2019

# LIMITED LIABILITY COMPANY IGNITIS LATVIJA SIA ANNUAL REPORT

COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR 2019 PREPARED ACCORDING TO INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EUROPEAN UNION AND INDEPENDENT AUDITOR'S REPORT

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All amounts in EUR thousands unless otherwise stated

# INFORMATION ON THE COMPANY

| | |
|---|---|
| Name of the Company | Ignitis Latvija SIA |
| Legal status of the Company | Limited liability company |
| Registration No, place and date | 40103642991<br>Riga, 28 February 2013 |
| Address | Cēsu iela 31 k-2, Rīga, Latvia, LV-1012 |
| Shareholder | Ignitis UAB (100%) |
| The Board | Kristaps Muzikants – Member of the Board (from 24.10.2019.)<br>Diana Kazakevič – Chairwoman of the Board (till 24.10.2019.)<br>Vidmantas Salietis – Member of the Board (till 24.10.2019.)<br>Tadas Adomaitis – Member of the Board (till 24.10.2019.) |
| Supervisory board | Darius Montvila – Chairperson of the Supervisory Board (from 24.10.2019.)<br>Simona Grinevičiene – Member of the Supervisory Board (from 24.10.2019.)<br>Artūras Bortkevičius – Member of the Supervisory Board (from 24.10.2019.) |
| Reporting year | 1 January – 31 December 2019 |
| Auditor | ERNST & YOUNG BALTIC SIA<br>Certified audit Company licence No. 17<br>Muitas iela 1A, Rīga, Latvija<br>Riga, LV-1010<br>Latvia<br><br>Certified auditor-in-charge<br>Diāna Krišjāne<br>Certificate Nr.124 |

Independent auditor's report

## STATEMENT OF MANAGEMENT'S RESPONSIBILITY

The Board of the Company (hereinafter – the Board) is responsible for preparation of the financial statements.

The financial statements on pages 15 to 31 are prepared in accordance with the accounting records and source documents, and present fairly the financial position of the Company as at 31 December 2019, and the results of its operations and its cash flows for the year then ended.

The financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS) on a going concern basis. Prudent and reasonable judgements and estimates have been made by the Board in the preparation of these financial statements.

The Board is responsible for the maintenance of proper accounting records, safeguarding of the Company's assets, and the prevention and detection of fraud and other irregularities in the Company. They are also responsible for the enforcement of the legislation of the Republic of Latvia.

**Kristaps Muzikants**
Member of the Board

27 April 2020

THIS DOCUMENT IS SIGNED ELECTRONICALLY WITH A SAFE ELECTRONIC SIGNATURE AND CONTAINS A TIME STAMP

# MANAGEMENT REPORT

## Description of the Company's activities and service market

Ignitis Latvija SIA (the Company) is an independent Lithuanian capital electricity and natural gas supplier in Latvian market. The Company's core line of business is the supply of electricity and natural gas, as well as sale of products aimed at increasing energy efficiency and provision of solar panel solutions. Company was established on 28th of February 2013. Company supplies electricity to Latvian business entities since August 2013 and natural gas to Latvian business entities since July 2018. Since 2019 the Company has expanded the business and has started offering energy efficiency and solar panel solutions to Latvian business entities.

The Company's customer base has been increased throughout the years and now has exceeded the 10 percent of Latvian electricity supply market. Aiming to retain the existing customers and attract new ones, alongside with the development and improvement of the customer service, the Company is focusing on the current and new supply related activities in the energy sector, enabling the Company to provide customers with a wide choice of value added solutions and creates the distinctive competitive position for the Company.

## Objective overview of the Company's financial position, performance and development

In 2019 Ignitis Latvija SIA continued the business expansion of the Company by increasing the customer base, expanding the sales channels, adding new services and increasing the team size. The financial year was completed with a total of 9 employees.

Due to the reorganization, structural, organizational changes and rebranding carried out throughout the group, in 2019 the shareholder of the Company (the Parent Company's), Energijos Tiekimas UAB merged with Lietuvos energijos tiekimas UAB, which in September 2019 also led to the change of the Parent Company's name to Ignitis UAB and consequently the Company's name to Ignitis Latvija SIA.

The Company followed the approved strategy and added new business lines by starting to provide products aimed at energy efficiency and solar panel solutions to their existing and potential customers.

In 2019 Ignitis Latvija SIA continued providing natural gas supply to Latvian business entities and increased the portfolio.

The Company continued providing energy market expertise and power portfolio management competences to TET SIA, thus enabling the partner to ensure energy supply to Latvian households. The Company's vision – maximum contribution towards bringing to life the Parent Company's vision of becoming the leading company in electricity trading and supply in the Baltic region. Mission – today we are better than yesterday.

## Description of the Company's exposure to key risks and contingencies

*Economic risk*

The Company's activities expose it to the volatility of electricity price (market risk). Starting from the Company has made a SWAP agreement with Ignitis UAB with the purpose to use derivative financial and physical instruments to manage the market risk.

*Credit risk*

The Company's exposure to credit risk arises from both operating activities (trade receivables and other amounts receivables) and financing activities (cash and cash equivalents).

The Company manages its trade receivable risk in accordance with the Company's policies. Before signing an agreement, credit ability of a potential customer is evaluated.

The Company monitors its trade receivable balances on a regular basis to minimise amount of doubtful debts. The potential impairment of debts is analysed on a regular basis.

*Liquidity risk*

Liquidity risk refers to the Company's inability to meet its short-term financial obligations in defined term.

The Company's management manages the liquidity risk, by making sufficient cash reserves and providing appropriate financing, using credit line, as well as monitors forecasted and actual cash flows and coordinates the term structure of financial assets and liabilities.

The Company performs long-term cash flow forecasting for a year. By this the Company maintains appropriate amount of recourses to provide financing of operating expenses, to settle Company's liabilities and to make necessary investments.

*Interest rate risk*

The interest rate risk is risk to suffer losses from changes in interest rates applied to the Company's assets and liabilities. The Company is exposed to interest rate risk mainly from its short-term borrowing being at variable interest rate.

As the credit line has been provided by the Parent Company, the Company does not use derivative financial instruments to manage the interest rate risk.

*Foreign exchange risk*

Purchase/sale contracts of the Company are denominated in the euro currency; therefore the Company is not exposed to foreign exchange risk.

## Analysis of financial and non-financial performance

In 2019, the Company supplied 832.15 GWh of electricity and 11.44 GWh of natural gas, as a result of an active sales activities. Also, two energy efficiency (ESCO) projects have been finalized during 2019. Due to significant changes in market conditions in year 2018, the average price of sold MWh increased, which led to revenue increase from EUR 34 736 thousand to EUR 43 849 thousand. Activities generated EUR 733 thousand in net losses (2018: net loss of EUR 4 193 thousand). Company experienced losses due to the historically signed contracts with lower contracted prices and lack of risk minimizing tools in place at the contract signing date, which has been fixed since year 2019.

| Financial indicators, in thousands EUR | 2019 | 2018 | Change | |
|---|---|---|---|---|
| Sales | 43 849 | 34 736 | 9 113 | 26.24 % |
| EBITDA | -728 | -4 162 | 3 434 | 82.51 % |
| Net profit | -734 | -4 193 | 3 459 | 82.49 % |
| Assets | 11 998 | 15 133 | -3 135 | -20.94 % |
| Shareholders' equity | 535 | 1 269 | -734 | -59.19 % |
| Liabilities | 11 462 | 13 864 | -2 402 | -17.33 % |
| Borrowings | 7 700 | 11 000 | -3 300 | -30.00 % |

## Information on environmental and personnel-related issues

The Company's activities comply with the requirements stipulated by the relevant environmental laws.

The system on a variable remuneration and performance assessment was used in the Company's activities in 2019. The remuneration of the Company's employees consists of a fixed and variable components. A fixed component of the remuneration is established based on the position held and the competence of the employee. A variable component of the remuneration is paid for measurable performance results, i.e. with respect to each position for the achievement of set objectives.

On the 31st of December 2019, the Company employed nine employees. In comparison, on 31st of December 2018, the Company employed seven employees (incl. one on a parental leave).

## References to or additional explanations of data presented in the annual financial statements

All financial data presented in this annual report is calculated in accordance with the International Financial Reporting Standards and is consistent with the Company's audited financial statements.

## Information on own shares acquired or held by the Company, the number and nominal value of shares acquired or disposed over the reporting period, and the percentage of authorised share capital they represent, information on payment for own shares, provided these shares were acquired or disposed of in exchange for a consideration

The Company did not hold its own shares at the beginning of the reporting period and did not acquire any of its own shares during the reporting period.

## Information about the Company's branches and representative offices

The Company had no branches or representative offices during the reporting period.

## The Company's management bodies

In accordance with the Company's Articles of Association, Company's management is carried out by the Management and Supervisory boards.

