2021

LIMITED LIABILITY COMPANY IGNITIS LATVIJA SIA ANNUAL REPORT

COMPANY'S FINANCIAL STATEMENTS FOR THE YEAR 2021 PREPARED ACCORDING TO INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EUROPEAN UNION AND INDEPENDENT AUDITOR'S REPORT

www.ignitis.lv

SIA Ignitis Latvija

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CONTENTS

ANNUAL REPORT

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
	Riga, 28 February 2013
Address	Cēsu iela 31 k-3, Rīga, Latvia, LV-1012
Shareholder	Ignitis UAB (100%)
Supervisory board	Artūras Bortkevičius – Chairperson of the Supervisory Board
	Andrius Kavaliauskas – Member of the Supervisory Board
	Darius Šimkus – Member of the Supervisory Board
Management Board	Kristaps Muzikants – Member of the Board
Reporting year	1 January – 31 December 2021
Auditor	KPMG Baltics SIA Vesetas iela 7 Riga, Latvia, LV-1013 License No. 55

MANAGEMENT REPORT

Description of the Company's activities and service market

Ignitis Latvija SIA 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, provision of solar panel solutions and installation of electric car charging stations. 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. Through direct users or other energy supply companies, the amount of supplied power is almost 14 percent (according to AST info total consumed amount in 2021 consumption was 7 382 226 MWH) 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 2021 Ignitis Latvija SIA continued the business expansion of the Company by increasing the customer base, expanding the sales channels and adding new services. The financial year was completed with a total of 13 employees.

The Company followed the approved strategy and continued development of products or services aimed at energy efficiency and solar panel solutions.

In 2021 Ignitis Latvija SIA continued providing natural gas supply to Latvian business entities and increased the portfolio.

The Company's vision – we transform for a more sustainable world – is based on following values:

- **Responsibility** - Care. Do. For Earth. Starting with myself.
- **Partnerships** - Diverse. Strong. Together.
- **Openness** - See. Understand. Share. Open to the world.
- **Growth** - Curious. Bold. Everyday.

In everything we do, we are united by the **mission** to make the world more energy smart.

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

Commodity risk

Commodity risk is the risk that changes in market prices (i.e. commodity prices) will affect the Company's results or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The Company uses derivatives to manage the commodity risk. All such transactions are carried out according to Group's risk management policy. Generally, the Company seeks to apply hedge accounting to manage volatility in profit or loss of SPLOCI In the ordinary course of its operations, the Company is exposed to commodity risks on electricity products. The source of exposure lies with cost cash flows incurred to procure fixed price electricity for sales contracts. Majority of this type of exposure is based on changes of respective commodity price in the market that the Company operates. Parent company is ultimately responsible for acquiring necessary hedges in the market to cover commodity risk exposure.

Commodity risk arises primarily from the following activities:

– Fixed price commodity sales contracts (electricity) business customers.

In order to manage commodity risk, the Company enters into financial derivatives contracts (cash flow hedges). This is performed in order to secure a fixed acquisition price of the above mentioned commodities, so that optimum profit margins could be obtained from contracted or expected fixed price sales.

For electricity related hedges, the Company uses price component based hedges in over-the-counter contracts (OTC), that are equivavelent to derivatives market (NASDAQ commodities).

Assessment of economic relationship and hedge effectiveness is performed by dollar offset method.The two separate components that are being used as a hedged item for electricity related hedges are SYS price and price component equivalent or similar to difference between Latvia price area and SYS price. Their economic relationship is determined separately for each component.

– SYS price (average price of Nordpool power market, of which Latvia is a member);
– Price component equivalent or similar to difference between Latvia price area and SYS price (commonly referred as EPAD in NASDAQ commodities market).

Source of hedge ineffectiveness is mainly related to limited supply of financial derivatives for Latvia electricity price area in the market. Therefore, commodity risk is partly hedged in similar price area's (Estonian, Finland and other), which results in partial ineffectiveness. The designated risk component of SYS historically covered 100% of the changes in hedged item, while designated price component equivalent or similar to difference between Latvia price and SYS price historically covered variety of percentages (depending on hedge timing and hedged price area). However, value coverage of hedged item should be at least 67% and not exceed 150% in order for financial derivative to be classified as effective for hedge accounting purposes.

Commodity risk related to hedge ineffectiveness is managed through an "Success fee" clause in portfolio management agreement with parent company. Meaning, that any loss arising from hedge ineffectiveness (or profit arising from effectiveness) is split by both parties on pre-agreed ratio. This ultimately leads to the Company having secured fixed electricity acquisition price from Nordpool via hedges or success fee for the whole supply portfolio, minimising commodity market risk to the maximum.

Overview of the Company's derivatives positions:

	31.12.2021		31.12.2020	
	Contractual nominal value	Market value	Contractual nominal value	Market value
Over the counter (OTC) derivatives – Electricity	15 641 698	10 474 634	-	-
Total	**15 641 698**	**10 474 634**	**-**	**-**

Nominal amounts (quantities in MW) hedged:

	2022	2023	2024	2025
Over the counter (OTC) derivatives – Electricity	250 109	225 132	22 838	17 520
Total	**250 109**	**225 132**	**22 838**	**17 520**

Market risk

Market risk is the risk that the fair value or future cash flows will fluctuate because of changes in market prices.

Contracts for the sale and purchase for the Company are concluded both for fixed and variable price. Risk is mainly characteristic to contracts concluded for sale of fixed price products.

