1 023
Other	791	104
Total other creditors	1 671	1 127

20. NEXT PERIOD INCOME

	31.12.2017 EUR	31.12.2016 EUR
Long-term next period income part Security systems maintenance services	-	13 032
Total next period income	-	13 032
	31.12.2017 EUR	31.12.2016 EUR
Short-term next period income part Security systems maintenance services	15 815	19 524
Total next period income	15 815	19 524

21. ACCRUED LIABILITIES

	31.12.2017 EUR	31.12.2016 EUR
Accrued expenses for construction of engineering systems and infrastructure	2 153 091	2 298 037
Accrued bonuses costs for the work results of reporting year	507 338	548 919
Accrued expenses on unused vacations	282 823	288 757
Accrued expenses for termination benefits	-	9 849
Other accrued expenses	-	164 883
Total accrued liabilities	2 943 252	3 310 445

22. TRANSACTIONS WITH RELATED PARTIES

SIA Citrus Solutions, SIA Lattelecom BPO and SIA Lattelecom Technology are 100% subsidiary enterprises of SIA Lattelecom. Furthermore, SIA Lattelecom indirectly owns SIA Lattelecom Technology 100% subsidiary enterprises SIA Baltijas Datoru Akadēmija and SIA Media 360.

Balances of accounts receivable/ payable

	31.12.2017 EUR	31.12.2016 EUR
Related undertaking debts		
<i>Lattelecom</i>	2 659 014	3 065 665
Total related undertaking debts	2 659 014	3 065 665
Debts to related undertakings		
<i>Lattelecom</i>	85 448	341 761
<i>Lattelecom Technology</i>	-	5 051
Loan from <i>Lattelecom</i> , principal amount	2 844 472	3 021 744
Total debts to related undertakings	2 929 920	3 368 556

In the reporting year *Citrus Solutions* used credit line from the parent company *Lattelecom*, which is issued until 30 June 2019 and available in the amount of EUR 4 700 000. At the end of the reporting year, the Company used credit line in amount of 2 844 472 (in 2016 - EUR 3 021 744). The interest rate of credit line is linked to the inter-bank one-month credit interest rate EURIBOR. Assets of *Citrus Solutions* are not pledged as a security for loan and available credit resources.

23. INFORMATION ABOUT ONGOING LONG-TERM PROJECTS

	2017 EUR	2016 EUR
Recognized revenue	10 591 726	11 126 929
Recognized expenses	(7 440 656)	(9 471 783)
Total	3 151 070	1 655 146

During 2018 it is planned to recognize as revenue EUR 4 59 713 for ongoing long-term projects, for which contracts had been signed until December 31, 2017.

23a. INFORMATION ABOUT ONGOING LONG-TERM PROJECTS

	2017 EUR	2016 EUR
Total amount of advance payments received from clients	702 603	616 910
Total	702 603	616 910

24. NUMBER OF EMPLOYEES

	2017	2016
The average number of board members during the reporting year	4	4
The annual average number of other employees	201	243

25. REMUNERATION OF MANAGEMENT

	2017 EUR	2016 EUR
Member of the board:		
- remuneration	305 719	264 831
- State mandatory social insurance payments	72 119	62 473
Total	377 838	327 304

26. CONTINGENT LIABILITIES

Bank guarantees

According to the agreements concluded with AS "Swedbank" and AS "SEB banka" on issuance of guarantees, on 31 December 2017, the Company had received guarantees in the amount of EUR 2 388 379 (in 2016: EUR 1 696 764).

Inventories liabilities

Inventories purchase transactions for which contracts have been signed but the actual performance has not been performed and liabilities have not been included in the financial statements, are as follow:

	2017 EUR	2016 EUR
Liabilities for materials and raw materials	108 046	136 259
Total	108 046	136 259

28. FINANCIAL RISK MANAGEMENT

Management of financial risks in relation to the Company's liquidity, currency and interest rate fluctuations and credit risk of the transaction partners in the *Lattelecom* group companies is centralized.