The Management Board is the executive institution of the Company, which manages and represents the Company. The Supervisory Board is the supervisory institution of the company, which represents the interests of the shareholder – Parent Company during the time periods between the meetings of shareholder and supervises the activities of the Management Board within the scope specified in the Commercial Law and the Articles of Association. The competencies of the Management and Supervisory boards, the procedure of decision-making, election and removal of its members are established by the Commercial law and Articles of Association.

Members of the Management Board and Supervisory Board as of 31 Dec 2019:

| Name | Position | from | to |
|---|---|---|---|
| Kristaps Muzikants | Member of the Management Board | 2019-10-24 | present |
| Darius Montvila | Chairperson of the Supervisory Board | 2019-10-24 | present |
| Simona Grinevičienė | Member of the Supervisory Board | 2019-10-24 | present |
| Artūras Bortkevičius | Member of the Supervisory Board | 2019-10-24 | present |

## Information on the auditor

The Company's auditor – Ernst&Young Baltic SIA, Certified audit Company licence No.17, Muitas iela 1a, Riga, Latvia, LV-1010.

## Significant events after the end of the reporting financial year

After the end of the financial year, in March 2020, restrictions related to the spread of the coronavirus have entered into force in the Republic of Latvia and many other countries, which significantly reduce the economic development in the country and in the world. It is not expected how the situation will develop in the future, and therefore there is uncertainty about economic development. The company's management constantly evaluates the situation. The Company has currently assessed the potential financial impact due to the aforementioned global and local situation, which may directly and indirectly affect the Company's operations, and anticipates the impact on cash flow due to delayed customer payments, as well as a possible decrease in consumption. The Company's management believes that the Company will be able to overcome the emergency situation. However, this conclusion is based on the information available at the time of signing these financial statements and the impact of future events on the Company's future operations may differ from the management's assessment.

## The Company's operation plans and prospects

In 2020, the Company plans to increase activities related with energy efficiency and solar power plant solutions, as well as increase of the sales of electricity and natural gas.

## Information about the Company's research and development activities

In 2019, the Company had no research and development activities.

## Financial instruments used

Starting from 2019 the Company has signed a SWAP agreement with Ignitis UAB with the purpose to use derivative financial and physical instruments to manage the market risk.

# STATEMENT OF FINANCIAL POSITION

| | Note | At 31 December 2019 | At 31 December 2018 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 4 | 113.789 | 3.510 |
| Other loans and receivables | | 193.129 | - |
| **Total non-current assets** | | **306.918** | **3.510** |
| **Current assets** | | | |
| Trade and other receivables | 5 | 7.603.141 | 12.594.194 |
| Corporate income tax | | - | 11.330 |
| Cash and cash equivalents | 6 | 4.087.519 | 2.523.898 |
| **Total current assets** | | **11.690.660** | **15.129.422** |
| **TOTAL ASSETS** | | **11.997.578** | **15.131.931** |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share capital | 7 | 5.500.000 | 5.500.000 |
| Retained earnings | | (4.964.830) | (4.231.153) |
| **Total equity** | | **535.170** | **1.268.847** |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Borrowings | 8 | 7.700.000 | 11.000.000 |
| Trade and other payables | 9 | 3.762.408 | 2.864.085 |
| **Total current liabilities** | | **11.462.408** | **13.864.085** |
| **Total liabilities** | | **11.462.408** | **13.864.085** |
| **TOTAL EQUITY AND LIABILITIES** | | **11.997.578** | **15.131.932** |

*The accompanying notes on pages 15 to 31 form an integral part of these financial statements.*

# STATEMENT OF PROFIT AND LOSS AND COMPREHENSIVE INCOME

| | Note | 2019 | 2018 |
|---|---|---|---|
| **Revenue and other income** | | | |
| Revenue from contracts with customers | 10 | 43 849 065 | 34 735 642 |
| Other income | | 46.815 | - |
| | | **43 895 880** | **34 735 642** |
| **Operating expenses** | | | |
| Purchases of electricity, gas and related services | 11 | (43 856 700) | (38 534 662) |
| Selling expenses | 12 | (336.894) | (125.868) |
| Administrative expenses | 13 | (289.696) | (180.477) |
| Other operating expenses | | (103.824) | (58.621) |
| **Total operating expenses** | | **(44 587 114)** | **(38 899 628)** |
| **Operating profit/ (loss)** | | **(691.234)** | **(4.163.986)** |
| **Finance costs** | 14 | **(42.429)** | **(29.498)** |
| **Profit/ (loss) before income tax** | | **(733.663)** | **(4.193.484)** |
| Income tax | | (14) | |
| **Net profit/ (loss) for the year** | | **(733.677)** | **(4.193.484)** |
| **Other comprehensive income/(expenses) for the year** | | - | - |
| **Total comprehensive income/(loss) for the year** | | **(733.677)** | **(4.193.484)** |

*The accompanying notes on pages 15 to 31 form an integral part of these financial statements.*

# STATEMENT OF CHANGES IN EQUITY

| | Share capital | Retained earnings | Total |
|---|---|---|---|
| **Balance at 1 January 2018** | **500.000** | **(37.669)** | **462.331** |
| Increase of share capital | 5.000.000 | - | 5.000.000 |
| Comprehensive loss for the year | - | (4.193.484) | (4.193.484) |
| **Balance at 31 December 2018** | **5.500.000** | **(4.231.153)** | **1.268.847** |
| **Balance at 1 January 2019** | **5.500.000** | **(4.231.153)** | **1.268.847** |
| Increase of share capital | - | - | - |
| Comprehensive loss for the year | - | (733.677) | (733.677) |
| **Balance at 31 December 2019** | **5.500.000** | **(4.964.830)** | **535.170** |

*The accompanying notes on pages 15 to 31 form an integral part of these financial statements.*

## STATEMENT OF CASH FLOWS

| | Note | 2019 | 2018 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Loss before tax | | (733.663) | (4.193.484) |
| **Adjustments:** | | | |
| Depreciation of property, plant and equipment | 4 | 9.587 | 2.293 |
| Interest expenses | 14 | 42.429 | 29.498 |
| | | (681.647) | (4.161.693) |
| **Change in operating assets and liabilities:** | | | |
| Decrease / (Increase) in receivables | | 4.797.924 | (5.304.389) |
| Decrease in other current assets | | 11 330 | |
| Increase in payables | | 898.323 | 641.906 |
| Cash flows from operating activities | | 5.707.577 | (8.824.176) |
| Corporate income tax paid | | (14) | - |
| **Net cash outflow from operating activities** | | **5.025.916** | **(8.824.176)** |
| **Cash flows from investing activities** | | | |
| Payments for property, plant and equipment | 4 | (119.866) | (2.048) |
| **Net cash outflow from investing activities** | | **(119.866)** | **(2.048)** |
| **Cash flows from financing activities** | | | |
| Net change in credit line balance | | (3.300.000) | 6.850.000 |
| Interest paid | | (42.429) | (29.498) |
| Proceeds from issuance of shares | | - | 2.000.000 |
| **Net cash inflow from financing activities** | | **(3.342.429)** | **8.820.502** |
| **Net (decrease)/increase in cash and cash equivalents** | | **1.563.621** | **(5.722)** |
| Cash and cash equivalents at the beginning of the financial year | 7 | 2.523.898 | 2.529.620 |
| **Cash and cash equivalents at end of year** | 7 | **4.087.519** | **2.523.898** |

*The accompanying notes on pages 15 to 31 form an integral part of these financial statements.*

# NOTES TO THE FINANCIAL STATEMENTS

## 1 General information

| | |
|---|---|
| Company name: | Ignitis Latvija SIA |
| Legal form: | Limited liability company |
| Registered capital: | EUR 5 500,000 |
| Date of registration: | 28 February 2013 |
| Place of registration: | Commercial register |
| Company code: | 40103642991 |
| Address of the registered office: | Cēsu 31 k-2, Rīga, Latvia, LV-1012 |
| Address for correspondence: | Cēsu 31 k-2, Rīga, Latvia, LV-1012 |
| Company's register: | The Register of Enterprises of the Republic of Latvia |
| Telephone: | +371 2 000 50 95 |
| E-mail: | info@ignitis.lv |
| Website: | http://www.ignitis.lv/ |

The Company has received the electricity and gas trader's licences. The Company's core line of business is independent supply of electricity, including supply, scheduling, forecasting, balancing, purchasing and sales of balancing energy, trade intermediation, import, export of electricity, and other activities directly related thereto not prohibited by laws. The Company started to supply electrical power in August 2013 and natural gas to Latvian business entities since July 2018, first energy efficiency projects have been completed in 2019.

The ultimate beneficial owner is Republic of Lithuania.

The Company's financial year coincides with a calendar year. The shareholders of the Company have a statutory right to approve these financial statements or not to approve and to require preparation of a new set of the financial statements.

## 2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below.

### 2.1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and they are based on the historical cost convention, except as disclosed in the accounting policies below. Such accounting policies are constantly used for all periods in the report unless otherwise marked. Statement of cash flows has been prepared by presenting operating cash flows using the indirect method. Statement of profit or loss is being presenting showing analysis of expenses by function.

These financial statements are presented in the official currency of Republic of Latvia - the euro (EUR), which is the Company's functional and presentation currency.