Aiming to reduce market price fluctuation impact on electricity purchase the Company starting from 2019 has concluded a SWAP agreement with Ignitis UAB with the purpose to use derivative financial instruments to manage the market risk. Starting from 2021, the Company has entered into agreement with Ignitis UAB on the provision of fixed price electricity products portfolio management services to transfer the risks caused by price volatility to the parent company Ignitis UAB. For more information regarding commodity price/market risk management please refer to paragraph above "commodity 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 2021, supplied volume of electricity increased up to 1041.546 GWh and up to 181.619 GWh of natural gas, as a result of active sales activities.

As a result of improved sales strategy and natural gas supply planning, the Company managed to significantly increase the number of customers, as well as increase supplied volume of electricity and natural gas supplied to end customers. Due to significant increase in electricity and natural gas prices, turnover increased from 39.98 million euros to 106.21 million euros.

Activities generated EUR 4 228 thousand in net profit in 2021 (2020: net loss of EUR 2 884 thousand).

All amounts in EUR unless otherwise stated

Financial indicators, in thousands EUR	2021	2020	Change	
Sales	104 007	39 977	64 030	160.17%
Net profit	4 228	-2 884	7 112	-246.60%
Assets	57 262	10 396	46 866	450.01%
Shareholders' equity	15 214	3 651	11 563	316.71%
Liabilities	42 048	6 744	35 304	523.49%
Of which borrowings	35 652	4 000	31 652	791.30%

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 2021. 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 2021, the Company employed thirteen employees. In comparison, on 31st of December 2020, the Company employed eleven 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 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 until 7 Oct 2021:

Name	Position	from	to
Kristaps Muzikants	Member of the Management Board	2019-10-24	present
Artūras Bortkevičius	Chairperson of the Supervisory Board	2021-10-08	present
Agnė Daukšienė	Member of the Supervisory Board	2021-10-08	present
Mantas Mikalajūnas	Member of the Supervisory Board	2021-10-08	present

Members of the Management Board and Supervisory Board as of 31 Dec 2021 and until 15 Jul 2022:

Name	Position	from	to
Kristaps Muzikants	Member of the Management Board	2019-10-24	present
Artūras Bortkevičius	Chairperson of the Supervisory Board	2021-10-08	present
Agnė Daukšienė	Deputy Chairperson of the Supervisory Board	2021-10-08	2022-07-15
Mantas Mikalajūnas	Member of the Supervisory Board	2021-10-08	2022-07-15

Members of the Management Board and Supervisory Board from 15 Jul 2022:

Name	Position	from	to
Kristaps Muzikants	Member of the Management Board	2019-10-24	present
Artūras Bortkevičius	Chairperson of the Supervisory Board	2021-10-08	present
Andrius Kavaliauskas	Member of the Supervisory Board	2022-07-15	present
Darius Šimkus	Member of the Supervisory Board	2022-07-15	present

Information on the auditor

The Company's auditor – KPMG Baltics SIA, Certified audit Company licence No.55, Vesetas iela 7, Riga, Latvia, LV-1013.

Significant events after the end of the reporting financial year

There were no significant events subsequent to the end of the financial year except those mentioned in Note 19.

The Company's operation plans and prospects

In 2022, 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 2021, the Company had no research and development activities.

Financial instruments used

During 2021, the Company has continued to use SWAP agreements with Ignitis UAB with the purpose to use derivative financial instruments to manage the market risk related to electricity purchase price.

STATEMENT OF FINANCIAL POSITION

At 31 December 2021

All amounts in EUR unless otherwise stated

STATEMENT OF FINANCIAL POSITION

	Note	At 31 December 2021	At 31 December 2020
ASSETS			
Non-current assets			
Property, plant and equipment	4	344 440	98 529
Other loans and receivables		87 121	140 125
Derivate financial instruments (non-current part)	8	1 196 504	-
Total non-current assets		**1 628 065**	**238 654**
Current assets			
Trade and other receivables	5	43 167 174	7 621 461
Derivate financial instruments (current part)	8	9 278 131	-
Cash and cash equivalents	6	3 188 797	2 535 555
Total current assets		**55 634 102**	**10 157 016**
TOTAL ASSETS		**57 262 167**	**10 395 670**
EQUITY AND LIABILITIES			
Equity			
Share capital	7	11 500 000	11 500 000
Cash flow hedges reserve	8	7 335 259	-
Retained earnings		(3 620 832)	(7 848 687)
Total equity		**15 214 427**	**3 651 313**
Liabilities			
Current liabilities			
Borrowings	9	35 651 937	4 000 000
Trade and other payables	10	6 395 803	2 744 357
Total current liabilities		**42 047 740**	**6 744 357**
Total liabilities		**42 047 740**	**6 744 357**
TOTAL EQUITY AND LIABILITIES		**57 262 167**	**10 395 670**

The accompanying notes on pages 13 to 38 form an integral part of these financial statements.

