JOINT STOCK COMPANY SAKRET HOLDINGS

UNIFIED REGISTRATION NUMBER 40103251030

CONSOLIDATED ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2019

(10^{th} financial year)

PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS
AS ADOPTED IN THE EUROPEAN UNION
TOGETHER WITH INDEPENDENT AUDITORS' REPORT

* This version of financial statements is a translation from the original, which was prepared in the Latvian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of financial statements takes precedence over this translation.

Riga, 2020

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General information

Name of the Parent Company	SAKRET HOLDINGS
Legal status of the Parent Company	Joint-Stock Company
Unified registration number, place and date of registration	40103251030, Riga, 30 September 2009
Registered office	„Ritvari", Rumbula, Stopinu region, Latvia, LV-2121
Full name and address of the shareholder as at 31 December 2019 (end of day)	SIA "PĀRVALDĪBAS SISTĒMAS" „Ritvari", Rumbula, Stopinu region, Latvia, LV-2121
Board Members	Māris Ķelpis, Chairman of the Board Andis Ziedonis, Member of the Board Juris Grīnvalds, Member of the Board
Council Members	Andris Vanags, Chairman of the Council Elīna Salava, Deputy Chairman of the Council (till 14 February 2018) Mārtiņš Biezais, Member of the Council (till 14 February 2018) Valērija Lieģe, Deputy Chairman of the Council (from 14 February 2018) Artis Grinbergs, Member of the Council (from 14 February 2018)
Other Group companies	SIA SAKRET (100%) Reg. No. 40003622109, „Ritvari", Rumbula, Stopinu region, LV-2121 SIA SAKRET PLUS (90%) Reg. No. 40003749392, „Ritvari", Rumbula, Stopinu region, LV-2121 UAB SAKRET LT (100%) Reg. No. 3005988522 Biochemikų g. 2, LT-57234, Kėdainiai, Lithuania OÜ SAKRET (100%) Reg. No. 111961147 Mäo küla, Paide vald, 72751 Järvamaa, Estonia
Financial year	1 January – 31 December 2019
Auditors	Dace Negulinere Latvian Certified Auditor Certificate No 175 SIA Ernst & Young Baltic Muitas 1A, Riga Latvia, LV – 1010 License No 17

Consolidated management report

Introduction

AS SAKRET HOLDINGS and its subsidiaries (hereinafter – the Group) is engaged in production and sale of dry and ready-mix construction materials, and is one of the leading manufacturers of construction materials in the Baltic countries. Sakret offers a wide range of building materials in various areas of the construction process, e.g. cement-based dry mix mortars – heat insulation mortars, concrete, masonry mortars and repair compounds, plastering mortars, tile adhesives, decorative plasters and other types of products as well as ready- construction materials – decorative plasters, primers, building chemistry, paints and other types of products.
The Group provides services and more convenient type of packaging that facilitates the production, namely, lease of mobile silos, mixers, plastering machines.

Performance of the Group

In 2019, the construction volumes continued to grow, as a result of which the Group's net turnover in 2019 increased by EUR 0.6 million or 3% compared to 2018, reaching EUR 21.9 million.
The Group's target market since the beginning of Sakret is the Baltic countries where 98% of the revenue was derived in 2019; no structural changes were observed compared to 2018.
In 2019, the Group's gross profit grew by EUR 643 thousand due to both the sales growth by 4% and the changes in the product range; however, a negative impact was produced by the increased staff costs driven by the average salary growth tendency in the Baltic countries.
In 2019, the Group's staff costs grew by EUR 109 thousand or 5% against the year 2018.

In 2019, the Group successfully completed the refinancing of its credit liabilities to Luminor Bank AS. As a result, by partial payment and full cancellation of all the credit liabilities to Luminor Bank AS, the Group's profit for the reporting year grew by EUR 8.5 million. The resulting expense of EUR 684 thousand is stated as refinancing costs under the administrative expense.

Research and Development

One of the Group's tasks is working with the direct consumers of products, i.e., builders, acquainting them with the new products and services as well as explaining the product specifics and advantages.

