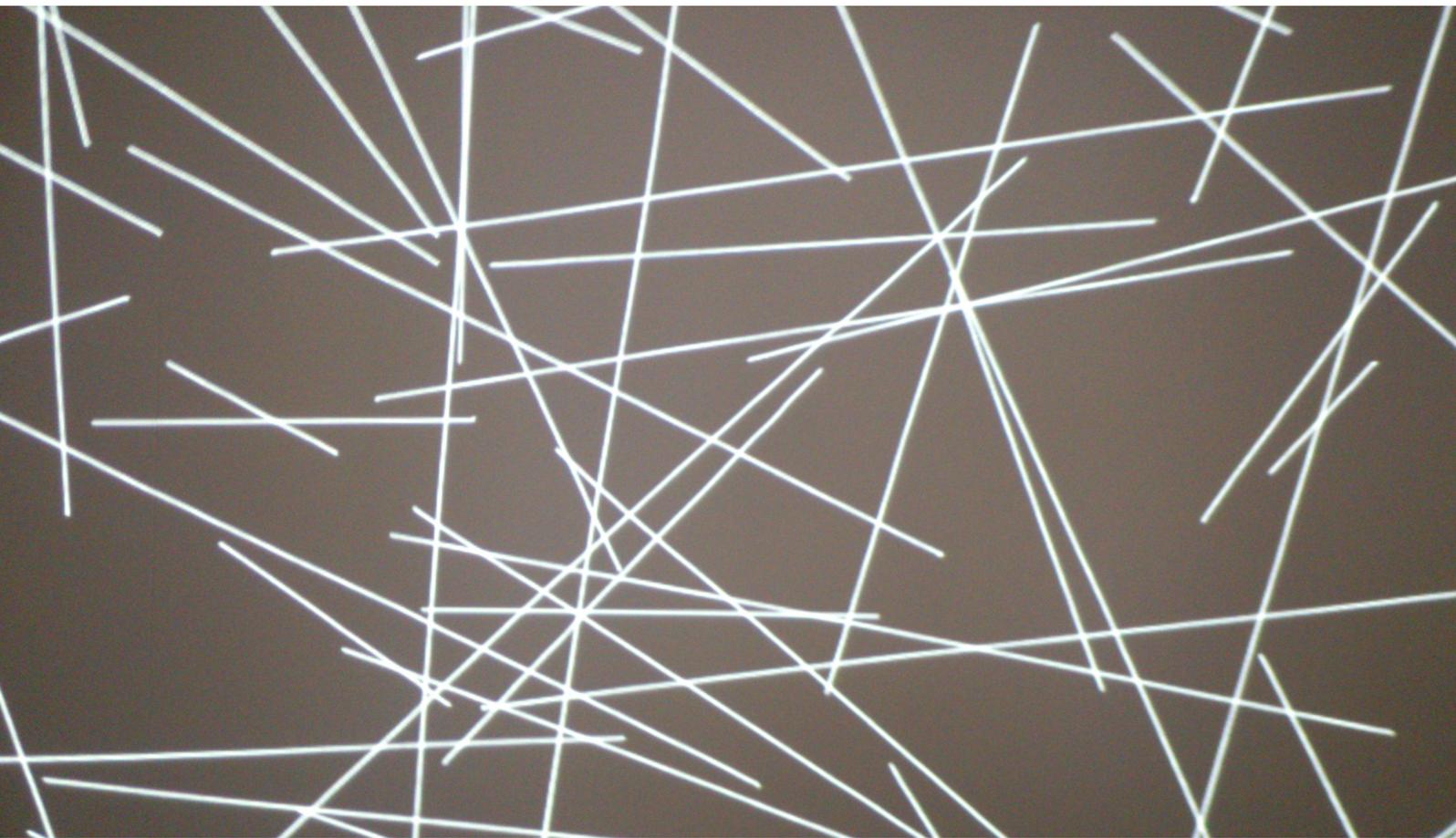


Transparency Report

For the year ended 30 September 2019



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Foreword

This transparency report, as prior two ones, has been prepared voluntarily and is our eight report of such kind. Reports from 2011 to 2016 were prepared in accordance with the clause 33.1 of Audit Services Act of the Republic of Latvia.

As we currently do not perform audits of public interest entities and hence are not under obligation to issue transparency report, nevertheless we choose to prepare one to articulate that relevance and importance of audits is not conditional upon certain attributes and audit is not a commodity. Auditors organise and execute their work differently. We prefer to perform thorough and client centred audits. In this report we describe benefits of such approach.

This transparency report describes policies and procedures which are effective as at 30 September 2019.

Riga, 15 January 2020

Edvards Merhels
Managing partner



Non-financial information

Value proposition

We offer personal and technically sound services at fees competitive with those of Big 4. It is very important that our work is useful and meaningful.

For audit services this means that:

- we undertake engagements where there is real demand, for example, a bank wants to obtain comfort that numbers reported by a borrower are accurate
- we apply lower materiality thresholds in comparison with peers, thus digging deeper into issues
- we keep our teams experienced, which facilitates more productive dialogue between the client and auditors
- clients have direct access to audit partner, which facilitates quick decision-making process
- we take a close look at tax issues.