All amounts in EUR unless otherwise stated

STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME

	Note	2021	2020
Revenue and other income			
Revenue from contracts with customers	11	104 006 534	39 976 796
Other income		5 173 936	94 810
Gross profit		**109 180 470**	**40 071 606**
Operating expenses			
Purchases of electricity, gas and related services	12	(103 762 753)	(34 723 014)
Selling expenses	13	(550 754)	(449 589)
Administrative expenses	14	(401 146)	(358 569)
Other operating expenses		(42 751)	(7 366 260)
Total operating expenses		**(104 757 404)**	**(42 896 103)**
Operating profit/ (loss)		**4 423 066**	**(2 825 826)**
Finance costs	15	**(195 211)**	**(58 031)**
Profit/ (loss) before income tax		**4 227 855**	**(2 883 857)**
Corporate income tax		-	-
Net profit/ (loss) for the year		**4 227 855**	**(2 883 857)**
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss			
Cash flow hedges – effective portion of changes in fair value	8	17 494 230	-
Cash flow hedges – reclassified to profit or loss	8	(10 158 971)	
Other comprehensive income for the year		**7 335 259**	**-**
Total comprehensive income/(loss) for the year		**11 563 114**	**(2 883 857)**

The accompanying notes on pages 13 to 38 form an integral part of these financial statements.

All amounts in EUR unless otherwise stated

STATEMENT OF CHANGES IN EQUITY

	Note	Share capital	Retained earnings / (Accumulated loss)	Cash flow hedges reserve	Total
Balance at 1 January 2020		**5 500 000**	**(4 964 830)**	**-**	**535 170**
Transactions with owners of the Company					
Increase of share capital		6 000 000	-	-	6 000 000
Total transactions with owners of the Company		**6 000 000**	**-**	**-**	**6 000 000**
Total comprehensive income for the period					
Loss for the year		-	(2 883 857)	-	(2 883 857)
Other comprehensive income for the year		-	-	-	-
Total comprehensive income for the period		**-**	**(2 883 857)**	**-**	**(2 883 857)**
Balance at 31 December 2020		**11 500 000**	**(7 848 687)**	**-**	**3 651 313**
Balance at 1 January 2021		**11 500 000**	**(7 848 687)**	**-**	**3 651 313**
Total comprehensive income for the period					
Profit for the year		-	4 227 855	-	4 227 855
Other comprehensive income for the year	8	-	-	7 335 259	7 335 259
Total comprehensive income for the period		**-**	**4 227 855**	**7 335 259**	**11 563 114**
Balance at 31 December 2021		**11 500 000**	**(3 620 832)**	**7 335 259**	**15 214 427**

The accompanying notes on pages 13 to 38 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

All amounts in EUR unless otherwise stated

STATEMENT OF CASH FLOWS

	Note	2021	2020
Cash flows from operating activities			
Profit/(Loss) before tax		4 227 855	(2 883 857)
Depreciation of property, plant and equipment	4	65 325	43 477
Interest expenses	15	195 211	58 031
		4 488 391	(2 782 349)
Change in operating assets and liabilities:			
Decrease / (Increase) in receivables		(38 632 085)	34 684
Increase in payables		3 651 446	(1 018 052)
Cash flows from operating activities		(34 980 639)	(3 765 717)
Net cash outflow from operating activities		**(34 980 639)**	**(3 765 717)**
Cash flows from investing activities			
Acquisition for property, plant and equipment	4	(311 236)	(28 216)
Net cash outflow from investing activities		**(311 236)**	**(28 216)**
Cash flows from financing activities			
Net change in credit line balance	9	31 600 000	2 300 000
Interest paid	9	(143 274)	(58 031)
Net cash inflow from financing activities		**31 456 726**	**2 241 969**
Net (decrease)/increase in cash and cash equivalents		**653 242**	**(1 551 964)**
Cash and cash equivalents at the beginning of the financial year		2 535 555	4 087 519
Cash and cash equivalents at end of year	6	**3 188 797**	**2 535 555**

The accompanying notes on pages 13 to 38 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 11 500,000
Date of registration:	28 February 2013
Place of registration:	Commercial register
Company code:	40103642991
Address of the registered office:	Cēsu 31 k-3, Rīga, Latvia, LV-1012
Address for correspondence:	Cēsu 31 k-3, 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 Company also provides solar panel solutions to Latvian business entities.

The Company's parent Company is Ignitis UAB, a limited liability company incorporated in the Republic of Lithuania, with the registered address Žveju g. 14, LT-09310, Vilnius, Lithuania. The Company's ultimate parent company is Ignitis grupė AB, a public limited company incorporated in the Republic of Lithuania, with the registered address Laisvės pr. 10, LT-04215, Vilnius, Lithuania. The principal shareholder of the Company's ultimate parent company is the State of the Republic of Lithuania (73.08%).

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

The financial statements have been prepared on a going concern basis which assumes the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company has completed the reporting year with a net profit, however due to the significant increase in electricity and natural gas prices the Company has increased its borrowings from its parent company to finance the working capital needs. The management believes that the current situation is temporary and electricity and gas prices will return to previous levels, thus enabling the Company to decrease its indebtedness. If the current situation becomes long-lasting and is not remedied, the Company may need continued financial support.

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 2021 to 31 December 2021 and comparative information for the year ended 31 December 2020.

The accounting policies adopted are consistent with those of the previous financial year. There have been no new IFRSs with material impact, which have been adopted by Ignitis Latvija, SIA as of 1 January 2021.

2.2 Significant events during and after the end of the reporting year

Impact of Covid-19

Restrictions related to the spread of 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 possible to forecast how the situation will develop in the future, and therefore there is uncertainty about economic development. The management of the Company constantly evaluates the situation.

Impact of war in Ukraine

On February 2022. the Russian Federation invaded Ukraine. The military action that has begun affects not only the economies of Ukraine, Russia or Belarus, but also the European Union and the world. The situation in Ukraine with respect to the preparation of these financial statements and, in particular, its impact on the European energy (electricity, gas) markets is highly volatile and largely uncertain. As the situation is changing and dynamic, the management of the Company believes that there is currently no possibility to reliably measure the possible financial impact.