Financing and liquidity risk

The group's cash management policy anticipates provision of sufficient liquidity of the group's companies, as well as their ability to finance their operations without any financing limits. According to the group's policy, allocation of the necessary financing to *Citrus Solutions* is organized by the parent company *Lattelecom*. The Company has access to the credit line provided by *Lattelecom* in the amount of EUR 4.7 million until 30 June 2019. In addition, in 2017 the Company received a loan of EUR 800 000 for long-term financial investments until 30 June 2022. In 2017 this loan was not used.

Currency risk

The group's policy is to limit the net currency fluctuation risk as to the all known and expected

transactions in foreign currency.

The euro is the dominant currency in the settlements with foreign business partners.

Cash in foreign currencies was accumulated for the limitation of currency exchange fluctuations regarding with anticipated transactions.

Interest rate risk

Considering that *Citrus Solutions* loan from parent company has a floating interest rate that is defined for 1 month period, the Company is exposed to interest rate fluctuations risk. Interest rate risk hedging measures in the group are implemented centrally, assessing the interest rate risk impact on the group's financial indicators.

Credit risk

Financial instruments that potentially expose the Company to a certain level of credit risk concentration primarily represent accounts receivables and cash in bank. The Company's policy ensures that goods and services are sold to clients with appropriate credit history. Accounts receivables are shown after deducting the value of doubtful debts. According to the group's cash management policy, the Company's partners in derivative financial instruments and cash transactions are financial institutions with appropriate credit reputation. The parent company is strictly monitoring and limiting the credit risk that is allowed for the group companies with each separate financial institution.

Fair value

The book value of financial assets and liabilities, which term is less than one year, approximately corresponds with their fair value. For the debt liabilities for which interest payments have to be made, market interest rates are applied and it is considered that the book value of these liabilities comply with their fair value.

29. EVENTS AFTER THE END OF REPORTING YEAR

In the period since the last day of the reporting year there have been no events that would significantly influence the Company's financial state on 31 December 2017.

On behalf of the Board

Chair of the Board _____ / Jūlija Grinberga /

Outsourcing accountant _____ / Ilvija Gredzena /

Riga, 29 January 2018

/Logo of EY. Building a better working world/

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INDEPENDENT AUDITORS' REPORT

To the shareholders of SIA Citrus Solutions

Opinion

We have audited the accompanying financial statements of SIA *Citrus Solutions* (the Company) set out on pages 7 to 25 of the accompanying consolidated annual report, which comprise the consolidated statement of the financial position as at 31 December 2017 and consolidated statement of profit and loss, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the financial position of SIA *Citrus Solutions* as at 31 December 2017 and of its financial performance and its cash flows for the year then ended in accordance with the Law On the Annual Financial Statements and Consolidated Financial Statements of the Republic of Latvia.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated 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) together with the independence requirements included in the Law on Audit Services of the Republic of Latvia that are relevant to our audit of the consolidated financial statements in the Republic of Latvia. We have fulfilled our other ethical responsibilities in accordance with the Law on Audit Services of the Republic of Latvia and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information included in the Company's Annual Report 2017

Other information consists of the Management Report as set out on pages 4 to 6 of the accompanying annual report, but does not include the financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, except as described in the *Other reporting responsibilities in accordance with the legislation of the Republic of Latvia* section of our report.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed and in light of the knowledge and understanding of the Company 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

We have other reporting responsibilities in accordance with the Law on Audit Services of the Republic of Latvia with respect to the Management Report. These additional reporting responsibilities are beyond those required under the ISAs.

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

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

- information given in the Management Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Management Report has been prepared in accordance with the requirements of the Law on Annual Reports and Consolidated Annual Reports of the Republic of Latvia.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Law on Annual Reports and Consolidated Annual Reports of the Republic of Latvia, and for such internal control as management determined 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 responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 in 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 the 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 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.

Ernst & Young Baltic SIA
License No. 17

/signed/

Diana Krisjane (Diāna Krišjāne)
Chair of the Board
Latvian Certified Auditor
Certificate No. 124

Riga, 29 January 2018