The management also regularly follows the latest trends in the building materials market in order to be able to provide a versatile and high-quality offer. In 2019, the Group managed to complete work on a new product - flexible tile adhesive for large format tiles. The universal mortar Multimix 4in1, the work on which was completed in 2018, is successfully sold on the market. The Group plans to continue active work on developing new products. In 2020, a new product BOS will be offered on the market - self-leveling mixture for floors.

Investments

In 2019, the Group invested EUR 113.9 thousand in the replacement and modernization of equipment, which is by EUR 21.1 thousand less than in 2018.

Financing overview

On 11 October 2019, the credit liabilities of the Sakret group companies to AS Luminor Bank were refinanced, thus settling all liabilities with AS Luminor Bank. To this end, the Group attracted funds from AS BlueOrange Banka amounting to EUR 6 000 000 (a non-current loan of EUR 4 000 000, an overdraft of EUR 2 000 000) as well as EUR 3 000 000 of the proceeds form the bond issue. Moreover, AS BlueOrange Banka provided a credit line with a limit of EUR 1 700 000 for financing current assets. The refinancing plan executed by Sakret and AS BlueOrange Banka is expected to form a basis for a long-lasting cooperation.

Other income of the Group included income of EUR 8 493 675 derived from the cancellation of the liabilities to AS Luminor Bank; the equity was increased by the respective amount. On 10 September 2019, within the framework of the refinancing process, the share capital of AS SAKRET HOLDINGS was increased from EUR 35 000 up to EUR 1 050 000. As at 31 December 2019 - the share capital consists of 750 000 shares with a par value of EUR 1.40 each. The execution of the transaction led to an additional expense of EUR 683 959.

In 2019 the Group has attracted financing from AS BlueOrange Banka and issued bonds. In accordance with the credit agreement and terms of bond issue, the Group is obliged to comply with certain financial covenants specified in the agreement. Group's management has performed an examination of the fulfillment of these financial covenants and concluded that based on the Consolidated financial statements of AS SAKRET HOLDING, these covenants have been met :

- Ratio Net DEBT / EBITDA does not exceed 5.0,
- Ratio DSCR is above 1.1,
- Ratio Net DEBT / Equity does not exceed 5.0.

Management report (cont'd)

Planning and development of the Group

Prior to the impact of the COVID-19 crisis, the Group forecasted a modest increase in sales in the upcoming years. At the time of issuing the report, the management anticipates sales volumes in 2020 to be at year 2019 level. These assumptions are based on actual sales at the beginning of the year, which were significantly higher than planned due to the unusually warm winter and assuming that the virus will not reactivate in the autumn season. Taking into account the current forecasts for GDP growth after the end of the crisis in the Baltic States as a whole and in each of counties separately, planned growth in 2021 will be able to compensate what was not achieved during 2020, and ensure targeted and stable growth in the long run.

Financial risk management

Market risk
The Group mitigates market risk by diversifying both its product range and the customer base. The key customers are major retailers of construction materials; however, the products are also sold to smaller trading companies. The Group offers a wide range of products so that negative market trends do not affect all sales products simultaneously. Market forecasts and trends are followed in order to develop and offer products demanded in the market.

Credit risk
The Group is exposed to credit risk mainly through its trade receivables which are tightly monitored; as a result, in 2019 their amount decreased despite the increase in turnover. Individual credit limits are set in accordance with the credit policy and based on internal or external assessments, and the use of loans is regularly monitored. In addition to control, to reduce credit risk, in 2019 insurance of trade receivables was introduced.

Liquidity risk
The goal of liquidity risk management by the Group is to maintain an adequate amount of cash and cash equivalents and to insure the availability of sufficient funding, thereby enabling the Group to meet its obligations as they fall due.
Regularly the Group checks matching of the maturities of financial assets and liabilities as well as the stability of financing for non-current assets. The Group's management believes that the Group will have sufficient funds available so that its liquidity position might not be jeopardized.

Interest rate risk
The Group is exposed to interest rate risk through its loans from banks and finance lease, and factoring liabilities. After refinancing, the Group's non-current loan bears a floating interest rate (6-month EURIBOR). The Group follows the EURIBOR forecasts, thus assessing the potential changes in floating interest rates (for the next three years a negative EURIBOR rate is projected). Current financial instruments (credit line, overdraft) bear a fixed interest rate.