At the time of preparation of the financial statements for the reporting year, there are no other significant changes in the cash flows from the income of the main business types. Customers' views on the current situation have been assessed, and no indications of a significant decline in revenues have been identified to date. However, there is significant uncertainty about the future development of the situation, which may have a significant impact on the Company, including the Company's ability to generate revenue.

The effect of future events on the Company's future operations may differ from management's current assessment. In the period from the last day of the reporting year to the signing of this report there have been no other events that should be reflected in these financial statements or that would result in any adjustments. The Company's management believes that it is taking all the necessary measures to maintain the viability of the Company and the development of its business in the current business and economic environment.

The management of the Company will continue to monitor the situation closely and will assess the need for additional measures in case the period of disruption becomes prolonged.

2.3 Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year, except as stated in the next paragraph. There have been no new IFRSs with material impact, which have been adopted by Ignitis Latvija, SIA as of 1 January 2021.

From 1 July 2021, the Company started application of the hedge accounting policy to derivative financial instruments – electricity purchase contracts. Accordingly, effective portion of gain or loss of such contracts is recognized through OCI. Fair value change up to 30 June 2021 and ineffective portion of such contracts is recognized in Other income of SPLOCI.

Standards issued but not yet effective, not yet endorsed by the EU and not early adopted with a possible material impact

The management of the Company does not believe that new and amended standards and their interpretations which the Company is required to apply for annual periods beginning after 1 January 2021 or that are not yet effective, not yet endorsed by the EU and not early adopted will have a material effect on financial statements of the Company.

2.4 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 reference foreign currency exchange rates published by European Central Bank prevailing at the transaction date. Monetary assets and liabilities denominated in a foreign currency are translated into euros based on the reference foreign currency exchange rates published by 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".

2.5 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 – 33.33 %

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 classifies its financial assets into the following three 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

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.

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.

Financial assets at fair value through other comprehensive income

The Company only has derivate financial instruments that are subject to hedging policies stated as financial assets to be measured at fair value through other comprehensive income (FVOCI). For detailed information see Note 2.7 and Note 2.19.

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), including derivate financial instruments not subject to hedging policies, are stated as financial assets to be measured at fair value through profit or loss (FVTPL).

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 financial assets 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 credit 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 and loss given default;
- Provision is calculated by multiplying the outstanding receivable balance (exposure at default) with corresponding default probability.

The following provision matrix has been used by the Company for calculating the impairment losses for trade receivables and contract assets from revenues with customers:

Crefo rating	1	2	3	4	5	6	7	8	9	10
Probability of default	0,32%	0,69%	1,10%	1,65%	2,25%	3,13%	4,37%	7,17%	68,81%	98,90%

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.

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

The Company enters into derivative transactions related to the purchase and sale prices of electricity for hedging purposes, and applies efficiency requirements to such transactions.

The fair value of derivative financial instruments is presented in the statement of financial position as "Derivate financial instruments (non-current part)" and "Derivate financial instruments (current part)".

Changes in the fair value and realized gains on derivatives that are not subject to hedging policies are recognized as "Other income" if the result for a period of such derivatives is profit, or as "Other expenses" if the result for the period of such derivatives is a loss.

The effective portion of a realized hedging instrument that is related to electricity prices is recognised in the statement of profit or loss and other comprehensive income (SPLOCI) as "Purchases of electricity, gas and other services", while any ineffective portion is recognized immediately in profit or loss part in SPLOCI in "Other income" or "Other expenses".

The effective portion of the MtM (Mark-to-Market) gain or loss on the hedging instrument is recognized in other comprehensive income and accumulated in cash flow hedges reserve until realization of the instrument, while any ineffective portion is recognized immediately in profit or loss part in SPLOCI in "Other income" or "Other expenses".

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 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 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.

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.

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.

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.

2.10 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.

2.11 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.

2.12 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.

2.13 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.

2.14 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 customers

The Company in the contracts with customers identifies performance obligations (stated either explicitly or implied) to transfer either distinct goods or services or series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer. Promised goods or services represent separate performance obligations if the goods or services are distinct. A promised good or service is considered distinct if both of the following criteria are met:

(i) customer can benefit from the good or service on its own or with other readily available resources (i.e. distinct individually) and

(ii) the good or service is separately identifiable from other promises in the contract (distinct within the context of the contract).

The Company's major legal performance obligations identified in the contracts with customers are: sale of electricity and gas.

Revenue from contracts with customers is recognised at a point in time 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 is measured based on the consideration to which the Company expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties.

Revenue from the sale of electricity consists of sale of electricity to business customers (non-household customers). Revenue from the sale of electricity is recognized at a point in time when electricity is delivered to the customer and invoiced, generally, on a monthly basis for goods sold in the previous month, based on the calculated amount of electricity consumed multiplied by the agreed transaction price per measurement unit of electricity. Electricity consumption is calculated on the basis of the declared meter readings provided by electricity distribution system operator.

Revenue from the sale of gas consists of natural gas sales to business customers (non-household customers). Revenue from the sale of natural gas to customers is recognised at a point in time when gas is delivered to the customer and invoiced, generally, on a monthly basis for goods sold in the previous month, based on the calculated amount of gas consumed multiplied by the agreed transaction price per measurement unit of gas. Gas consumption is calculated on the basis of the supplied gas quantity readings devices provided by and verified by the distribution system operator.