We do not perceive audit as a commodity. On the contrary, we perceive each engagement as unique and requiring bespoke approach. Thus, our offering is targeted at organisations who look for indeed thorough audits.

Our approach aims to ensure that:

- clients issue high quality financial statements and users of these statements can rely on our auditors' reports
- client's total audit costs are lower than our audit fees, for example, by virtue of tax savings or process improvements stemming from our audit work.

Our value proposition is suitable to organisations who value thorough audits and positive process experience.

Legal structure and ownership

Merhels Revidenti Konsultanti SIA (hereafter Merhels or the Firm) is a limited liability company incorporated in 1998 under the laws of the Republic of Latvia. The Firm is licensed by the Latvian Association of Certified Auditors (LACA) to carry on with the audit business.

The Firm's ownership structure is as follows:

- 45% of shares are held by Edvards Merhels
- 30% of shares are held by Dace Merhele
- 25% of shares are held by Marija Smirnova.

Edvards Merhels and Dace Merhele are Latvian certified auditors. All shareholders are members of the Firm's Board.

Governance and management

The Firm's daily activities are managed by the Board. Service lines are managed by service lines leaders:

- Audit and advisory services - by Edvards Merhels, simultaneously the managing partner
- Tax advisory services - by Dace Merhele, senior partner
- Financial outsourcing and tax compliance services - by Marija Smirnova, financial outsourcing partner.

Quality control

Our quality control system rests upon the set of standards issued by the International Federation of Accountants (ISQC 1, ISA 220, Code of Ethics). However, what truly makes the difference is our excellence focused mindset and attitude to detail.

International affiliation

During the period from 2004 until 2015 Merhels has been affiliated with international mid-tier audit networks Grant Thornton International and RSM International. Starting from 2015 the Firm is affiliated with business advisory network CBA Cross Border Associates.

External monitoring

The Firm is obliged to submit itself to an inspection of its audit practice by the LACA. Such inspections as a minimum are carried out once in 6 years. The inspection process includes high level evaluation of policies and procedures applicable to the firm's audit practice. The inspection team reviews select financial statements, audit reports and engagement files. The inspection team also interviews partners in-charge for select audit engagements. Upon completion of work inspectors may attribute the following grades to a firm:

- A - no significant issues noted or up to 5 insignificant issues noted
- B – one significant and up to 9 insignificant issues noted or up to 12 insignificant issues noted
- C – 2 or more significant issues noted or one significant and more than 9 insignificant issues noted.

The Firm has been subject to LACA's inspections in 2008, 2013 and 2019. In all cases the Firm was assigned grade "A".

Independence practices

Merhels is committed to ensuring that its independence policies and procedures are robust and provide clients and other users of audit reports with confidence that the Firm and their professionals are independent and objective.

Our independence policies and procedures are based on the IFAC Code of Ethics. The key elements thereof are:

- providing staff with relevant training
- obtaining annual confirmations from staff as to their independence from audit clients
- maintaining robust client acceptance and reacceptance policies.

Continued professional education

Professional education needs are determined by means of self-assessments, appraisals performed by the Firm's leadership team and monitoring changes in regulations which affect our operations. Education needs are addressed via structured, unstructured and on the job training. The Firm requires that staff documents learning activities.

Our people hold such professional qualifications as:

- LCA: Latvian Certified Auditor
- FCCA: Fellow of Association of Chartered Certified Accountants (UK)
- CIA: Certified Internal Auditor by the Institute of Internal Auditors (USA).

Partner remuneration

Partners are remunerated with reference to their share of the Firm's profits.

Client work experience

During the year ended 30 September 2019 we worked on about 200 projects. These included transaction support, financial outsourcing, business valuation, tax advisory and compliance, fraud investigation, analysis of lost profits and audit work.

Awards

During 2019 'Acquisition International' announced Merhels as the winner of the award 'Best SME Accountancy Firm 2019 - Latvia' and, as part of its Leading Advisers Awards Merhels has been recognised as Leading SME Accountancy, Tax and Business Advisory of the Year, Latvia.

Financial information

Revenues

| | Y/E 30.09.2019 EUR'000 | Y/E 30.09.2018 EUR'000 | Y/E 30.09.2017 EUR'000 |
|-------------------------|---------------------------|---------------------------|---------------------------|
| Accounting | 444 | 369 | 330 |
| Audit | 100 | 85 | 83 |
| Corporate finance | 89 | 68 | 92 |
| Other | 77 | 83 | 52 |
| Total fee income | 710 | 605 | 557 |

Corporate finance primarily consists of financial due diligence and valuation work.

Other services primarily consist of forensic analysis, management advisory, lost profit analysis and internal audit.

Other select information

| | 30.09.2019 | 30.09.2018 | 30.09.2017 |
|--------------------|------------|------------|------------|
| Number of partners | 4 | 4 | 4 |
| Number of staff | 11 | 8 | 8 |

www.merhels.lv