Events after balance sheet date
Subsequent to the year end, in the Baltic countries – Latvia, Lithuania and Estonia as well as in many other countries in March 2020 there came into effect restrictions to limit the coronavirus spread leading to a considerable economic slowdown in Latvia and all over the world. Further events cannot be predicted, therefore, there is an uncertainty as to the economic development. The Group's management constantly monitors the situation. The Group ensures the safety of employees and business continuity, all business units operate at the available capacity. As far as possible, work is performed remotely, working in the factory and office is done in compliance with the strictest safety measures. Great attention is paid both to the logistics of raw material supplies, thus ensuring the continuity of the production process, and to the sales organization. The Group's management believes that the Group will be able to overcome the emergency situation by ensuring the availability of products. The Group pays increased attention to the solvency of its customers. Although customers do not represent industries that have been affected by COVID-19, their activities may be disrupted due to national restrictions. Therefore, after assessing all the above risks and the uncertainty of the economic situation, the management of the Sakret Group decided to use the support offered by the Latvian government to improve liquidity during the emergency situation related to the spread of COVID-19. AS Sakret Holdings subsidiary SIA SAKRET, unified registration No. 40003622109 in accordance with the set criteria got the opportunity to obtain additional working capital financing of EUR 1 million from AS "Attīstības finanšu institūcija Altum", unified registration No. 50103744891. The granted additional working capital financing will be available until December 18, 2020, and SIA SAKRET will decide on its use, considering the development of the situation and the actual circumstances. However, this conjecture is based on the information available at the time of signing these financial statements and the impact of future events on the Group's ability to continue as a going concern may differ from the management's assessment.

Profit distribution
It is expected that the profit for the reporting period will be used for covering the prior period losses.

Statement of Management’s Responsibility

The Management Board of AS SAKRET HOLDINGS prepares consolidated financial statements for each financial year which give a true and fair view of the AS SAKRET HOLDINGS group’s financial position at the end of the respective period, and the financial results and cash flows of the Group for that respective period. The financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the European Union.
In preparing those financial statements, the management selects suitable accounting policies and then apply them consistently; makes judgments and estimates that are reasonable and prudent; prepares the financial statements on the going concern basis unless it is inappropriate to presume that the going concern principle may be applied.
The Management Board of AS SAKRET HOLDINGS is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position, financial performance and cash flows of the Group and enable them to ensure that financial statements drawn up from them comply with International Financial Reporting Standards as adopted by the European Union.

Māris Ķelpis	Andis Ziedonis	Juris Grīnvalds
Chairmen of the board	Member of the Board	Member of the Board

17 July 2020

Consolidated financial statements

Consolidated Statement of Comprehensive Income

	Notes	2019 EUR	2018 EUR
Revenue	4	21 867 685	21 265 701
Cost of sales	5	(15 829 305)	(15 872 388)
Gross profit		**6 038 380**	**5 393 313**
Distribution costs	6	(2 903 410)	(2 808 428)
Administrative expense	7	(1 635 435)	(1 473 338)
Other operating income		11 499	60 827
Other operating expense		(24 367)	(103 170)
Operating profit		**1 486 667**	**1 069 204**
Finance income	8	8 494 920	1 248
Finance costs		(925 728)	(782 891)
Profit before corporate income tax		**9 055 859**	**287 561**
Income tax expense	9	(52 505)	(49 230)
Net profit for the year		**9 003 354**	**238 331**
Other comprehensive income		-	-
Total comprehensive income:		**9 003 354**	**238 331**
Parent Company`s shareholders		8 993 988	220 852
Minority shareholders		9 366	17 479
Basic and diluted earnings per share	10	11,99	8,83

The accompanying notes form an integral part of these financial statements

Māris Ķelpis	Andis Ziedonis	Juris Grīnvalds	Oksana Birkāne
Chairman of the Board	Member of the Board, responsible for report preparation	Member of the Board	Chief Accountant, person in charge of the preparation of the annual report