The Company collects transmission and distribution fees from consumers and transfers them to transmission/distribution system operator. Because the Company has no control over transmission and distribution service obligations provided, the Company treats itself as an agent in the provision of such services: (i) electricity transfer and (ii) gas transmission and distribution, and, thus, presents them in the financial statements on a net basis.

Other income

Other income includes the changes in the fair value and realized gains on derivatives that are not subject to hedging policies and the ineffective portion of realized and MtM fair value gain of hedging instruments. See also Note 2.7.

2.15 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.

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 fulfilled performance obligations was recognized.

Expenses are recognised in SPLOCI as incurred applying accrual basis of accounting.

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).

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.

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.

Expenses are presented in SPLOCI according to their function.

2.16 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.

From January 1, 2018, the corporate income tax is levied on profit that arose after 31.12.2017 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 distribution of dividends is not recognised in the statement of financial position. As at 31 December 2021 and as at 31 December 2020, the Company has an accumulated loss, and, thus, is not in a position to distribute dividends.

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 calculated. 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.

2.17 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.

2.18 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.

2.19 Significant accounting judgments, estimates and assumptions

Judgements, 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 Company. Such changes are reflected in the assumptions when they occur.

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:

Hedge accounting

The Company enters into derivative financial instruments transactions related to purchase price of electricity.

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Company will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

– there is 'an economic relationship' between the hedged item and the hedging instrument;
– the effect of credit risk does not 'dominate the value changes' that result from that economic relationship;
– the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Company actually hedges and the quantity of the hedging instrument that the Company actually uses to hedge that quantity of hedged item.

Cash flow hedges

For the purpose of hedge accounting, the Company only concludes cash flow hedges.

The effective portion of the MtM (Mark-to-Market) gain or loss on the hedging instrument is recognised in other comprehensive income part of SPLOCI in the cash flow hedge reserve, while any ineffective portion is recognised immediately in profit or loss part of SPLOCI in other income or expenses (accounting method is similar to derivative financial instruments that do not meet the hedge criteria – Note 2.7). The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

When cash flow hedges are realised, gain or losses are transferred from equity and recognised in SPLOCI as "Purchases of electricity, gas and other services".

Swap contracts – estimating the fair value of derivate financial instruments

The Company accounts for financial derivative assets and liabilities at fair value. Derivatives acquired directly from other market participants (OTC contracts) are estimated based on the prices of similar contracts on the NASDAQ Commodities exchange. All assets and liabilities measured at market value are measured on a recurring basis.

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.

The Company's financial instruments can be presented as follows:

Financial assets	31.12.2021	31.12.2020
Trade and other receivables (Note 5)	43 167 174	7 621 461
Derivate financial instruments (non-current part)	1 196 504	-
Derivate financial instruments (current part)	9 278 131	-
Cash and cash equivalents (Note 6)	3 188 797	2 535 555
Total financial assets	**56 830 606**	**10 157 016**

Financial liabilities	31.12.2021	31.12.2020
Borrowings (Note 9)	35 651 937	4 000 000
Trade and other payables (Note 10)	3 109 724	1 864 087
Total financial liabilities	**38 761 661**	**5 864 087**

Market risk

Price risk

Market risk is the risk that the fair value or future cash flows will fluctuate because of changes in market prices,

The Company's activities expose it to the risk of change in electricity and gas price (market risk). Contracts for the sale and purchase of electricity and gas for the Company are concluded both for fixed and variable price. Risk is mainly characteristic to contracts concluded for sale of fixed price electricity products.

Aiming to reduce market price fluctuation impact on electricity purchase costs the Company starting from 2019 has concluded a SWAP agreement with Ignitis UAB with the purpose to use derivative financial instruments to manage the market risk. Starting from 2021, the Company has entered into agreement with Ignitis UAB on the provision of fixed price electricity products portfolio management services to transfer the risks caused by price volatility to the parent company Ignitis UAB.

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.

The interest rate profile of the Company's interest-bearing financial instruments as reported to the management of the Company is as follows:

	31 December 2021	31 December 2020
Variable-rate instruments		
Borrowings	(35 651 937)	(4 000 000)
Net position	**(35 651 937)**	**(4 000 000)**

Fair value sensitivity analysis for fixed-rate instruments

The Company does not account for any financial liabilities at fair value through profit or loss, and the Company does not use derivatives as hedging instruments under a fair value hedge accounting model. Therefore, a change in interest rates at the reporting dates would not affect profit or loss.

Cash flow sensitivity analysis for variable-rate instruments

The Company monitors the sensitivity of its interest-bearing borrowings to changes in interest rates and the effect of such changes on the Company's profit or loss and equity. A reasonably possible change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables remain constant.

	Profit or loss and Equity	
	100 bp increase	**100 bp decrease***
Variable rate instruments		
Year ended 31 December 2020	38 685	-
Year ended 31 December 2021	46 832	-

*There is no estimated effect from the decrease as the variable interest rate applied was nil in 2020-2021 (if the variable rate is negative, the interest rate floor of 0% is applied as specified in the Company's borrowings contracts).

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:

	31.12.2021	31.12.2020
Cash and cash equivalents (Note 6)	3 188 797	2 535 555
Trade and other receivables (Note 5)	43 167 174	7 621 461
Total	**46 355 971**	**10 157 016**

The Company has the following assets that are subject to expected credit loss model: trade receivables and contract assets – accrued revenues related to 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 and contract assets – accrued revenues, including 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 Company's top 2 credit risk exposures from contracts with customers make up 53% of the total balance of Trade receivables and Accrued income as at 31 December 2021.