Financial Statements cover the reporting period from 1 January 2019 to 31 December 2019 and comparative information for the year ended 31 December 2018.

There are no other new or revised standards or interpretations that are effective for the first time for the financial year beginning on or after 1 January 2019 that would be expected to have a material impact to the company, except for the effect of new standards presented below.

### 2.2 Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Ignitis Latvija, SIA as of 1 January 2019:

**IFRS 16, Leases** (effective for annual periods beginning on or after 1 January 2019).

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize most leases on the balance sheet. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Company is the lessor.

(a) Company as a lessee

**Policy applicable before 1 January 2019**

The Company as a lessee classified leases that transfer substantially all of the risks and rewards of ownership as finance leases and all other leases as operating leases. In case of finance leases, upon initial recognition the leased assets were measured at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequently, the assets were accounted for in accordance with the accounting policy applicable to that asset. Assets held under operating leases were not recognized in the Companies' statement of financial position. Instead, payments made under such leases were recognized in profit or loss on a straight-line basis over the term of the lease.

**Policy applicable from 1 January 2019**

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.
Management has made an assessmet of the effect of the standard and considers it has no significant effect on financial statements of the Company.

## IFRS 15: Revenue from contracts with customers (netting distribution and transmission revenues and costs of sales)

Public service obligations (PSO) and electricity transfer funds are an integral part of the electricity tariff to the consumer. The Company collects the PSO and electricity transfer funds from electricity customers. Collected PSO and electricity transfer funds are transferred to Sadales tikls AS, which then transfers PSO funds to the PSO fund administrator. The PSO funds are used to support and promote local production from renewable energy sources, to secure reserves of the electricity system at designated power plants ensuring system reserves and the state's energy security, as well as to provide other services related to public interest. The list of services supported by the PSO is determined by the Government of the Republic of Latvia. AS Enerģijas publiskais tirgotājs (EPT) is responsible for operation of electricity distribution system and thus electricity transfer service.
The provision of electricity as a whole, including electricity transfer and PSO was treated as one performance obligation (neither PSO nor transfer components cannot be separated) having considered that customer cannot benefit alone from electricity without transfer or PSO component and vice versa.

All users of natural gas transmission system (including the end users) are required to pay additional transmission fee together with other fees payable for natural gas. The payments are collected by the transmission system operator (hereinafter "the TSO") directly from the customers or from natural gas suppliers in case the customers have no direct contracts with the TSO. Ignitis Latvija, SIA acts as a natural gas supplier that collects the transmission component from customers.

Transmission feecollected from customers was recognised by the Company in the Statement of Profit or Loss and Other Comprehensive Income under the caption "Revenue", and after transfer of these funds to the TSO, under the caption "Expense".

In the course of its gas trading activities, the Company also collects funds from customers for the gas distribution service and transfers these funds to the gas distribution system operator. The Company recognised these funds in the Statement of Profit or Loss and Other Comprehensive Income under the caption "Revenue", and after transfer of these funds to the operator, under the caption "Expense".

During 2019, the Company changed the method of accounting for the PSO, electricity transfer and natural gas transmission and distribution service by treating the Company as an Agent. Such decision has been taken after extensive analysis of relevant industry practice and taking into consideration the facts, that the Company is not responsible for the PSO projects/initiatives and development and maintenance of electricity or natural gas distribution system, accordingly not responsible that the PSO and electricitytransfer, natural gas transmission and distribution funds are used for their intended purpose. Moreover, the Company is not exposed to any inventory risk, as well as the Company has no legal power to establish pricing of the PSO and electricity transfer, natural gas transmission and distribution service.

A change in accounting treatment allows a better comparison of the Company's performance with that of similar entities (especially when the PSO, electricity transfer and natural gas transmission and distribution are excluded from the tariff). This change in accounting treatment is applied retrospectively with corrections in comparative information presented in the table below.

| | 31.12.2018 before change, EUR | Change EUR, | 31.12.2018 after change, EUR |
|---|---|---|---|
| Total Revenue | 40 886 038 | (6 150 396) | 34 735 642 |
| Purchase of electricity, gas and related services | (44 685 058) | 6 150 396 | (38 534 662) |
| **Operating profit/(loss)** | **(3 799 020)** | **0** | **(3 799 020)** |

The change in accounting treatment did not affect the Company's Statement of Financial Position, statements of cash flows and changes in equity for the year ended 31 December 2018.

## IFRS 9: Prepayment features with negative compensation (Amendment)

The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortized cost or at fair value through other comprehensive income. Management has made an assessment of the effect of the standard and considers amendment has no significant effect on financial statements of the Company.

## IAS 28: Long-term Interests in Associates and Joint Ventures (Amendments)

The Amendments relate to whether the measurement, in particular impairment requirements, of long- term interests in associates and joint ventures that, in substance, form part of the 'net investment' in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The Amendments clarify that an entity applies IFRS 9 Financial Instruments, before it applies IAS 28, to such long-term interests for which the equity method is not applied. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long- term interests that arise from applying IAS 28. Management has made an assessment of the effect of the standard and considers amendment has no significant effect on financial statements of the Company.

## IFRIC INTERPETATION 23: Uncertainty over Income Tax Treatments

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. Management has made an assessment of the effect of the standard and considers amendment has no significant effect on financial statements of the Company.

### IAS 19: Plan Amendment, Curtailment or Settlement (Amendments)

The Amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The Amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements. Management has made an assessment of the effect of the standard and considers amendment has no significant effect on financial statements of the Company.

**The IASB has issued the Annual Improvements to IFRSs 2015 – 2017 Cycle, which is a collection of amendments to IFRSs.** Management has made an assessment of the effect of the standard and considers amendment has no significant effect on financial statements of the Company.

- IFRS 3 Business Combinations and IFRS 11 Joint Arrangements: The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
- IAS 12 Income Taxes: The amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits has been recognized.
- IAS 23 Borrowing Costs: The amendments clarify paragraph 14 of the standard that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally.

*Standards issued but not yet effective and not early adopted*

- **Conceptual Framework in IFRS standards**

  The IASB issued the revised Conceptual Framework for Financial Reporting on 29 March 2018. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. IASB also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. Its objective is to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020.

- **IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of 'material' (Amendments)**

  The Amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The Amendments clarify the definition of material and how it should be applied. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'. In addition, the explanations accompanying the definition have been improved. The Amendments also ensure that the definition of material is consistent across all IFRS Standards. These Amendments have not yet been endorsed by the EU. At the moment Management is assessing the effect of new standard amendment on financial statements of the Company.

- **Interest Rate Benchmark Reform - IFRS 9, IAS 39 and IFRS 7 (Amendments)**

  The amendments are effective for annual periods beginning on or after 1 January 2020 and must be applied retrospectively. Earlier application is permitted. In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7, which concludes phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. Phase two will focus on issues that could affect financial reporting when an existing interest rate benchmark is replaced with a risk-free interest rate (an RFR). The amendments published, deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate and address the implications for specific hedge accounting requirements in IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement, which require forward-looking analysis. The amendments provided temporary reliefs, applicable to all hedging relationships that are directly affected by the interest rate benchmark reform, which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate. There are also amendments to IFRS 7 Financial Instruments: Disclosures regarding additional disclosures around uncertainty arising from the interest rate benchmark reform.

- **IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)**

  The amendments are effective for annual reporting periods beginning on or after January 1, 2022 with earlier application permitted. The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current or non-current. The amendments affect the presentation of liabilities in the statement of financial position and do not change existing requirements around measurement or timing of recognition of any asset, liability, income or expenses, nor the information that entities disclose about those items. Also, the amendments clarify the classification requirements for debt which may be settled by the company issuing own equity instruments.

The management of the Company does not believe that other new and amended standards and their interpretations which the Company is required to apply from 1 January 2019 will have a material effect on financial statements of the Company.

## 2.3 Foreign currency translation

The Company's functional currency is euro which is also considered as the presentation currency for the purpose of these financial statements; all other currencies are considered as foreign currencies. The financial statements have been prepared in euro (EUR).

Foreign currency transactions are recorded in euros, according to the foreign currency exchange rates of the European Central Bank prevailing at the transaction date. Monetary assets and liabilities denominated in a foreign currency are translated into euros based on the foreign currency exchange rates of European Central Bank prevailing at the transaction date. Gains and losses from translation of monetary assets and liabilities related to operating activities and from translation of monetary assets and liabilities related to investing and financing activities are recorded in the statement of income in the line "Financial income / financial costs".

## 2.4 Property, plant and equipment

Property, plant and equipment items are recorded at historical cost net of accumulated depreciation and accumulated impairment losses, if such are deemed necessary.

Historical cost includes expenditure that is directly attributable to the acquisition of the fixed assets. The costs of self-constructed fixed assets consist of purchase price and other direct expenditures, as well as all ancillary charges related to its implementation in use, costs incurred in demolishing or rearranging existing assets and modernization of assets' location place. The costs of software licences that are inseparable from the equipment and ensure its proper functioning are capitalized as part of equipment.