17 July 2020

Consolidated Statement of Financial Position

ASSETS

NON-CURRENT ASSETS	Notes	31/12/2019 EUR	31/12/2018 EUR	01/01/2018 EUR
Intangible assets				
Licenses		149 544	166 578	169 042
Development costs		314 482	279 658	242 830
TOTAL	12	**464 026**	**446 236**	**411 872**
Property, plant and equipment				
Land, buildings and constructions		8 012 099	8 391 711	8 780 792
Equipment and machinery		1 787 346	2 126 376	2 537 216
Other fixtures and fittings, tools and equipment		103 975	109 805	99 582
Right-of-use assets		412 096	321 036	259 248
Prepayments for property, plant and equipment		-	-	6 529
TOTAL	13	**10 315 516**	**10 948 928**	**11 683 367**
TOTAL NON-CURRENT ASSETS		**10 779 542**	**11 395 164**	**12 095 239**
CURRENT ASSETS				
Inventories				
Raw materials and consumables		1 236 815	1 380 966	1 367 758
Finished goods and goods for sale		890 680	899 109	896 466
Prepayments for goods		16 275	7 006	27 670
TOTAL	16	**2 143 770**	**2 287 081**	**2 291 894**
Receivables and prepayments				
Trade receivables	17	2 372 748	2 631 561	2 417 304
Prepaid expenses		206 623	47 356	36 392
Others loans	15	35 572	35 572	35 572
Other receivables		94 360	139 209	143 382
TOTAL		**2 709 303**	**2 853 698**	**2 632 650**
Cash and cash equivalents	18	**315 245**	**342 277**	**306 063**
TOTAL CURRENT ASSETS		**5 168 318**	**5 483 056**	**5 230 607**
TOTAL ASSETS		**15 947 860**	**16 878 220**	**17 325 846**

The accompanying notes form an integral part of these financial statements. For more details, see also Note 2.

Māris Ķelpis	Andis Ziedonis	Juris Grīnvalds	Oksana Birkāne
Chairman of the Board	Member of the Board, responsible for report preparation	Member of the Board	Chief Accountant, person in charge of the preparation of the annual report

Consolidated Statement of financial position

EQUITY AND LIABILITIES

EQUITY	Notes	31/12/2019 EUR	31/12/2018 EUR	01/01/2018 EUR
Share capital	19	1 050 000	35 000	35 000
Denomination reserve		572	572	572
Reorganization reserve	20	(8 491 750)	(8 491 750)	(8 491 750)
Foreigh exchahge rate fluctuations reserve		24 899	24 899	24 899
Retained earnings/(accumulated deficit)		62 050	(158 802)	135 472
Profit/loss for the year		8 993 988	220 852	(307 129)
EQUITY ATTRIBUTABLE TO PARENT COMPANY`S SHAREHOLDERS		**1 639 759**	**(8 369 229)**	**(8 602 936)**
Minority share		203 722	194 356	176 877
TOTAL EQUITY		**1 843 481**	**(8 174 873)**	**(8 426 059)**
LIABILITIES				
Non-current liabilities				
Loans from credit institutions	21	2 009 253	-	16 641 137
Other borrowings	23	2 949 648	167 093	167 093
Lease liabilities	22	240 292	137 391	111 398
Trade payables	24	574 642	644 132	757 532
TOTAL		**5 773 835**	**948 616**	**17 677 160**
Current liabilities				
Loans from credit institutions	21	3 421 566	17 762 148	1 700 000
Other borrowings	23	300 000	1 384 137	1 208 127
Lease liabilities	22	144 901	140 607	117 153
Trade payables	24	3 006 289	3 443 308	3 427 461
Contract liabilities		322 072	38 127	118 865
Taxes payable	25	214 684	182 508	325 638
Other liabilities		171 871	130 153	139 133
Accrued liabilities	26	720 158	994 486	1 009 365
Unpaid dividends to minority shareholder		29 003	29 003	29 003
TOTAL		**8 330 544**	**24 104 477**	**8 074 745**
TOTAL LIABILITIES		**14 104 379**	**25 053 093**	**25 751 905**
TOTAL EQUITY AND LIABILITIES		**15 947 860**	**16 878 220**	**17 325 846**

The accompanying notes form an integral part of these financial statements.