The following table provides information about the exposure to credit risk and ECLs for trade and other receivables and contract assets from debtors assessed collectively as at 31 December 2021.

EUR 31 December 2021	Range of loss rate	Gross carrying amount	Loss allowance	Net carrying amount	Credit impaired
Current (not past due)	0.83%	43 324 676	(358 463)	42 966 213	No
Past due 1-30 days	1.62%	53 483	(868)	52 615	No
Past due 31-60 days	0.88%	149 562	(1 313)	148 249	No
Past due 61-90 days	-	-	-	-	No
Past due 91-120 days	-	-	-	-	No
Past due more than 120 days	99.99%	1 203 393	(1 203 296)	97	Yes
Total		**44 731 114**	**(1 563 940)**	**43 167 174**	

The following table provides information about the exposure to credit risk and ECLs for trade and other receivables and contract assets from debtors assessed collectively as at 31 December 2020.

EUR 31 December 2020	Range of loss rate	Gross carrying amount	Loss allowance	Net carrying amount	Credit impaired
Current (not past due)	4.97%	7 792 228	(387 023)	7 405 205	No
Past due 1-30 days	1.30%	213 764	(2 769)	210 995	No
Past due 31-60 days	4.36%	1 994	(87)	1 907	No
Past due 61-90 days	99.97%	83 426	(83 403)	23	Yes
Past due 91-120 days	100.00%	78 301	(78 301)	-	Yes
Past due more than 120 days	99.72%	1 208 950	(1 205 619)	3 331	Yes
Total		**9 378 663**	**(1 757 202)**	**7 621 461**	

All amounts in EUR unless otherwise stated

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 resources 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. 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 2021	Less than 3 months	3 to 12 months	Total undiscounted cash flow	Carrying amount
Trade payables and other payables (Note 9)	3 109 724	-	3 109 724	3 109 724
Borrowings (Note 8)*	-	36 097 157	36 097 157	35 651 937
Total	**3 109 724**	**36 097 157**	**39 206 881**	**38 761 661**

*- interest expenses have been estimated on the basis of interest rates prevailing on 31 December 2021.

31 December 2020	Less than 3 months	3 to 12 months	Total undiscounted cash flow	Carrying amount
Trade payables and other payables (Note 9)	1 864 087	-	1 864 087	1 864 087
Borrowings (Note 8)*	-	4 010 800	4 010 800	4 000 000
Total	**1 864 087**	**4 010 800**	**5 874 887**	**5 864 087**

*- interest expenses have been estimated on the basis of interest rates prevailing on 31 December 2020.

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:

	31.12.2021	31.12.2020
Borrowings (from the parent company)	35 651 937	4 000 000
Other liabilities (Trade and other payables)	6 395 803	2 744 357
Total liabilities	**42 047 740**	**6 744 357**
Equity	15 214 427	3 651 313
Total liabilities and equity	**57 262 167**	**10 395 670**
Borrowed capital to total capital	2.34	1.10
Equity to total liabilities	0.36	0.54

Fair value

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.

Financial instruments not measured at 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 2021 and 31 December 2020 (Other loans and receivables, Trade and other receivables, Cash and cash equivalents, Borrowings (from the parent company) and Trade and other payables) do not materially differ from the carrying amounts reported in the financial statements.

Financial instruments measured at fair value

As at 31 December 2021 and 2020, the Company has accounted for assets and liabilities arising from financial derivatives. The Company accounts for financial derivative assets and liabilities at fair value and their accounting policies are set out in Note 2.19. Market values based on observable inputs (Level 2) comprise derivatives where valuation models with observable inputs are used to measure fair value. All assets and liabilities measured at market value are measured on a recurring basis. The Company attributes to Level 2 of the fair value hierarchy derivative financial instruments linked with the Lithuanian and Finnish electricity price areas. The fair value of derivatives acquired directly from other market participants (OTC contracts) is estimated based on the prices of similar financial instruments on the NASDAQ Commodities exchange.

	Carrying value		Fair value	
	Total	1 level	2 level	3 level
Fair value as at 31 December 2020				
Financial instruments measured at fair value through profit (loss) or other comprehensive income				
Financial assets				
Derivatives	-	-	-	-
Fair value as at 31 December 2021				
Financial instruments measured at fair value through profit (loss) or other comprehensive income				
Financial assets				
Derivatives	10 474 635	-	10 474 635	-

All amounts in EUR unless otherwise stated

4 Property, plant and equipment

	Other fixed assets	Total
Cost 31.12.2019	**128 437**	**128 437**
Acquired during 2020	28 216	28 216
Cost 31.12.2020	**156 653**	**156 653**
Depreciation 31.12.2019	**14 647**	**14 647**
Charge for 2020	43 477	43 477
Depreciation 31.12.2020	**58 124**	**58 124**
Net book value 31.12.2019	**113 790**	**113 790**
Net book value 31.12.2020	**98 529**	**98 529**
Cost 31.12.2020	**156.653**	**156.653**
Acquired during 2021	311 236	311 236
Cost 31.12.2021	**467 889**	**467 889**
Depreciation 31.12.2020	**58.124**	**58.124**
Charge for 2021	65 325	65 325
Depreciation 31.12.2021	**123 449**	**123 449**
Net book value 31.12.2020	**98 529**	**98 529**
Net book value 31.12.2021	**344 440**	**344 440**

5 Trade and other receivables

	31.12.2021	31.12.2020
Contract assets – Accrued revenues	27 847 555	5 500 613
Trade receivables	12 128 323	3 379 945
Allowances for impairment of Trade receivables and Accrued revenues	(1 563 940)	(1 757 202)
Receivable from related parties	4 738 566	487 025
Other debtors	16 670	11 080
Total	**43 167 174**	**7 621 461**

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.