If fixed assets are comprised of major components having different useful lives, they are accounted for as separate items of fixed assets. The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively, if appropriate.

Subsequent costs are included in the asset's carrying amount or recognised as separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. Other repairs and maintenance are charged to the income statement during the period in which they are incurred.

Gains or losses on disposals are determined by comparing carrying amount with proceeds and are charged to the income statements in the period in which they are incurred.

Where the carrying amount of fixed asset exceeds its estimated recoverable amount, it is written down immediately to its recoverable amount.

**Depreciation**

Depreciation of fixed assets is calculated using the straight-line method. Depreciation is charged to the income statement.

Depreciation is calculated for each class of assets using their residual values by applying the depreciation rates specified for each asset category:

| Asset category | Depreciation rate |
|---|---|
| Other fixed assets | 6 - 20% |

## 2.5 Impairment of tangible assets

There is defined estimated useful life for each tangible asset. Value of assets, that are depreciated, is assessed for whether or not there are indications that an asset may be impaired.

The impairment loss is the difference between the book value of the asset and its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. To evaluate for impairment, the assets are grouped at the lowest level for which there are identifiable cash flow (cash generating units). If an asset is impaired, the Company writes it down to its recoverable amount and recognises an impairment loss in the consolidated statement of comprehensive income.

For assets previously impaired an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years.

## 2.6 Financial assets

The Company recognises a financial asset in its statement of financial position when, and only when, it becomes party to the contractual provisions of the instrument. The purchase or sale of financial assets is recognised using trade date accounting.

Financial assets are initially measured at fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of a financial asset.

Transaction costs comprise all charges and commission that the Company would not have paid if it had not entered into an agreement on the financial instrument.

Following the adoption of IFRS 9 *Financial instruments* from 1 January 2018, the Company classify their financial assets into the following three new categories:

(i) financial assets subsequently measured at amortised cost;

(ii) financial assets subsequently measured at fair value through other comprehensive income; and
(iii) financial assets subsequently measured at fair value through profit or loss.

Subsequent to initial recognition, financial assets are classified into the afore-mentioned categories based on the business model the Company applies when managing its financial assets and characteristics of cash flows from these assets. The business model applied to the group of financial assets is determined at a level that reflects how all groups of financial assets are managed together to achieve a particular business objective of the Company. The intentions of the Company's management regarding separate instruments has no effect on the applied business model. The Company may apply more than one business model to manage its financial assets.

In view of the business model applied for managing the group of financial assets, the accounting for financial assets is as follows:

*Financial assets measured at amortised cost*

Loans granted by the Company, amounts receivable, and cash and cash equivalents are accounted for under the business model the purpose of which is to hold financial assets in order to collect contractual cash flows that can contain cash flows related to the payment of the principal amount and interest inflows. These assets are stated at amortised cost using the effective interest method. Amortised cost is the amount at which the financial instrument was recognised at initial recognition minus principal repayments, plus accrued interest, and, for financial assets, minus any write-down for expected credit losses. Effective interest rate method is a method applied to allocate interest income over the relevant period so as to achieve a constant periodic rate of interest (effective interest) on the carrying amount. The effective interest rate exactly discounts estimated future cash inflows or outflows (excluding future expected credit losses) to gross carrying amount of the financial instrument over the expected life of the financial instrument or a shorter period, if necessary.

Financial assets are recognised as current assets, except for maturities greater than 12 months after the date of the preparation of the statement of financial position, in which case they are classified as non-current assets.

Assets held in order to collect contractual cash flows that represent solely payments of principal and interest (SPPI) are carried at amortised cost. Interest income calculated on these financial assets is recognised as finance income and amortised using the effective interest rate method. Any gain or loss arising from the write-off of assets is recognised in the statement of profit or loss and other comprehensive income. Impairment losses are accounted for as impairment and write-off expenses in the statement of profit or loss and other comprehensive income.

*Financial assets at fair value through profit or loss*

Debt instruments that do not meet the criteria of financial assets to be measured at amortised cost or financial assets to be measured at fair value through other comprehensive income (FVOCI) are stated as financial assets to be measured at fair value through profit or loss (FVPL).

To this category, the Company attributes amounts receivable from disposal of business or equity instruments that do not meet the SPPI conditions. The Company attributes financial assets to assets measured at fair value through profit or loss, if this eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as "an accounting mismatch") that would otherwise arise from measuring assets or liabilities or recognising gains or losses thereof on different bases. A gain or loss on fair value measurement of debt investment is recognised in profit or loss in the period in which it arises.

*Effective interest method*

The effective interest method is used in the calculation of the amortised cost of a financial asset and in the allocation of the interest revenue in profit or loss over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash inflows through the expected life of the financial asset to the gross carrying amount of the financial asset that shows the amortised cost of the financial asset, before adjusting for any loss allowance. When calculating the effective interest rate, the Company estimates the expected cash flows by considering all the contractual terms of the financial instrument (for example, prepayment, extension, call and similar options) but does not consider the expected credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the Company uses the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

*Impairment of financial assets – expected credit losses*

The Company assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost regardless of whether there are any impairment indicators.

Credit losses incurred by the Company are calculated as the difference between all contractual cash flows that are due to the Company in accordance with the contract and all the cash flows that the Company expects to receive (i.e. all cash shortfalls), discounted at the original effective interest rate. The Company estimates cash flows by considering all contractual terms of the financial instrument through the expected life of that financial instrument, including cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

Expected credit losses are measured in a way that reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; the time value of money; and reasonable and supportable information about past events and current conditions, and reasonable and supportable forecasts of future events and economic conditions at the reporting date.

Lifetime expected credit losses are the expected credit losses that result from all possible default events over the period from the date of initial recognition of a financial asset to the subsequent date of settlement of the financial asset or ultimate write-off of the financial asset.

The Company seeks for lifetime expected credit losses to be recognised before a financial instrument becomes past due. Typically, credit risk increases significantly before a financial instrument becomes past due or other lagging borrower-specific factors (for example, a modification or restructuring) are observed. Consequently when reasonable and supportable information that is more forward-looking than past due information is available without undue cost or effort, it must be used to assess changes in credit risk. Expected credit losses are recognised by taking into consideration individually or collectively assessed credit risk of loans granted and trade receivables. Credit risk is assessed based on all reasonable information, including future-oriented information.

For short-term trade receivables without a significant financing component the Company applies a simplified approach required by IFRS 9 and measures the loss allowance at expected lifetime credit losses from initial recognition of the receivables.
The Company assesses all material amounts receivable individually, and all immaterial amounts collectively.

The Company calculates the allowance for expected losses by assessing the debtor portfolio using the following model:

- By using CrefoScore – an estimate of expected probability of default developed by Creditreform Latvia where every debtor is rated by being assigned to the corresponding credit risk category;
- Each credit risk category has corresponding probability of default;
- Provision is calculated by multiplying the remaining debt with corresponding default probability.

The following provision matrix has been used by the Company for calculating the impairment losses for trade receivables:

| Crefo rating | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|---|---|---|---|---|---|---|---|---|---|---|
| Probability of default | 0,27% | 0,43% | 0,69% | 1,10% | 1,75% | 2,80% | 4,50% | 7,25% | 17% | 100% |

The Company's management decides on the performance of the assessment on an individual basis reflecting the possibility of obtaining information on the credit history of a particular borrower, its financial position as at the date of assessment, including forward-looking information that would allow to timely determine whether there has been a significant increase in the credit risk of that particular borrower, thus enabling making judgment on the recognition of lifetime expected credit losses in respect of that particular borrower. In the absence of reliable sources of information on the credit history of a particular borrower, its financial position as at the date of assessment, including forward-looking information, the Company assesses the debt on a collective basis.

The lifetime expected credit losses of other amounts receivable are assessed based on the individual assessment basis. The Company's management performs the assessment on an individual basis reflecting the possibility of obtaining information on the credit history of a particular borrower, its financial position as at the date of assessment, including forward-looking information that would allow to timely determine whether there has been a significant increase in the credit risk of that particular borrower, thus enabling making judgment on the recognition of lifetime expected credit losses in respect of that particular borrower.

Recognition stages of expected credit losses:

1. Upon granting of a loan or concluding a finance lease agreement, the Company recognises the expected credit losses for the twelve-month period. Interest income from the loan (finance lease) is calculated on the carrying amount of financial assets without adjusting it by the amount of expected credit losses.
2. Upon establishing that the credit risk related to the borrower or lessee has significantly increased, the Company accounts for the lifetime expected credit losses of the loan or finance lease agreement. All lifetime expected credit losses of a financial instruments are calculated only when there is a significant increase in credit risk relating to the borrower. Interest income from loans (finance leases) is calculated on the carrying value of the financial assets, without adjusting it by the amount of expected credit losses.
3. Where the Company establishes that the recovery of the loan is doubtful or that the condition of the lessee shows that the loan of this lessee needs to be classified as doubtful debts, the Company classifies this loan (finance lease receivables) as credit-impaired financial assets (doubtful loans and other receivables). Interest income from the loan (finance lease) is calculated on the carrying amount of financial assets which is reduced by the amount of expected credit losses.

