2018

LIMITED LIABILITY COMPANY GETON ENERGY SIA ANNUAL REPORT

FINANCIAL STATEMENTS FOR THE YEAR 2018 PREPARED ACCORDING TO INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EUROPEAN UNION AND INDEPENDENT AUDITOR'S REPORT

CONTENTS

All amounts in EUR thousands unless otherwise stated

INFORMATION ON THE COMPANY

Name of the Company	GETON ENERGY SIA
Legal status of the Company	Limited liability company
Registration No, place and date	40103642991 Riga, 28 February 2013
Address	Cēsu iela 31 k-2, Rīga, Latvia, LV-1012
Shareholder	Energijos Tiekimas UAB (100%)
The Board	Diana Kazakevič – Chairwoman of the Board Vidmantas Salietis – Member of the Board Tadas Adomaitis – Member of the Board
Reporting year	1 January – 31 December 2018
Auditor	PricewaterhouseCoopers SIA Certified audit Company licence No.5 Kr.Valdemāra iela 21-21 Riga, LV-1010 Latvia Certified auditor-in-charge Lolita Čapkeviča Certificate Nr.120

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of SIA GETON ENERGY

Our Opinion

In our opinion, the accompanying financial statements set out on pages 11 to 29 of the accompanying annual report give a true and fair view of the financial position of SIA GETON ENERGY (Company) as at December 31, 2018, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

What we have audited

The financial statements comprise:

- the statement of financial position as at December 31, 2018,
- the statement of profit or loss and other comprehensive income for the year then ended,
- the statement of changes in equity for the year then ended,
- the statement of cash flows for the year then ended, and
- the notes to the financial statements which include significant accounting policies and other explanatory information.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) and the ethical requirements of the Law on Audit Services that are relevant to our audit of the financial statements in the Republic of Latvia. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the Law on Audit Services.

Reporting on Other Information Including the Management Report

Management is responsible for the other information. The other information comprises

- the Management Report, as set out on pages 8 to 10 of the accompanying Annual Report,
- the Statement on Management's Responsibility, as set out on page 7 of the accompanying Annual Report,

but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information, including the Management Report.

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

With respect to the Management Report, we also performed the procedures required by Law on Audit Services. Those procedures include considering whether the Management Report is prepared in accordance with the requirements of the Law on Annual Reports and Consolidated Annual Reports.

Based on the work undertaken in the course of our audit, in our opinion, in all material respects:

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

In addition, in light of the knowledge and understanding of the entity and its environment obtained in the course of our audit, we are required to report if we have identified material misstatements in the Management Report and other information. We have nothing to report in this respect.

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

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with the International Financial Reporting Standards as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers SIA
Certified Audit Company
Licence No. 5

Lolita Čapkeviča
Certified auditor in charge
Certificate No. 120

Member of the Board

Riga, Latvia
20 March 2019

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 11 to 29 are prepared in accordance with the accounting records and source documents, and present fairly the financial position of the Company as at 31 December 2018, 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.

Diana Kazakevič Chairwoman of the Board	**Vidmantas Salietis** Member of the Board

20 March 2019

MANAGEMENT REPORT

Description of the Company's activities and service market

Geton Energy SIA is an independent Lithuanian capital electricity and natural gas supplier in Latvian market. The Company's core line of business is electricity and natural gas supply. 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.

The Company's customer base has been increased throughout the years up to 10 percent of Latvian electricity supply market. Aiming to retain the existing customers and attract new ones, along with the development of the customer service the Company is focusing on the current and new supply related activities in the energy sector. This enables 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

Due to rapid business expansion, in 2018 Geton Energy SIA took over majority of core processes from Parent company. It led to increased number of employees. The financial year was completed with a total of seven employees, including one on maternity leave.

Company shaped and approved its strategy for years 2019-2021. It will be the main roadmap for the long-term successful development and growth of the Company.

Year 2018 presented extraordinary market conditions in energy sector. Rapidly increased purchase prices in Nordpool led to negative financial results in 2018. Company took measures and improved its efficiency and processes, in order to ensure the sustainable growth in the long-term.

In 2018 Geton Energy SIA started providing natural gas supply to Latvian business entities, this event becoming another big step towards expansion in the region.