Contract assets – Accrued revenues include amounts related to invoices issued in January 2022 for the goods and services provided in December 2021.

Movements in the allowance for impairment in respect of trade and other receivables and contract assets

The movement in the allowance for impairment in respect of trade and other receivables and contract assets during the reporting period was as follows.

	EUR
Balance as at 31 December 2019	**241 609**
Amounts written off	-
Net remeasurement of loss allowance	1 515 593
Balance as at 31 December 2020	**1 757 202**
Amounts written off	(1 683)
Net remeasurement of loss allowance	(191 579)
Balance as at 31 December 2021	**1 563 940**

6 Cash and cash equivalents

	31.12.2021	31.12.2020
Cash in the bank	3 188 797	2 535 555
Total	**3 188 797**	**2 535 555**

Credit risk on cash and cash equivalents is assessed as limited because the counterparty is a bank that is a part of an international banking group with a high credit rating.

7 Share capital

The Company's registered share capital as at 31.12.2021 is EUR 11 500 000 and consists of 11 500 000 shares with nominal value of EUR 1 each. In 2020, the share capital of the Company was increased by issue of new 6 000 000 shares with par value of EUR 1 each.
In 2020, EUR 6 000 000 of the shareholder Ignitis UAB loan was capitalized and included in the share capital.

Company's shareholder	At 31 December 2021		At 31 December 2020	
	Share capital (EUR)	Number of shares held, %	Share capital (EUR)	Number of shares held, %
Ignitis UAB	11 500 000	100	11 500 000	100

8 Derivatives and Cash flow hedges reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of the hedging instruments used in cash flow hedges pending subsequent recognition in profit or loss as the hedged cash flows or items affect profit or loss.

Hedging reserve:

	At 31 December 2021	At 31 December 2020
Cash flow hedges – effective portion of changes in fair value	17 494 230	-
Cash flow hedges – reclassified to profit or loss	(10 158 971)	-
Total	**7 335 259**	**-**

Derivative financial instruments included in the statement of financial position

Movement of assets and liabilities related to the Company's derivative financial instruments contracts were as follows:

	2021	2020
Total as at 1 January	-	-
Fair value change of the hedging instruments recognised in Other income, net	3 139 376	-
Fair value change of the hedging instruments recognised in OCI, net	7 335 259	-
Total fair value change	**10 474 635**	**-**
Derivate financial instruments (non-current part)	1 196 504	-
Derivate financial instruments (current part)	9 278 131	-
Total as at 31 December	**10 474 635**	**-**

Derivative financial instruments included in SPLOCI

Derivative financial instruments included in SPLOCI were as follows:

	2021	2020
Fair value change of non-hedging instruments recognised in Other income, net	1 915 861	(5 831 846)
Hedge ineffectiveness recognised in Other income, net	3 139 376	-
Total recognized in Other income / (Other expenses)	**5 055 237**	**(5 831 846)**
Effective hedges reclassified from Hedging reserve to SPLOCI	10 158 971	-
Total	**15 214 208**	**(5 831 846)**

9 Borrowings

	Interest rate 31.12.2021	31.12.2021	31.12.2020
Credit line from Ignitis UAB Agreement Nr. S-LV-2021-83	2.26%	31 006 935	-
Credit line from Ignitis UAB Agreement Nr. S-LV-2020-22	2.26%	4 645 002	4 000 000
Total		**35 651 937**	**4 000 000**

	31.12.2021	31.12.2020
Balance at the beginning of the year	**4 000 000**	**7 700 000**
Credit line received	63 700 000	2 300 000
Credit line repaid	(32 100 000)	-
Total changes from financing cash flows	**31 600 000**	**2 300 000**
Capitalization of credit line balance to share capital	-	(6 000 000)
Interest expense	195 211	58 031
Interest paid	(143 274)	(58 031)
Total liability-related other changes	**51 937**	**(6 000 000)**
Balance at the end of the year	**35 651 937**	**4 000 000**

Parent company Ignitis UAB has granted a two credit lines to the Company for the operating needs. Interest rate for the borrowing is EONIA (if EONIA is a negative number, it is assumed EONIA to be 0 (zero)) plus 2.26% as at 31 December 2021 (plus 0.81% as at 31 December 2020). 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.

10 Trade and other payables

	31.12.2021	31.12.2020
Financial payables within trade and other payables:		
Trade payables to third parties	248 002	207 859
Trade payables to related parties (Note 18)	19 963	315 079
Accrued liabilities	2 841 759	1 341 149
Total financial payables within trade and other payables (Note 3)	**3 109 724**	**1 864 087**
Non-financial payables within trade and other payables:		
Payables to employees	25 791	35 271
Other tax payables	3 163 229	840 529
Prepayments	97 059	4 470
Total non-financial payables within trade and other payables	**3 286 079**	**880 270**
Total	**6 395 803**	**2 744 357**

11 Revenue

	2021	2020
Revenue from contracts with customers		
Sale of electricity	98 735 473	38 708 768
Sale of gas	5 266 901	1 266 191
Sale of Solar projects	1 941	-
Other revenue from contracts with customers	2 219	1 837
Total	**104 006 534**	**39 976 796**

Disaggregation of revenues from contracts with customers by major product lines is disclosed in the table above. All contracts are concluded with business customers (non-household customers) in Latvia. All revenues from contracts with customers are recognized at a point in time.