In stage 2, an assessment of the significant deterioration in the borrower's financial situation is performed by comparing the financial situation as at the time of the assessment and the financial situation as at the time of issuing the loan.

The latest point at which the Company recognises all lifetime expected credit losses of the loan granted is identified when the borrower is late to pay a periodic amount or the total debt for more than 30 days. In case of other evidence available, the Company accounts for all lifetime expected credit losses of the loan granted regardless of the more than 30 days past due presumption.

*Credit-impaired financial assets*

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:
a) significant financial difficulty of the borrower;
b) a breach of contract, such as a default or past due event for more than 90 days;
c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
e) the disappearance of an active market for that financial asset because of financial difficulties;
f) the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

The combined effect of several events that may occur simultaneously or subsequently throughout the term of validity of the agreement on the financial assets may have caused financial assets to become credit-impaired.

The lifetime expected credit losses of loans receivable and trade receivables is recognised in profit or loss through the contrary account of doubtful receivables.

*Derecognition of financial assets*

A financial asset (or, where applicable a part of financial asset or group of similar financial assets) is derecognised when:
- the rights to receive cash flows from the asset have expired;
- the right to receive cash flows from the asset is retained, but an obligation is assumed to pay them in full without material delay to a third party under a “pass through” arrangement; or
- the rights to receive cash flows from the asset are transferred and either (a) substantially all the risks and rewards of the asset have been transferred, or (b) substantially all the risks and rewards of the asset have neither been transferred nor retained, but control of the asset has been transferred:
- if control is not retained, the financial asset is derecognised and any rights and obligations created or retained in the transfer are recognised separately as assets or liabilities;
- if control is retained, it shall continue to recognise the financial asset is continued to be recognised to the extent of continuing involvement in the financial asset.

Whether the control of the transferred asset is retained depends on the transferee's ability to sell the asset. If the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer, control is not retained. In all other cases, control is retained.

The Company derecognises loans receivable and trade receivables when it loses the right to receive contractual cash flows from financial assets.

## 2.7 Derivative financial instruments

Derivatives mean financial instruments:
1) value of which changes due to the change in the price of the set interest rate, securities, goods, currency exchange rate, price or tariff index, credit evaluation, credit index or change in other variables (referred to as ‘core variables’);
2) which do not require initial investment, or where the initial investment is negligible;
3) which shall be implemented in the future.

Accounting and information disclosure principles of derivatives differ based on whether they are used for purposes of trading or hedging:
1) Change in the fair value of derivatives used for trading purposes is accounted in the report of profit (loss) and other gross income.
2) Change in the fair value of derivatives used for hedging purposes is accounted in the report of profit (loss) and other gross income or in the portion of equity, depending on what risk is intended to be reduced and to what extent the criteria for efficiency of hedging are met. In order for derivatives to be classified as used for hedging purposes and the hedging to be considered efficient, hedging accounting requirements, indicated in IAS 39 must be met. Should a company not meet the said requirements, derivatives shall be automatically classified as used for trading purposes.

In SWAP transactions the Company undertakes to pay or receive the difference between fixed price and the market price in a given period of time.

The change in value of commodity derivatives was recognised by the Company in the Statement of Profit or Loss and Other Comprehensive Income as ‘Revenue from contracts with customers’ or ‘Purchase of electricity, gas and related services’.

## 2.8 Cash and cash equivalents

Cash and cash equivalents include bank account balances and short-term (with the maturity of three months or less from the contract date) investments that are readily convertible to known amounts of cash and subject to an insignificant risk of change in value.

## 2.9 Financial liabilities and equity instruments issued

*Recognition of instruments as debt or equity instruments*

Debt or equity instruments are classified as financial liabilities or equity based on the substance of the arrangement.

*Equity instruments*

Equity instrument is any contract that evidences an interest in the assets of the Company/Group after deducting all of its liabilities. Equity instruments are recorded at the value of the proceeds received net of direct issue costs. Share premium represent the difference between the nominal value of shares and the proceeds received.

*Financial liabilities*

Liabilities are classified as financial liabilities at fair value through profit or loss, or other financial liabilities.

*Other financial liabilities*

Other financial liabilities, including borrowings and bonds issued at the moment of initial recognition, are recognised at fair value, less transaction costs.

In subsequent periods, other financial liabilities are measured at amortised cost using the effective interest rate method. Interest expenses are recognised using the effective interest method.

Financial liabilities are classified as current liabilities unless the Company/Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

If a financing agreement concluded before the balance sheet date proves that the liability was non-current by its nature as of the date of the balance sheet, that financial liability is classified as non-current.

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time (more than one year) to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets until those assets are completely ready for use or sale. Interest income that relate to temporal investment of borrowed funds until their use for the acquisition of the assets are deducted from the acquisition cost of the assets.

*Derecognition of financial liabilities*

A financial liability is derecognised when the obligation under the liability is settled, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as derecognition of the original liability and the recognition of a new liability. The difference between the respective carrying amounts is recognised in the statement of comprehensive income.

## 2.10 Trade and other payables

Trade and other payables are initially recognised at fair value. After initial recognition financial liabilities are measured at amortised cost using the effective interest rate. If maturity term of liabilities is less than a year, they are classified as short-term creditors. If maturity exceeds one year, liabilities are classified as long-term.

## 2.11 Borrowings

Borrowings are initially recognized as fair value, net of transaction costs. Borrowings are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognised in the income statement when the borrowings are derecognised as well as through the effective interest rate method amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the effective interest rate. The amortisation is included in finance cost in the income statement. Borrowings are classified as short-term liabilities, except, if the Company has the inalienable right to defer settlement for at least 12 months after the balance sheet date. The financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Borrowing costs are expensed in profit or loss as incurred since the Company is not engaged in creation of qualifying assets to which borrowing costs could be attributed.

## 2.12 Accruals for unused annual leave

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

## 2.13 Provisions

Provisions are recognised when: the Company has a present legal or constructive obligation as a result of past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the most accurate recent assessments. When the impact of time value of money is significant, the amount of provision represents the present value of costs expected to be incurred for the settlement of the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as interest expense.

## 2.14 Dividends

Dividend distribution to the Company's shareholders is recognised as a liability in the financial statements the Company in the period in which the dividends are approved by the Company's shareholders.

## 2.15 Employee benefits

The Company pays social security contributions to the State Social Security Fund (the Fund) on behalf of its employees based on the defined contribution plan and tariffs specified by the local laws. A defined contribution is a plan under which the Company pays fixed contributions into the Fund and will have no legal or constructive obligations to pay further contributions if the Fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior period. Social security contributions are recognised as expenses on an accrual basis and included in payroll expenses. Wages and salaries, contributions to the State Social Security Fund, paid annual leave, paid sickness leave are accumulated in the year, in which they are earned by the Company's employees

The Company recognises a liability and an expense for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

## 2.16 Revenue accounting

Revenue is income arising in the course of the Company's ordinary activities.Revenue is measured in the amount of transaction price. Transaction price is the amount of consideration to which the Company expects to be entitled in exchange of transferring control over promised goods or services to a customer, excluding the amounts collected on behalf of third parties. Revenue from contracts with customer is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services.

*Revenue from contracts with customers* shall be recognised, when obligations of the activity are fulfilled or a certain goods or services are transferred. Only increase of the economic benefits of the Company is considered as revenue. Revenue shall be evaluated at the fair value of the receivable for goods or services, excluding value added tax and after deduction of rebates and discounts. Amounts collected on behalf of the third parties shall not be considered as revenue, as it is not an economic benefit of the company and such amounts do not increase the equity capital.

*Revenue from sales of goods or services*
Goods and services shall be considered as sold, when all of the following conditions are met:
- the Company has transferred the risk related with the goods or services sold and the benefits arising from the ownership of such goods or services;
- the Company no longer controls the goods sold;
- it is probable that the economic benefits related with the sales contract will be received and the amount thereof can be reliably measured;
- the costs related with the sales contract can be reliably measured.

In accordance with the principle of comparison, income and expenses related to the same transaction must be recognized in the same reference period. Costs are recognized when they 'earn' respective revenue. However, revenue cannot be recognized unless the costs can be measured reliably. In such circumstances, any amounts already received for the goods sold are recognized as a liability or deferred income.
1) Revenue from the sale of electricity to business customers is recognized when the electricity is supplied on the basis of the actual amount of electricity consumed, which is determined by meter readings.
2) Revenue from sale of natural gas to business customers is recognized on monthly basis based on actual amount of of gas consumed, whicj is determined by meter readings.
3) Revenue and cost of Public service obligation (PSO) and/or distribution, transmission.

The Company collects PSO and/or distribution, transmission funds from consumers on the basis of the tariffs set by Public Utilities Commission of Latvia (Sabiedrisko pakalpojumu regulēšanas komisija – SPRK) and transfers them to PSO/distribution service operators.