Moreover, in 2018 Geton Energy SIA continued providing energy market expertise and power portfolio management competences to Lattelecom SIA, thus ensuring energy supply to Latvian households.

In 2018 the Company's share capital was significantly increased: from EUR 500,000 to EUR 5 500 000. The value per share remained EUR 1.00. 100% of shares belong to the sole shareholder of the Company – Energijos tiekimas UAB (henceforth also – the Parent Company).

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). The Company does not use derivative financial instruments to manage the market risk. However, starting from 2019 the Company has made a SWAP agreement with Energijos tiekimas 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, therefore the Company is not exposed to foreign exchange risk.

Analysis of financial and non-financial performance

In 2018, the Company supplied 689.42 GWh of electricity and 6.90 GWh of natural gas, as a result of an active sales activities. Due to significant changes in market conditions, the average price of sold MWh increased, which led to revenue increase from EUR 31 206 thousand to EUR 40 886 thousand. Activities generated EUR 4 193 thousand in net losses (2017: net loss of EUR 256 thousand). Because of significant increase of electricity and gas acquisition costs and historically signed contracts with lower contracted prices, Company experienced net losses.

Financial indicators, in thousands EUR	2018	2017	Change	
Sales	40 886	31 206	9 680	31.02 %
EBITDA	-4 162	-234	-3 928	-1678.63%
Net profit	-4 193	-256	-3 937	-1537.89 %
Assets	15 132	6 835	8 297	121.39 %
Shareholders' equity	1 269	462	807	174.68 %
Liabilities	13 864	6 372	7 492	117,58 %
Borrowings	11 000	4 150	6 850	165,06 %

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 2018. 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. At the beginning of 2018, employees took part in the overall evaluation of employees' competences.

On 31st of December 2018, the Company employed seven employees, including one on parental leave. As at 31 December 2017, the Company had five employees.

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 had no own shares at the beginning of the reporting period and did not acquire any 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 consist of the Management Board.

The Board is the supreme management body of the Company. The competence of the Board, the procedure of decision-making, election and removal of its members are established by laws, other legal acts and the Articles of Association.

Members of the Board as of 31 Dec 2018:

Name	Activity in Geton Energy SIA and other companies	from	to
Diana Kazakevič (Chairwoman)	Chairman of the board of Geton Energy SIA Chairman of the board of Geton Energy Sp. z o.o. Member of the board of UAB "Gamybos optimizavimas" Lietuvos Energija Head of region for Poland	2018-07-06	2022-07-06
Vidmantas Salietis	Member of the board of Geton Energy SIA Member of the board of „Lietuvos energija", UAB, Manager of commerce and services. Member of the board of „Lietuvos Energijos Tiekimas" UAB. Chairman of the board of Energijos tiekimas UAB. Chairman of the board of UAB „Gamybos optimizavimas". Member of the board of UAB Elektroninių mokėjimų agentūra. Chairman of the board of NT Valdos Chairman of the board of OU „Geton Energy".	2018-07-06	2019-11-20
Tadas Adomaitis	Member of the board of Geton Energy SIA Director of Sourcing of "Lietuvos Energijos Tiekimas" UAB.	2018-07-06	2022-07-06

Information on the auditor

The Company's auditor – PricewaterhouseCoopers SIA, Certified audit Company licence No.5, Kr.Valdemāra iela 21-21, Riga, Latvia, LV-1010.

Significant events after the end of the reporting financial year

There were no significant events subsequent to the end of the financial year.

The Company's operation plans and prospects

In 2019, the Company plans to actively engage in the activities of the independent natural gas and electricity supply and to generate profit from this activities.

In 2019 the Company also is planning to expand its operations by starting to offer Solar panel and Energy efficiency solutions.

Information about the Company's research and development activities

In 2018, the Company had no research and development activities.

Financial instruments used

The Company did not use financial and hedging instruments qualifying for hedge accounting.