12 Purchases of electricity, gas and related services

	2021	2020
Purchase of electricity	98 266 171	33 454 267
Purchase of gas	5 496 582	1 154 645
Other costs of sales	-	114 102
Total	**103 762 753**	**34 723 014**

13 Selling expenses

	2021	2020
Salaries	198 837	175 955
IT costs	144 161	96 533
Regulatory fee	84 220	68 864
Marketing costs	27 865	32 626
Social insurance contributions	48 139	41 498
Office rent and utilities	23 847	25 222
Other selling costs	23 685	8 891
Total	**550 754**	**449 589**

14 Administrative expenses

	2021	2020
Salaries	159 969	166 640
Social insurance contributions	36 436	40 623
Accounting services	27 620	30 638
Legal services	21 803	13 313
Depreciation of fixed assets	65 326	43 822
Other administrative costs	89 992	63 533
Total	**401 146**	**358 569**

15 Finance costs

	2021	2020
Interest costs on current credit line	195 211	58 031
Total	**195 211**	**58 031**

16 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, including tax-related liabilities, in the future. The Company is not involved in any existing or threatened litigation.

17 Number of employees

	2021	2020
Average number of employees in the reporting year	13	11

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.

The Company's transactions with related parties conducted during the period from 1 January to 31 December 2020 and balances arising on these transactions as at 31 December 2020 are presented below:

	At 31 December 2020			
	Payables and obligations	Receivables	Costs of purchase and interest	Income of sales and interest
Parent company:				
Ignitis UAB – SWAP transactions (realized)	127 479	483 105	5 831 846	-
Ignitis UAB – borrowings	4 000 000	-	58 031	-
Ignitis UAB	187 600	3 920	6 629 070	239 052
Total:	**4 315 079**	**487 025**	**12 518 947**	**239 052**
Other related parties:				
Ignitis grupes paslaugu centras UAB	(16 545)	-	42 432	-
Ignitis UAB permanent establishment in Latvia	-	-	351 161	-
Total:	**(16 545)**	**-**	**393 593**	**-**
Total:	**4 298 534**	**487 025**	**12 912 540**	**239 052**

The Company's transactions with related parties conducted during the period from 1 January to 31 December 2021 and balances arising on these transactions as at 31 December 2021 are presented below:

	At 31 December 2021			
	Payables and obligations	Receivables	Costs of purchase and interest	Income of sales and interest
Parent company:				
Ignitis UAB – SWAP transactions (realized)	-	4 069 956	-	2 112 507
Ignitis UAB – borrowings	35 651 937	-	195 211	-
Ignitis UAB	-	668 610	6 661 151	12 979 266
Total:	**35 651 937**	**4 738 566**	**6 856 362**	**15 091 773**
Other related parties:				
Ignitis grupes paslaugu centras UAB	19 963	-	102 465	-
Total:	**19 963**	**-**	**102 465**	**-**
Total:	**35 671 900**	**4 738 566**	**6 958 827**	**15 091 773**

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

War in Ukraine

On February 2022. the Russian Federation invaded Ukraine. The military action that has begun affects not only the economies of Ukraine, Russia or Belarus, but also the European Union and the world. The situation in Ukraine with respect to the preparation of these financial statements and, in particular, its impact on the European energy (electricity, gas) markets is highly volatile and largely uncertain. As the situation is changing and dynamic, the Management believes that there is currently no possibility for reliably measuring the possible financial impact.

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.

Kristaps Muzikants

Member of the Board

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Independent Auditors' Report

To the shareholder of Ignitis Latvija SIA

Our Opinion on the Financial Statements

We have audited the accompanying financial statements of Ignitis Latvija SIA ("the Company") set out on pages 9 to 38 of the accompanying Annual Report, which comprise:

— the statement of financial position as at 31 December 2021,

— the statement of profit or loss and 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 a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Ignitis Latvija SIA as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Basis for Opinion

In accordance with the 'Law on Audit Services' of the Republic of Latvia we conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibility for the Audit of the Financial Statements* section of our report.

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

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

Other Matter

The corresponding figures presented are based on financial statements of the Company as at and for the year ended 31 December 2020, which were audited by another independent auditors whose report dated 26 February 2021 expressed an unqualified opinion.

Reporting on Other Information

The Company's management is responsible for the other information. The other information comprises:

— Information on the Company, as set out on page 3 of the accompanying Annual Report,

— the Management Report, as set out on pages 4 to 8 of the accompanying Annual Report, Our opinion on the financial statements does not cover the other information included in the Annual Report, and we do not express any form of assurance conclusion thereon.

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

If, based on the work we have performed and in light of the knowledge and understanding of the Company and its environment obtained in the course of our audit, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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 IFRSs 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.

Auditors' Responsibility for the Audit of the Financial Statements

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

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

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

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

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

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

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

KPMG Baltics SIA
Licence No. 55

Rainers Vilāns
Partner pp. KPMG Baltics SIA
Latvian Sworn Auditor
Certificate No. 200
Riga, Latvia
25 November 2022

THIS DOCUMENT HAS BEEN SIGNED WITH A SECURE ELECTRONIC SIGNATURE AND IT HAS A TIME-STAMP