*Other revenue*
Other revenue is recognizedin the period in which the services have been provided. Other operating revenue in the Company includes:
1) Revenue from new products and services;
2) Other revenue.

*Revenue from financial and investing activities*
Revenue from financial and investing activities is considered to be an increase in economic benefits related to the financial and investment activities in the company.
The Company has contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. However, the Company does not adjust any of the transaction prices for the time value of money.

Revenue is recognised when it is probable that economic benefits will flow to the Company, and a reliable estimate of the amount can be made. Revenue is measured at the fair value of the consideration received or receivable for the sale of goods or services, net of value added tax and discounts.

*Revenue from interest*
Revenue from interest is recognized using the calculated interest rate method. Revenue from interest received is presented in the cash flow statement as cash flows from investing activities and in the statement of gross income as income from financial activities.

## 2.17 Cost accounting

*Recognition of costs*
Costs are recognized in the accounting of the company on an accrual basis in the reporting period in which the related income is earned, regardless of the time of disbursement.

Costs are recognized only to the extent of costs incurred in prior and current periods that relate to revenue earned during the current period. Costs that are not related to the earning of income in the current period, but are intended to earn income in future periods, are recorded in the accounts and presented as an asset in the statement of financial position.

If the use of a particular asset will generate revenue in some future periods and, as a result, the relationship between revenue and costs can only be estimated approximately, the costs are recognized using indirect recognition methods (such as depreciation and amortization).

Where costs incurred during the reference period cannot be directly related to the earning of specific revenue and those costs will not generate revenue in future reporting periods, such expenses are recognized as costs in the Company for the same period as they were incurred.

Costs of providing services are recognized, accounted for and presented in the financial statements in the same reporting period in which the revenue from the services provided was recognized.

Costs in the company are measured at fair value. Payments are usually made in cash or cash equivalents, so the amount of costs is measured at the amount of cash or cash equivalents paid or payable (excluding recoverable value added tax). However, in some cases, fair value is determined differently. In this case, the fair value of the cost is calculated by discounting the settlement amount at the market interest rate. The difference is recognized as an operating costs.

The costs of providing services include raw materials, supplies, components and other current assets used in the provision of services, labor costs, depreciation (amortization) costs of fixed assets used, services provided by third parties and similar costs.

Costs in the company are subdivided to highlight elements of financial performance that may differ in their frequency, profit or loss potential and predictability. Cost analysis can be presented by nature or by function. The Company has chosen to group and analyze operating costs by nature.

In the Company operating costs are included in the income statement according to their nature and are not reallocated in terms of their use.
Operating cost groups by nature:
1) electricity purchases;

2) gas costs;
3) depreciation and amortization costs;
4) employee benefits and related social security contributions;
5) repair and maintenance costs;
6) transport costs
7) telecommunications and information technology costs;
8) rent and utility costs;
9) other operating costs.

Other operating costs include: write-offs of fixed assets, customer service, staff development, business trips, medical services, consulting services, public relations and marketing, stationery, subscriptions, insurance, inventory services, impairment, taxes and other services.

Financial and investing activity costs include all costs that arise in financing the company's operations and decreases in economic benefits associated with the financial and investing activities.
Financial and investment activity costs within the Company include:
1) negative impact of changes in exchange rate;
2) interest costs;
3) costs of fines and interest on arrears;
4) other financial and investment activity costs.

## 2.18 Corporate income tax

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

On July 28, 2017, a new Corporate Income Tax Law was adopted, which stipulates that from January 1, 2018, the corporate income tax is levied on profit that arose after 2017 if it is distributed or conditionally distributed profit arises.

From taxation year 2018, corporate income tax will be calculated on the basis of distributed profit (20/80 of the net amount payable to shareholders). Corporate tax on distributed profit will be recognized when the shareholders of the Company make a decision about profit distribution.

Due to the nature of the taxation system, the entities registered in Latvia do not have any differences between the tax bases of assets and their carrying amounts and hence, no deferred income tax assets and liabilities arise. A contingent income tax liability which would arise upon the payment of dividends is not recognised in the statement of financial position. The maximum income tax liability which would accompany the distribution of retained earnings is disclosed in the notes to the financial statements.

The Company calculates and pays corporate income tax also for the conditionally distributed profit (20/80 of calculated taxable base), which includes taxable objects in accordance with the Corporate Income Tax law, such as the expenditure not related to economic activity, the doubtful debts of debtors and the loans to the related parties, if they meet criteria provided in the Corporate Income Tax law, as well other expenses exceeding statutory limits for deduction. Corporate income tax for the conditionally distributed profit is recognized in the profit or loss statement in the year for which it is assessed. Corporate income tax for the distributed profit and corporate income tax for the conditionally distributed profit is included in the profit and loss statement line item "Other operating expenses" since it is not based on the taxable profit as per meaning of IAS 12, but rather levied on the gross amount of specified taxable transactions, and, therefore, not in scope of IAS 12.

## 2.19 Related parties

Related parties are defined as shareholders, employees, members of the Board, their close relatives and companies that directly or indirectly (through the intermediary) control the Company or are controlled by, or are under common control with the Company, provided the listed relationship empowers one of the parties to exercise the control or significant influence over the other party in making financial and operating decisions.

## 2.20 Events after the end of the reporting period

Events after the reporting period that provide additional information about the Company's position at the date of the statement of financial position (adjusting events) are reflected in the financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the financial statements when material.

## 2.21 Significant accounting judgments, estimates and assumptions

**Judgements**

In the process of applying the Companies' accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognized in the consolidated financial statements:

**Determining the lease term of contracts with renewal and termination options – Company as lessee**

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Company has several lease contracts that include extension and termination options. The Company applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customization to the leased asset).

**Estimates and assumptions**

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Company based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Copany. Such changes are reflected in the assumptions when they occur.

**Leases - Estimating the incremental borrowing rate**

The Company cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Company 'would have to pay', which requires estimation when no observable rates are or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency).

The Company estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

### 2.22 Financial guarantee contracts

The Company provides financial guarantees in relation to loans or other liabilities of the subsidiaries for compensation, which is recognised in profit and loss on an accrual basis. The financial liability is initially measured at fair value, and subsequently at the higher of the amount determined in accordance with IAS 37, 'Provisions, Contingent Liabilities and Contingent Assets' and the amount initially recognised.

## 3 Financial risk management

The Company is exposed to a variety of financial risks in its operations: market risk (which includes interest rate risk in relation to fair value and cash flows and price risk), credit risk and liquidity risk. In managing these risks the Company seeks to mitigate the effect of factors which could make a negative effect on the financial performance of the Company.

The Company manages financial risk following the policies established at the level of Ignitis UAB Group.

Risk management is carried out by the Board of the Company.

Financial instruments can be presented as follows:

| Loans and receivables | 31.12.2019 | 31.12.2018 |
|---|---|---|
| Trade and other receivables (Note 5) | 7.603.141 | 12.594.194 |
| Cash and cash equivalents (Note 6) | 4.087.519 | 2.523.898 |
| **Total financial assets** | **11.690.660** | **15.118.092** |

| Other financial liabilities | 31.12.2019 | 31.12.2018 |
|---|---|---|
| Borrowings (Note 8) | 7.700.000 | 11.000.000 |
| Trade and other payables (Note 9) | 2.745.935 | 1.923.432 |
| **Total financial liabilities** | **10.445.935** | **12.923.432** |

**Market risk**

*Price risk*
The Company's activities expose it to the risk of change in electricity and gas price (market risk). To manage market risk Company starting from 2019 has made a SWAP agreement with Ignitis UAB with the purpose to use derivative financial and physical instruments.

*Cash flow and fair value interest rate risk*
The interest rate risk is risk to suffer losses from changes in interest rates applied to the Company's assets and liabilities. The Company is exposed to interest rate risk mainly from its short-term borrowing being at variable interest rate. As the credit line has been provided by the Parent company, the Company does not use derivative financial instruments to manage the interest rate risk.

*Foreign exchange risk*
The Company is not exposed to foreign exchange risk since it has not entered into transactions denominated in foreign currencies.

**Credit risk**

The Company's exposure to credit risk arises from both operating activities (trade and other receivables) and financing activities (cash and cash equivalents). The Company manages its trade receivable risk in accordance with the Company's policies. Before signing an agreement, credit ability of a potential customer is evaluated.

The Company monitors its trade receivable balances on a regular basis to minimise amount of doubtful debts. The potential impairment of debts is analysed on a regular basis. The Company has not received any pledges for customer debts. The Company evaluates its credit risk concentration as being moderate. The Company assesses the risk using its internal credit rating system for evaluation of trade receivables.

At the end of each reporting period the Company assesses whether there is any objective evidence that a financial asset or group of financial assets measured at amortised cost is impaired. If any objective evidence exists that an impairment loss has been incurred, the carrying amount of the financial asset is being reduced through the use of an allowance account.

The credit risk relating to cash balances at bank is limited because the Company conducts transactions with banks that have high credit ratings assigned by international credit rating agencies. The Company holds cash balances at banks which are part of the financial groups assigned with credit ratings not lower than A-2 under the classification of Standard & Poor's short-term credit ratings.