STATEMENT OF FINANCIAL POSITION

	Note	At 31 December 2018	At 31 December 2017
ASSETS			
Non-current assets			
Property, plant and equipment	4	3.510	3.755
Total non-current assets		**3.510**	**3.755**
Current assets			
Trade and other receivables	5	12.594.194	4.288.407
Corporate income tax		11.330	12.728
Cash and cash equivalents	6	2.523.898	2.529.620
Total current assets		**15.129.422**	**6.830.755**
TOTAL ASSETS		**15.132.932**	**6.834.510**
EQUITY AND LIABILITIES			
Equity			
Share capital	7	5.500.000	500.000
Retained earnings		(4.231.153)	(37.669)
Total equity		**1.268.847**	**462.331**
Liabilities			
Current liabilities			
Borrowings	8	11.000.000	4.150.000
Trade and other payables	9	2.864.085	2.222.179
Total current liabilities		**13.864.085**	**6.372.179**
Total liabilities		**13.864.085**	**6.372.179**
TOTAL EQUITY AND LIABILITIES		**15.132.932**	**6.834.510**

The accompanying notes on pages 15 to 29 form an integral part of these financial statements.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	2018	2017
Total Revenue	**10**	**40.886.038**	**31.206.154**
Operating expenses			
Purchases of electricity, gas and related services	11	(44.685.058)	(31.175.215)
Selling expenses	12	(125.868)	(47.028)
Administrative expenses	13	(180.477)	(55.231)
Other operating expenses		(58.621)	(165.457)
Total operating expenses		**(45.050.024)**	**(31.442.931)**
Operating profit/ (loss)		**(4.163.986)**	**(236.777)**
Finance costs	14	**(29.498)**	**(19.117)**
Profit/ (loss) before income tax		**(4.193.484)**	**(255.894)**
Net profit/ (loss) for the year		**(4.193.484)**	**(255.894)**
Other comprehensive income/(expenses) for the year		-	-
Total comprehensive income/(loss) for the year		**(4.193.484)**	**(255.894)**

The accompanying notes on pages 15 to 29 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

	Note	Share capital	Retained earnings	Total
Balance at 1 January 2017		**28.457**	**218.225**	**246.682**
Increase of share capital		471.543	-	471.543
Comprehensive loss for the year		-	(255.894)	(255.894)
Balance at 31 December 2017		**500.000**	**(37.669)**	**462.331**
Balance at 1 January 2018		**500.000**	**(37.669)**	**462.331**
Increase of share capital	7	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**

The accompanying notes on pages 15 to 29 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS

	Note	2018	2017
Cash flows from operating activities			
Loss before tax		(4.193.484)	(255.894)
Adjustments:			
Depreciation of property, plant and equipment	4	2.293	1.594
Interest expenses	14	29.498	19.117
		(4.161.693)	(235.183)
Change in operating assets and liabilities:			
Increase in receivables		(5.304.389)	(2.596.115)
Increase in payables		641.906	694.970
Cash flows from operating activities		(8.824.176)	2.136.328
Corporate income tax paid		-	(10.360)
Net cash outflow from operating activities		**(8.824.176)**	**(2.146.688)**
Cash flows from investing activities			
Payments for property, plant and equipment	4	(2.048)	(1.247)
Net cash outflow from investing activities		**(2.048)**	**(1.247)**
Cash flows from financing activities			
Net change in credit line balance		6.850.000	3.530.000
Interest paid		(29.498)	(19.117)
Proceeds from issuance of shares		2.000.000	471.543
Net cash inflow from financing activities		**8.820.502**	**3.982.426**
Net (decrease)/increase in cash and cash equivalents		**(5.722)**	**1.834.491**
Cash and cash equivalents at the beginning of the financial year	7	2.529.620	695.129
Cash and cash equivalents at end of year	7	**2.523.898**	**2.529.620**

The accompanying notes on pages 15 to 29 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1 General information

Company name:	GETON ENERGY 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@geton.lv
Website:	http://www.geton.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.

The ultimate beneficial owner is Republic of Lithuania, represented by Ministry of Finance as of 31 Dec 2018 and 31 Dec 2017.

The Company's financial year coincides with a calendar year.

These financial statements of the Company were authorised for issue by the Board of the Company on 20 March 2019. 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 2018 to 31 December 2018 and comparative information for the year ended 31 December 2017.