Māris Ķelpis	Andis Ziedonis	Juris Grīnvalds	Oksana Birkāne
Chairman of the Board	Member of the Board, responsible for report preparation	Member of the Board	Chief Accountant, person in charge of the preparation of the annual report

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Consolidated Statement of cash flows

	Notes	2019 EUR	2018 EUR
Cash flows to/ from operating activities			
Profit before tax		**9 055 859**	**287 561**
Adjustments to reconcile profit before tax to net cash flows:			
Depreciation and impairment of property, plant and equipment and right-of-use assets	13	980 584	1 037 658
Amortisation and impairment of intangible assets	12	36 240	33 843
Gain on disposal of property, plant and equipment		(10 898)	(16 521)
Finance income	8	(8 494 920)	(1 248)
Finance costs		925 728	782 891
		2 492 593	**2 124 184**
Working capital adjustments			
(Increase)/ decrease in trade receivables, contract assets and prepayments		148 471	(204 945)
(Increase)/ decrease in inventories		141 737	2 587
Increase/ (decrease) in trade and other payables, contract liabilities and		(184 423)	(300 710)
		2 598 378	**1 621 116**
Interest paid		(914 465)	(652 190)
Income tax paid		(19 218)	(20 785)
Net cash flows from operating activities		**1 664 695**	**948 141**
Investing activities			
Purchase of property, plant and equipment and intangible assets		(400 614)	(403 555)
Proceeds from sale of property, plant and equipment and intangible assets		13 093	14 521
Net cash flows used in investing activities		**(387 521)**	**(389 034)**
Financing activities			
Investment in stock or share capital (equity capital)	19	1 015 000	-
Proceeds from borrowings	21,23	7 958 226	334 566
Repayment of borrowings	21,23	(10 097 462)	(700 000)
Payment of principal portion of lease liabilities	22	(179 970)	(157 459)
Net cash flows from /(used in) financing activities		**(1 304 206)**	**(522 893)**
Net increase in cash and cash equivalents		**(27 032)**	**36 214**
Cash and cash equivalents at 1 January		**342 277**	**306 063**
Cash and cash equivalents at 31 December		**315 245**	**342 277**

The accompanying notes form an integral part of these financial statements.

Māris Ķelpis Chairman of the Board	Andis Ziedonis Member of the Board, responsible for report preparation	Juris Grīnvalds Member of the Board	Oksana Birkāne Chief Accountant, person in charge of the preparation of the annual report

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Consolidated Statement of changes in equity

	Share capital	Denomination reserve	Reorganization reserve (Note 20)	Foreign exchange rate fluctuations reserve	(Accumulated losses)/ retained earnings/	Total equity attributable to parent Company's shareholders	Minority shareholders' participation share	Total equity
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Balance as at 1 January 2018	**35 000**	**572**	**(8 491 750)**	**24 899**	**(158 802)**	**(8 590 081)**	**176 877**	**(8 413 204)**
Profit for the year	-	-	-	-	220 852	220 852	17 479	238 331
Other comprehensive income	-	-	-	-	-	-	-	-
Total comprehensive income	**-**	**-**	**-**	**-**	**220 852**	**220 852**	**17 479**	**238 331**
Balance as at 31 December 2018	**35 000**	**572**	**(8 491 750)**	**24 899**	**62 050**	**(8 369 229)**	**194 356**	**(8 174 873)**
Increase of capital	1 015 000	-	-	-	-	1 015 000	-	1 015 000
Profit for the year	-	-	-	-	8 993 988	8 993 988	9 366	9 003 354
Other comprehensive income	-	-	-	-	-	-	-	-
Total comprehensive income	**1 015 000**	**-**	**-**	**-**	**8 993 988**	**10 008 988**	**9 366**	**10 018 354**
Balance as at 31 December 2019	**1 050 000**	**572**	**(8 491 750)**	**24 899**	**9 056 038**	**1 639 759**	**203 722**	**1 843 481**

The accompanying notes form an integral part of these financial statements.

Māris Ķelpis	Andis Ziedonis	Juris Grīnvalds	Oksana Birkāne
Chairman of the Board	Member of the Board, responsible for report preparation	Member of the Board	Chief Accountant, person in charge of the preparation of the annual report

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Notes to the consolidated financial statements

1. Corporate information

AS SAKRET HOLDINGS (hereinafter – the Parent Company) was registered with the Republic of Latvia Enterprise Register on 30 September 2009 under unified registration number 40103251030. The registered office of the Parent Company is at Ritvari", Rumbula, Stopinu region, Latvia, LV-2121. The bonds of the Parent Company are listed on Nasdaq Riga Baltic First North list.