The table below summarises the Company's maximum exposure to credit risk at the end of reporting period:

| | 31.12.2019 | 31.12.2018 |
|---|---|---|
| Cash and cash equivalents (Note 6) | 4.087.519 | 2.523.898 |
| Trade and other receivables (Note 5) | 7.603.141 | 12.594.194 |
| **Total** | **11.690.660** | **15.118.092** |

The Company has one type of financial assets that is subject to expected credit loss model: trade receivables for sales of electricity and gas and related services. While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables, including trade receivables from the related parties. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and probability of default.

**Liquidity risk**

Liquidity risk refers to the Company's inability to meet its obligations in defined term due to insufficient cash inflows. The Company's management manages the liquidity risk, by making sufficient cash reserves and providing appropriate financing, using credit line, as well as monitors forecasted and actual cash flows and coordinates the term structure of financial assets and liabilities.

The Company performs long-term cash flow forecasting for a year. By this the Company maintains appropriate amount of recourses to provide financing of operating expenses, to settle Company's liabilities and to make necessary investments. Company's liquidity risk is managed in cooperation with the parent company, and in December 2018, the parent company made a contribution to the share capital by paying in the amount of EUR 2 million, and further EUR 3 million were paid in January 2019. The table below provides the analysis of Company's liability term structure, based on undiscounted cash flows and including interest payments in accordance with agreements:

| 31 December 2019 | Less than 3 months | 3 to 12 months | Total undiscounted cash flow | Carrying amount |
|---|---|---|---|---|
| Trade payables and other payables (Note 9) | 2.745.935 | - | 2.745.935 | 2.745.935 |
| Tax liabilities and payables to employees (Note 9) | 898.790 | 12.499 | 911.289 | 911.289 |
| Borrowings (Note 8)* | 2.000.000 | 5.700.000 | 7.700.000 | 7.700.000 |
| **Total** | **5.644.725** | **5.712.499** | **11.357.224** | **11.357.224** |

*- interest expenses have been estimated on the basis of interest rates prevailing on 31 December 2019.

| 31 December 2018 | Less than 3 months | 3 to 12 months | Total undiscounted cash flow | Carrying amount |
|---|---|---|---|---|
| Trade payables and other payables (Note 9) | 1.923.432 | - | 1.923.432 | 1.923.432 |
| Tax liabilities and payables to employees (Note 9) | 830.162 | 6.933 | 837.095 | 837.095 |
| Borrowings (Note 8)* | 12.210 | 11.036.630 | 11.048.840 | 11.000.000 |
| **Total** | **2.765.804** | **11.043.563** | **13.809.367** | **13.760.527** |

*- interest expenses have been estimated on the basis of interest rates prevailing on 31 December 2018.

**Capital management**

Capital consists of the equity capital disclosed in the statement of financial position.

The goal of capital management is to ensure Company's ability to continue on a going concern basis and provide appropriate profitability level to the Company's shareholder. Ignitis UAB, as sole shareholder, has rights to make decision about Company's capital changes, dividends to be paid or investments in the Company's development.

In light of capital management, the Company evaluates proportion of borrowed capital to its total capital. The risk management policy of the Company does not define the level of this ratio.

The proportion of the Company's borrowed capital to its total capital at the end of reporting period was as follows:

| | 31.12.2019 | 31.12.2018 |
|---|---|---|
| Borrowing from the parent company | 7.700.000 | 11.000.000 |
| Liabilities (including taxes payable) | 3.762.408 | 2.864.085 |
| **Total liabilities** | **11.462.408** | **13.864.085** |
| Equity | 535.170 | 1.268.847 |
| **Total liabilities and equity** | **11.997.578** | **15.132.932** |
| Borrowed capital to total capital | 21.42 | 10,93 |
| Equity to total liabilities | 0,05 | 0,09 |

**Fair value**

The Company estimates that the fair values of assets and liabilities reported at amortised cost in the statement of financial position as at 31 December 2019 and 31 December 2018 do not materially differ from the carrying amounts reported in the financial statements. The carrying amount of current accounts receivable and payable and borrowings is estimated to be approximately equal to their fair value. For disclosure purposes, the fair value of financial liabilities is determined by discounting the contractual cash flows at the market interest rate which is available for similar financial instruments of the Company.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. There are three levels in the fair value hierarchy:

Level 1: fair value of assets is based on quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2: fair value of assets is based on other observable market data, directly or indirectly.
Level 3: fair value of assets is based on non-observable market data.

Fair value is the amount for which an asset would be sold, or a liability disposed, at active market conditions (or on an arm's length basis), regardless of whether such price is directly observable or estimated by applying valuation technique.

| | Carrying value | Fair value | | |
|---|---|---|---|---|
| | Total | 1 level | 2 level | 3 level |
| **Fair value as at 31 December 2018** | | | | |
| **Financial assets** | | | | |
| Trade and other receivables | 12.594.194 | - | - | 12.594.194 |
| Cash and Cash equivalents | 2.523.898 | 2.523.898 | - | - |
| **Total Financial assets** | **15.118.092** | **2.523.898** | **-** | **12.594.194** |
| **Financial liabilities** | | | | |
| Borrowings | (11.000.000) | - | - | (11.000.000) |
| Trade and other payables | (2.864.085) | - | - | (2.864.085) |
| **Total Financial liabilities** | **(13.864.085)** | **-** | **-** | **(13.864.085)** |
| **Fair value as at 31 December 2019** | | | | |
| **Financial assets** | | | | |
| Trade and other receivables | 7.603.141 | - | - | 7.603.141 |
| Cash and Cash equivalents | 4.087.519 | 4.087.519 | - | - |
| **Total Financial assets** | **11.690.660** | **4.087.519** | **-** | **7.603.141** |
| **Financial liabilities** | | | | |
| Borrowings | (7.700.000) | - | - | (7.700.000) |
| Trade and other payables | (3.762.408) | - | - | (3.762.408) |
| **Total Financial liabilities** | **(11.462.408)** | **-** | **-** | **(11.462.408)** |

## 4 Property, plant and equipment

| | Other fixed assets | Total |
|---|---|---|
| **Cost 01.01.2018** | **6.523** | **6.523** |
| Acquired during 2018 | 2.048 | 2.048 |
| **Cost 31.12.2018** | **8.571** | **8.571** |
| **Depreciation 01.01.2018** | **2.768** | **2.768** |
| Charge for 2018 | 2.293 | 2.293 |
| **Depreciation 31.12.2018** | **5.061** | **5.061** |
| **Net book value 01.01.2018** | **3.755** | **3.755** |
| **Net book value 31.12.2018** | **3.510** | **3.510** |
| **Cost 31.12.2018** | **8.571** | **8.571** |
| Acquired during 2019 | 119.866 | 119.866 |
| **Cost 31.12.2019** | **128.437** | **128.437** |
| **Depreciation 31.12.2018** | **5.061** | **5.061** |
| Charge for 2019 | 9.587 | 9.587 |
| **Depreciation 31.12.2019** | **14.648** | **14.648** |
| **Net book value 31.12.2018** | **3.510** | **3.510** |
| **Net book value 31.12.2019** | **113.789** | **113.789** |

## 5 Trade and other receivables

| | 31.12.2019 | 31.12.2018 |
|---|---|---|
| Trade receivables, including receivables for related parties | 7.821.414 | 9.476.455 |
| Provisions for bad and doubtful debtors | (241.609) | (194.892) |
| Unpaid amount of share capital | - | 3.000.000 |
| Receivable from related parties | 640 | 298.822 |
| Other debtors | 22.696 | 13.809 |
| **Total** | **7.603.141** | **12.594.194** |

Trade receivables are amounts due from customers for goods and services performed in the ordinary course of business. They are generally due for settlement within 15-30 days and therefore are all classified as current. Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Company holds the receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. Details about the Company's impairment policies and the calculation of the loss allowance are provided in Note 2.3 and Note 3.
According to the requirements of IFRS 9 the Company has measured loss allowance for expected credit losses of its trade receivables and recognised EUR 89 thousand as impairment allowance within "Other operating expenses" on 31 December 2019. This amount have been included in local annual report for Y2019 and is EUR 47 thousand more than on 31 December 2018.

## 6 Cash and cash equivalents

| | 31.12.2019 | 31.12.2018 |
|---|---|---|
| Cash in the bank | 4.087.519 | 2.523.898 |
| **Total** | **4.087.519** | **2.523.898** |

## 7 Share capital

The Company's registered share capital as at 31.12.2019 is EUR 5 500 000 and consists of 5 500 000 shares with nominal value of EUR 1 each. In 2018, the share capital of the Company was increased by issue of new 5 000 000 shares with par value of EUR 1 each.
EUR 2 000 000 were transferred to the Company's bank account in December 2018 and remaining EUR 3 000 000 (see Note 5) – in January 2019. As at 31.12.2019 and 31.12.2018 the sole shareholder is Ignitis UAB.

| Company's shareholder | At 31 December 2019 | | At 31 December 2018 | |
|---|---|---|---|---|
| | Share capital (EUR) | Number of shares held, % | Share capital (EUR) | Number of shares held, % |
| Ignitis UAB | 5.500.000 | 100 | 5.500.000 | 100 |

As at 31 December 2017 and 31 December 2016, the Company's ultimate controlling party was the Government of the Republic of Lithuania represented by the Lithuanian Ministry of Finance, which controls Ignitis UAB through wholly owned holding company Ignitis Grupe, UAB.