Adoption of new and (or) amended IFRS and interpretations of the International Financial Reporting Interpretations Committee (IFRIC)
The following new or revised standards and interpretations became effective for the Company from 1 January 2018:

IFRS 9, Financial Instruments: Classification and Measurement. Key features of the new standard are:
- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging. The Company assessed the impact of the new standard on its financial statements. According to the management's estimation there is no material impact to the financial statements.

IFRS 15, 'Revenue from Contracts with Customers'. The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed.

Amendments to IFRS 15, 'Revenue from Contracts with Customers'. The amendments do not change the underlying principles of the standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; how to determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and how to determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new standard.

The impact of the standards that first came into effect on 1 January 2018 is disclosed in Note 2.2 below.

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 01 January 2018 that would be expected to have a material impact to the company.

New standards and interpretations not yet adopted
Certain new or revised standards and interpretations have been issued that are mandatory for the Company's annual periods beginning on or after 1 January 2019, and which the Company has not early adopted:

IFRS 16, Leases. The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Company has applied the standard from 1 January 2019, using the modified retrospective application, with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2019), accordingly, the information presented for 2018 has not been restated. As a result of the implementation, the assets and liabilities of the Company increased by a total of EUR 11 thousand. The impact on the interest expense and depreciation expense for 2019 will be insignificant.

Definition of materiality – Amendments to IAS 1 and IAS 8: The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the 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. The amendments may have an effect on the extent of the information disclosed by the Company.

There are no other new or revised standards or interpretations that are not yet effective that would be expected to have a material impact on the Company.

The Company has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The Company anticipates that the adoption of all other standards, revisions and interpretations will have no material impact on the financial statements of the Company in the period of initial application.

2.2 Changes in accounting policies

This note explains the impact of the adoption of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers on the Company's financial statements.

IFRS 9 Financial Instruments
IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The adoption of IFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies, although no adjustments were recognised to the amounts in the financial statements. The new accounting policies are set out in note 2.3. In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated.

On 1 January 2018 (the date of initial application of IFRS 9), the Company's management has assessed which business models apply to the financial assets held by the Company and has classified its financial instruments into the appropriate IFRS 9 categories. On the date of initial application, 1 January 2018, the financial instruments of the Group were as follows, with any reclassifications noted (the reclassifications of the financial instruments on adoption of IFRS 9 did not result in any changes to measurements):

	Measurement category		Carrying amount in EUR		
	Original (IAS 39)	New (IFRS 9)	Original	New	Difference
Financial assets					
Trade and other receivables	Amortised cost	Amortised cost	4.288.407	4.288.407	-
Cash and cash equivalents	Amortised cost	Amortised cost	2.529.620	2.529.620	-

Impairment of financial assets
The Company has the following types of financial assets that are subject to the expected credit loss model:
- trade receivables for sales of goods and from the provisions of services,
- cash and cash equivalents.

The Company was required to revise its impairment methodology under IFRS 9 for each of these classes of assets. As a result of the change in of the change in impairment methodology there was no material increase of the loss allowance on 1 January 2018, thus no adjustments were made to the Company's retained earnings and equity.

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial as at 1 January 2018 and as at 31 December 2018.

IFRS 15 Revenue from contracts with customers
The Company has adopted IFRS 15 Revenue from Contracts with Customers from 1 January 2018 using the modified retrospective application, with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2018). Accordingly, the information presented for 2017 has not been restated – i.e. it is presented, as previously reported, under IAS 18 and related interpretations. Additionally, the disclosure requirements in IFRS 15 have not been applied to comparative information.
As a result of the application, no adjustments were recognised to the amounts in the financial statements at 1 January 2018.

2.3 Financial instruments: accounting policies from 1 January 2018

Financial assets

Classification
The Company classifies its financial assets in the following measurement categories:
- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the Company's business model for managing the financial assets and the contractual terms of the cash flows.

Recognition and derecognition
Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Company commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

Measurement
At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Debt instruments
Subsequent measurement of debt instruments depends on the Company's business model for managing the asset and the cash flow characteristics of the asset.

All Company's debt instruments are classified in amortised cost measurement category.

Amortised cost
Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other income/(expenses). Foreign exchange gains and losses and impairment losses are presented as separate line items in the statement of profit or loss.