## 8 Borrowings

| | 31.12.2019 | 31.12.2018 |
|---|---|---|
| Credit line from Ignitis UAB | 7.700.000 | 11.000.000 |
| **Total** | **7.700.000** | **11.000.000** |

Parent company Ignitis UAB has granted a credit line to the Company for the operating needs. Interest rate for the borrowing is EONIA (if EOINIA is a negative number, it is assumed EONIA to be 0 (zero)) plus 0.8%. Credit line agreement is concluded for one calendar year. Each year credit line amount and interest rate is reviewed with other significant conditions, if any.

## 9 Trade and other payables

| | 31.12.2019 | 31.12.2018 |
|---|---|---|
| Financial payables within trade and other payables: | | |
| Trade payables to third parties | 1.404.598 | 1.135.405 |
| Trade payables to related parties (Note 18) | 153.129 | 16.886 |
| Accrued liabilities | 1.188.208 | 771.142 |
| Total financial payables within trade and other payables (Note 3) | 2.745.935 | 1.923.432 |
| | | |
| Payables to employees (Note 3) | 31.346 | 17.808 |
| Other tax payables (Note 3) | 879.943 | 819.287 |
| Prepayments | 105.184 | 103.557 |
| **Total** | **3.762.408** | **2.864.085** |

## 10 Revenue

| | 2019 | 2018 |
|---|---|---|
| Sale of electricity | 41.855.197 | 34.242.104 |
| Sale of gas | 254.713 | 190.202 |
| Sale of other related services | 273.943 | 303.336 |
| Sale of SWAP services | 1.465.212 | - |
| **Total** | **43.849.065** | **34.735.642** |

## 11 Purchases of electricity, gas and related services

| | 2019 | 2018 |
|---|---|---|
| Purchase of electricity | 41.189.660 | 35.760.416 |
| Purchase of gas | 232.828 | 194.727 |
| Other costs of sales | 1.855.489 | 2.579.519 |
| SWAP costs | 578.723 | - |
| **Total** | **43.856.700** | **38.534.662** |

## 12 Selling expenses

| | 2019 | 2018 |
|---|---|---|
| Salaries | 117.315 | 52.440 |
| IT costs | 62.575 | 10.055 |
| Regulatory fee | 51.571 | 10.979 |
| Marketing costs | 44.491 | 16.151 |
| Social insurance contributions | 27.771 | 9.498 |
| Office rent and utilities | 13.717 | 11.793 |
| Business trip expenses | 3.603 | 5.407 |
| Communication costs | 2.937 | 3.329 |
| Other selling costs | 12.914 | 17.195 |
| **Total** | **336.894** | **125.868** |

## 13 Administrative expenses

| | 2019 | 2018 |
|---|---|---|
| Salaries | 165.248 | 109.435 |

| | 2019 | 2018 |
|---|---|---|
| Social insurance contributions | 40.299 | 29.519 |
| Accounting services | 22.903 | 11.243 |
| Office expenses | 9.488 | 5.750 |
| Recruitment and training costs | 3.410 | 3.329 |
| Legal services | 2.047 | 603 |
| Other administrative costs | 46.301 | 20.598 |
| **Total** | **289.696** | **180.477** |

## 14 Finance costs

| | 2019 | 2018 |
|---|---|---|
| Interest costs on current credit line | 42.429 | 29.498 |
| **Total** | **42.429** | **29.498** |

## 15 Contingent liabilities

The tax institutions have rights to examine Company's accounting records at any time during three years after reporting year and during five years with respect to transfer pricing (relevant for Corporate Income Tax) and may calculate additional tax liabilities and penalties.

The Company's management is not aware of any events that could result in significant potential liabilities in the future. The Company is not involved in any existing or threatened litigation.

## 16 Number of employees

| | 2019 | 2018 |
|---|---|---|
| Average number of employees in the reporting year | 9 | 7 |

## 17 Remuneration of the management

Till 24.10.2019 Board members did not receive remuneration from the Company. After 24.10.2019 Board member receives remuneration on the basis of employment agreement.20

## 18 Transactions with related parties

Related parties are the sole shareholder of the Company, its ultimate parent company, the key management members of those companies and their close family members as well as companies which are controlled by those persons or companies or which have significant influence over them.

As described in Note 8 "Borrowings", the Company uses credit line facility provided by its parent company. Interest costs relating to overdraft are disclosed in note 4 "Finance costs". The Company also received services from the parent company which amounted to EUR 390 thousand in 2019. During 2019 or 2018 the Company did not engage in transactions with other related parties.

The Company's transactions with related parties conducted during the period from 1 January to 31 December 2019 and balances arising on these transactions as at 31 December 2019 are presented below:

| | At 31 December 2019 | | | |
|---|---|---|---|---|
| | Payables and obligations | Receivables | Costs of purchase and interests | Income of sales and interests |
| **Parent company:** | | | | |
| Ignitis, UAB | 141.987 | 640 | 390.196 | 871.167 |
| Energijos tiekimas, UAB | -16.886 | -298,822 | 299.623 | 602.278 |
| **Total:** | **125.101** | **-298.182** | **689.819** | **1.473.445** |
| **Other related parties:** | | | | |
| Ignitis grupes paslaugu centras, UAB | -13.803 | | 107.386 | |
| Ignitis UAB pastāvīgā pārstāvniecība Latvijā | 41.830 | | 281.721 | |
| **Total:** | **28.027** | | **389.107** | |

The Company's transactions with related parties conducted during the period from 1 January to 31 December 2018 and balances arising on these transactions as at 31 December 2018 are presented below:

| | At 31 December 2018 | | | |
|---|---|---|---|---|
| | Payables and obligations | Receivables | Costs of purchase and interests | Income of sales and interests |

| | | | | |
|---|---|---|---|---|
| **Parent company:** | | | | |
| Ignitis, UAB | 16.886 | 298.822 | 97.000 | 649.000 |
| **Total:** | **16.886** | **298.822** | **97.000** | **649.000** |

There were no guarantees or pledges given or received in respect of the related party payables and receivables. Related-party payables and receivables are expected to be settled in cash or by set-off against payables/receivables to/from a respective related party.

## 19 Subsequent events

Description of a non-corrective event
On January 30, 2020, the World Health Organization (WHO) has declared a global health emergency due to the COVID-19 outbreak and on March 11, 2020 has identified the spread of the disease as pandemic. More than 215,000 cases of COVID-19 infection were confirmed in 152 countries and territories on March 18, 2020. The pandemic activity of COVID-19 has started in the beginning of December, 2019 in Hubei province in China; however, no cases of the disease were observed until December 27, 2019 and the origin of the disease was noticed only on December 27, 2019. The source of the outbreak of the disease was identified on December 31, 2019 and COVID-19 was considered as the cause of the disease on January 8, 2020. On January 31, 2020 the outbreak of COVID-19 was reported in the European Union, in Italy. On March 12, 2020 the Government of the Republic of Latvia has declared the emergency situation within the country due to the risk of COVID-19 for the period from March 12, 2020 until May 12, 2020, with possibility to extend the period. The emergency situation within the country resulted in following:

- Restricted movement of residents inside the country and through the borders (the movement of goods is not restricted).
- Restricted activities within public and private sectors: the work and customer service where possible is organised remotely, certain activities within the private sectors are prohibited (activities of shops, trade and/or entertainment centres, except for food and pharmacies, as well as cultural, sports and other events are prohibited).
- Education and childcare process, as well as the education activities in all education institutions are organized remotely.

After the emergency situation was declared within the Country, the Parliament of the Republic of Latvia has adopted amendments as a matter of urgency, in order to preserve workplaces and provide help to the residents. In addition, the plan for stimulation of the economy and implementation of measures to reduce the consequences arising from the spreading of COVID-19 was adopted.

Financial impact and continuity of activities
The Company has evaluated possible financial impact due to the aforementioned global and local situation, which might directly and indirectly affect activities of the Company and foresees impact on the cash flow due to delayed payments from customers as well as possible consumption decreases.
Company has taken measures to more thoroughly follow up receivables collection process and offers customers possibility to delay payments if particular criteria are met.
By carrying out the evaluation the Company has reasonably taken into account the past events, current conditions, as well as prognosis of future economic conditions, which existed and were known on the date of signing the report. Assumptions which will differ from those used in the evaluation, might be subject to corrections.

**Kristaps Muzikants**
Member of the Board

27 April 2020

THIS DOCUMENT IS SIGNED ELECTRONICALLY WITH A SAFE ELECTRONIC SIGNATURE AND CONTAINS A TIME STAMP