As at 1 January 2018 and 31 December 2018, the following financial assets of the Company were classified in this category:
- trade receivables;
- cash and cash equivalents.

Equity instruments
The Company has no investments in equity instruments.

Derivative financial instruments
The Company does not have derivative financial instruments.

Impairment
The Company assesses on a forward-looking basis the expected credit losses ("ECL") associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

The measurement of ECL reflects:
- an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes,
- time value of money and
- all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

For trade receivables without a significant financing component the Company applies a simplified approach permitted by IFRS 9 and measures the allowance for impairment losses at expected lifetime credit losses from initial recognition of the receivables.

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%

Accounting principles until the 31 December 2017 are disclosed in notes 2.8 and 2.9.

2.4 Revenue from contracts with customers: Accounting policies from 1 January 2018

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. The Company recognises revenue when it transfers control of a good or service to a customer.

Sale of services – electricity, gas
The Company provides electricity and gas sale services under fixed-price and variable price contracts. Revenue from providing services is recognised in the accounting period in which the services are rendered. For fixed-price contracts, revenue is recognised based on the actual service provided up to the end of the reporting period as a proportion of the total services to be provided because the customer receives and uses the benefits simultaneously. This is determined based on the actual units delivered. If the contract includes variable consideration, revenue is recognised only to the extent that it is highly probable that there will be no significant reversal of such consideration.

Financing component
The Company does not have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. Consequently, the Company does not adjust any of the transaction prices for the time value of money.

Accounting principles until the 31 December 2017 are disclosed in Note 2.17.

2.5 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".

2.6 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%

2.7 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.

2.8 Financial assets

According to IAS 39, 'Financial instruments: recognition and measurement' financial assets are classified as either financial assets at fair value through profit or loss, held-to-maturity investments, loans granted and receivables, and available-for-sale financial assets.

The Company determines the classification of its financial assets based on its nature and purpose at initial recognition.

The Company's financial assets include cash, trade receivables and amounts receivable from other sources, and are classified in the category of loans and receivables. Financial assets arising on the Company's derivative financial instruments are classified in the category of financial assets at fair value through profit or loss.

The subsequent accounting for financial assets depends on their classification as follows:

Loans and receivables

Amounts receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, such financial assets are carried at amortised cost using the effective interest method (except for current receivables when the recognition of interest income would be immaterial), less any recognised impairment, which reflects irrecoverable accounts. Gains and losses are recognised in the statement of comprehensive income when the loans and receivables are derecognised, impaired or amortised.

Effective interest rate method is used to calculate amortised cost of financial assets and allocate interest income over the relevant period. The effective interest rate exactly discounts estimated future cash flows through the expected life of the financial asset.

Financial assets at fair value through profit or loss

Derivative financial instruments are classified as held for trading and they initially recognised at fair value, and subsequently are also measured at fair value. The fair value is determined with reference to quoted market prices or using valuation techniques encompassing the present market values or contractual prices of assets relating to financial instruments, and all other inputs. Derivative financial instruments are classified as assets when their fair value is positive, and they are classified as liabilities when their fair value is negative. Realised and unrealised gain or loss from these financial instruments is recorded on a net basis in profit or loss in the statement of comprehensive income as 'Gain (loss) from trade in derivative financial instruments'.

Impairment of financial assets

At each reporting date the Company assesses whether there is an indication that financial assets may be impaired. A financial asset is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial assets. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. For financial assets carried at amortised cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, estimated using the effective interest rate.

The carrying amount of the financial asset is directly reduced by the amount of estimated impairment loss, except for trade receivables, for which impairment is recorded through allowance account. Impaired trade receivables are written-off when they are identified as irrecoverable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the statement of comprehensive income to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date that would have been determined had no impairment loss been recognised for the asset in prior years.

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 Company has retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass through" arrangement; or
- the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

A doubtful amount receivable (or a doubtful debt owed to the Company) is considered to be an amount receivable, the recoverability of which in due time is doubtful. The classification of amounts receivable in the category of doubtful debts does not mean that the Company waives any right to claim these amounts, nor that these amounts are derecognised. The purpose of classification of amounts receivable in the category of doubtful debts is to strengthen controls over the recovery of debts and to allocate relevant debts to the category of higher risk.

In classifying its amounts receivable in the category of doubtful debts and in determining their possible impairment, the Company first of all applies an individual debt assessment approach, i.e. assesses the recoverability of each individually significant debt. Individually insignificant debts are assessed collectively by grouping them into categories with similar risk levels.

In subsequent periods, doubtful debts may be recollected or recognised as bad debts and written off according to the established procedure. In exceptional cases, a debt may become a bad debt even without being recognised as a doubtful debt: upon legal confirmation of the debtor's death, upon receipt of document from a court or any other state authority certifying the debtor's liquidation.

Offsetting financial assets and liabilities
Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

2.9 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.

2.10 Financial liabilities

Financial liabilities are initially recognised at cost, which is the fair value of the consideration received for the financial liability. They are subsequently measured at amortised cost, using the effective interest rate. Transaction costs are taken into consideration when calculating the effective interest rate and are expensed over the useful life of the financial liability. The interest costs calculated from financial liabilities are recognised as an expense for the period, other than borrowings attributable to financing property, plant and equipment to be built for own use. A financial liability is derecognised when the liability has been settled, cancelled or expired.

2.11 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.

2.12 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.

2.13 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.

2.14 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.

2.15 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.

2.16 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.

2.17 Revenue recognition

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. The following specific recognition criteria must also be met before revenue is recognised:

Revenue from sale of electricity
Revenue from sale of electricity that was acquired at the power exchange is recognised when substantially all risks and rewards related to the object of sale have been transferred to the buyer. The Company does not recognise revenue and expenses from transmission trading in the power exchange with respect to those transactions in which it acts as an agent.

Revenue from sale of gas
Revenue from sale of gas that was acquired is recognised when substantially all risks and rewards related to the object of sale have been transferred to the buyer.

Revenue from electricity-related services
Revenue from electricity trading-related services is recognised after the service is rendered.

Interest income
Interest income is recognised on accrual basis considering the outstanding balance of debt and the applicable interest rate. Interest received is recorded in the statement of cash flows as cash flows from investing activities.

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 Leases

Lease is recognised as finance lease when substantially all risks and rewards incidental to ownership of the leased item are transferred under the lease terms and conditions. All other leases are classified as operating lease.

The Company is a lessee
Operating lease payments are recognised as expenses on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern of the earnings process contained in the lease. Contingent operating lease payments are recognised as expenses as incurred.

If lease incentives are received for the conclusion of operating lease agreements, such incentives are recognised as a liability. Lease expenses are reduced by the amount of accumulated incentives on a straight-line basis, unless another systematic basis is more representative of the time pattern of the earnings process contained in the lease.

2.20 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.

2.21 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.

2.22 Critical accounting estimates and assumptions

The preparation of the financial statements requires the use of estimates and assumptions that impact the reported amounts of assets and liabilities, and the disclosure of off-balance sheet assets and contingent liabilities in the notes to the financial statements.
Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from these estimates. Changes in management's estimates are recognised in the statement of profit or loss of the period of the change.

The management has determined that there have been no critical accounting estimates or assumptions that would have a material impact on these financial statements.

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 Lietuvos Energija UAB Group.

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

Financial instruments can be presented as follows:

Loans and receivables	31.12.2018	31.12.2017
Trade and other receivables (Note 5)	12.594.194	4.288.407
Cash and cash equivalents (Note 6)	2.523.898	2.529.620
Total financial assets	**15.118.092**	**6.818.027**

Other financial liabilities	31.12.2018	31.12.2017
Borrowings (Note 8)	11.000.000	4.150.000
Trade and other payables (Note 9)	1.923.432	1.515.915
Total financial liabilities	**12.923.432**	**5.665.915**

Market risk

Price risk
The Company's activities expose it to the risk of change in electricity and gas price (market risk). The Company has not used derivative financial instruments to manage the market risk and only starting from 2019 the Company has made a SWAP agreement with Energijos tiekimas UAB with the purpose to use derivative financial and physical instruments to manage the market risk.

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.

Profit or loss is sensitive to higher/lower interest expense related to the borrowings (see Note 8 and Note 14). EONIA rate has been negative since 2015. If EONIA becomes 0%, the impact on net result would be an increase in finance costs of EUR 39 thousand, holding all other variables constant.

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:

	31.12.2018	31.12.2017
Cash and cash equivalents (Note 6)	2.523.898	2.529.620
Trade and other receivables (Note 5)	12.594.194	4.288.407
Total	**15.118.092**	**6.818.027**

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. The following table provides information about the exposure to credit risk and expected credit losses for trade receivables as at 31 December 2018:

	Weighted average loss rate	Gross carrying amount	Impairment loss allowance	Carrying amount 31.12.2018	Credit-impaired
Rating groups 1-3 (low risk)	0.30%	8.464.303	25.363	8.438.940	No
Rating groups 4-7 (fair risk)	1.77%	842.627	14.949	827.679	No
Rating groups 8-9 (doubtful)	14.47%	16.888	2.443	14.445	Yes
Rating groups 10 (loss)	100%	152.637	152.637	0	Yes
		9.476.455	**195.392**	**9.281.064**	

An analysis of credit quality of financial assets as at 31 December 2017 (comparative information under IAS 39) is disclosed below:

	31.12.2017
Financial assets, neither past due nor impaired	
Trade receivables	3.774.230
Other receivables	1.289
Cash deposits	2.529.620
The analysis of aging structure for financial assets past due but no impaired	
Less than 3 months	512.888
Financial assets, impaired	154.280
Financial assets, gross	**6.972.307**
Provision for impaired financial assets	**(154.280)**
Total financial assets, net	**6.818.027**

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 2019The 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 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.

31 December 2017	Less than 3 months	3 to 12 months	Total undiscounted cash flow	Carrying amount
Trade payables and other payables (Note 9)	1.515.915	-	1.515.915	1.515.915
Tax liabilities and payables to employees (Note 9)	591.701	6.982	598.683	598.683
Borrowings (Note 8)*	4.710	4.164.131	4.168.841	4.150.000
Total	**2.112.326**	**4.171.113**	**6.283.439**	**6.264.598**

*- interest expenses have been estimated on the basis of interest rates prevailing on 31 December 2017.

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. Energijos Tiekimas 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:

	31.12.2018	31.12.2017
Borrowing from the parent company	11.000.000	4.150.000
Liabilities (including taxes payable)	2.864.085	2.222.179
Total liabilities	**13.864.085**	**6.372.179**
Equity	1.268.847	462.331
Total liabilities and equity	**15.132.932**	**6.834.510**
Borrowed capital to total capital	10,93	13,78
Equity to total liabilities	0,09	0,07

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 2018 and 31 December 2017 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.

The Company does not have financial assets or financial liabilities that would be measured at fair value.

4 Property, plant and equipment

	Other fixed assets	Total
Cost 01.01.2017	**5.276**	**5.276**
Acquired during 2017	1.247	1.247
Cost 31.12.2017	**6.523**	**6.523**
Depreciation 01.01.2017	**1.174**	**1.174**
Charge for 2017	1.594	1.594
Depreciation 31.12.2017	**2.768**	**2.768**
Net book value 01.01.2017	**4.102**	**4.102**
Net book value 31.12.2017	**3.755**	**3.755**
Cost 31.12.2017	**6.523**	**6.523**
Acquired during 2018	2.048	2.048
Cost 31.12.2018	**8.571**	**8.571**
Depreciation 31.12.2017	**2.768**	**2.768**
Charge for 2018	2.293	2.293
Depreciation 31.12.2018	**5.061**	**5.061**
Net book value 31.12.2017	**3.755**	**3.755**
Net book value 31.12.2018	**3.510**	**3.510**

5 Trade and other receivables

	31.12.2018	31.12.2017
Trade receivables	9.476.455	4.091.108
Provisions for bad and doubtful debtors	(194.892)	(154.229)
Unpaid amount of share capital	3.000.000	-
Receivable from related parties	298.822	350.239
Other debtors	13.809	1.289
Total	**12.594.194**	**4.288.407**

Trade receivables are amounts due from customers for goods and services performed in the ordinary course of business. They are generally due for settlement within15-30 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 41 thousand as impairment allowance within "Other operating expenses".

6 Cash and cash equivalents

	31.12.2018	31.12.2017
Cash in the bank	2.523.898	2.529.620
Total	**2.523.898**	**2.529.620**

7 Share capital

The Company's registered share capital as at 31.12.2018 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 31.12.2018 and 31.12.2017 the sole shareholder is Energijos tiekimas UAB.

Company's shareholder	At 31 December 2018		At 31 December 2017	
	Share capital (EUR)	Number of shares held, %	Share capital (EUR)	Number of shares held, %
Energijos tiekimas UAB	5.500.000	100	500.000	100

As at 31 December 2018 and 31 December 2017, the Company's ultimate controlling party was the Government of the Republic of Lithuania represented by the Lithuanian Ministry of Finance, which controls Energijos tiekimas UAB through wholly owned holding company Lietuvos Energija, UAB.

8 Borrowings

	31.12.2018	31.12.2017
Credit line from Energijos tiekimas UAB	11.000.000	4.150.000
Total	**11.000.000**	**4.150.000**

Parent company Energijos Tiekimas UAB has granted a credit line to the Company for the operating needs. Interest rate for the borrowing is EONIA plus 0.8%. Credit line is repayable upon the request from the Parent company.

9 Trade and other payables

	31.12.2018	31.12.2017
Financial payables within trade and other payables:		
Trade payables to third parties	1.135.405	762.789
Trade payables to related parties (Note 18)	16.886	7.711
Accrued liabilities	771.142	745.415
Total financial payables within trade and other payables (Note 3)	1.923.432	1.515.915
Payables to employees (Note 3)	17.808	13.192
Other tax payables (Note 3)	819.287	585.491
Prepayments	103.557	107.582
Total	**2.864.085**	**2.222.179**

10 Revenue

	2018	2017
Sale of electricity	40.337.672	31.206.154
Sale of gas	245.030	-
Sale of other related services	303.336	-
Total	**40.886.038**	**31.206.154**

11 Purchases of electricity, gas and related services

	2018	2017
Purchase of electricity	35.760.416	23.138.446
Purchase of gas	249.555	-
Other costs of sales	8.675.087	8.036.769
Total	**44.685.058**	**31.175.215**

12 Selling expenses

	2018	2017
Salaries	52.440	27.936
Social insurance contributions	9.498	6.590
IT costs	10.055	2.988
Communication costs	3.329	1.186
Office rent and utilities	11.793	-
Transportation costs	-	1.925
Business trip expenses	5.407	1.385
Marketing costs	16.151	-
Other selling costs	17.195	5.018
Total	**125.868**	**47.028**

13 Administrative expenses

	2018	2017
Salaries	109.435	19.216
Social insurance contributions	29.519	4.533
Office expenses	5.750	7.261
Accounting services	11.243	7.950
Legal services	603	996
Recruitment and training costs	3.329	680
Other administrative costs	20.598	14.595
Total	**180.477**	**16.803**

14 Finance costs

	2018	2017
Interest costs on current credit line	29.498	19.117
Total	**29.498**	**19.117**

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

	2018	2017
Average number of employees in the reporting year	7	2

17 Remuneration of the management

Board members do not receive remuneration from the Company.

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 97 thousand in 2018. During 2018 or 2017 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 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:				
Energijos tiekimas, UAB	16.886	298.822	97.000	649.000
Total:	**16.886**	**298.822**	**97.000**	**649.000**

The Company's transactions with related parties conducted during the period from 1 January to 31 December 2017 and balances arising on these transactions as at 31 December 2017 are presented below:

	At 31 December 2017			
	Payables and obligations	Receivables	Costs of purchase and interests	Income of sales and interests
Parent company:				
Energijos tiekimas, UAB	7.711	350.239	85.810	350.239
Total:	**7.711**	**350.239**	**85.810**	**350.239**

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

During the period between the last day of the financial year and the date of signing of this report there have been no significant events that would have a material effect on the year end results.

On behalf of the Board, these financial statements were signed on 20 March 2019 by:

Diana Kazakevič
Chairwoman of the Board

Vidmantas Salietis
Member of the Board