The Sakret Group (hereinafter – the Group) is a one of the leading Baltic of dry and ready-made liquid mixes manufacturer for construction. The Parent Company has 100% participating interest in subsidiary SIA Sakret and 90% participating interest in subsidiary SIA Sakret plus, principal place of business is Latvia, 100% participating interest in subsidiary Sakret OU in Estonia and 100% participating interest in subsidiary Sakret LT UAB in Lithuania.

The financial statements for the year ended 31 December 2019 were approved by a decision of the Parent Company's Board on July 17th, 2020.

The Parent Company's shareholders have the power to amend the consolidated and separate financial statements after the issue.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. The financial statements present fairly the Group's financial position, financial performance and cash flows. For the purposes of fair presentation, faithful information is provided concerning the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expense. In order to achieve a true and fair view ('fair presentation'), the Group has complied with International Financial Reporting Standards, as adopted by the EU, which comprise the following:

International Accounting Standards (IAS);

International Financial Reporting Standards (IFRS);

interpretations issued by the International Financial Reporting Interpretations Committee;

Framework for the Preparation and Presentation of Financial Statements.

These policies have been consistently applied to all the years presented, unless otherwise stated. Where necessary, comparatives are reclassified.

For all periods up to and including the year ended 31 December 2018, the Group prepared its financial statements in with the Law of the Republic of Latvia on Annual Reports and Consolidated Annual Reports (Local GAAP). These financial statements for the year ended 31 December 2019 are the first the Group has prepared in accordance to IFRS. Refer to Transition to IFRS in accounting politics for information on how the Group adopted IFRS.

2.1. Basis of preparation

The financial statements present the consolidated financial position of the AS AS SAKRET HOLDINGS Group (i.e. AS AS SAKRET HOLDINGS and its subsidiaries).

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union. The consolidated financial statements are prepared on a historical cost basis, unless stated otherwise in the accounting policies described below.

The monetary unit used in the financial statements is the euro (EUR). The consolidated financial statements cover the period 1 January 2019 through 31 December 2019.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingencies and income and expense for the reporting period.

Standards issued but not yet effective

- **IFRS 16: Covid-19 Related Rent Concessions (Amendment)**

The amendment exempts lessees from having to consider individual lease contracts to determine whether rent concessions occurring as a direct consequence of the covid-19 pandemic are lease modifications and allows lessees to account for such rent concessions as if they were not lease modifications. It applies to covid-19-related rent concessions that reduce lease payments due on or before 30 June 2021. The amendment is available to lessees only and is effective from 1 June 2020. It can be applied by lessees immediately in any financial statements—interim or annual—not yet authorized for issue. The amendment has not yet been endorsed by the EU. The implementation of these amendments will not have any impact on the financial position or performance of the Group.

- **IFRS 17: Insurance Contracts**

The standard is effective for annual periods beginning on or after 1 January 2023 with earlier application permitted if both IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have also been applied. IFRS 17 Insurance Contracts establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of an entity. Management is currently assessing the impact of the implementation of this standard.

- **Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The implementation of these amendments will not have any impact on the financial position or performance of the Group.

- **Conceptual Framework in IFRS standards**

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

- **IFRS 3: Business Combinations (Amendments)**

The IASB issued amendments in Definition of a Business (Amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The Amendments are effective for business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, with earlier application permitted. The implementation of these amendments will not have any impact on the financial position or performance of the Group.

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

The Amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The Amendments clarify the definition of material and how it should be applied. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'. In addition, the explanations accompanying the definition have been improved. The Amendments also ensure that the definition of material is consistent across all IFRS Standards. Management is currently assessing the impact of the implementation of this standard.

Standards issued but not yet effective (cont'd)

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

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

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

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

The Group plans to adopt the above-mentioned standards and interpretations on their effectiveness date provided they are endorsed by the EU.

2.2. Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2019. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the

Group has:
- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:
- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of OCI are attributed to the equity holders of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill, if any), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

2.3. Transition to IFRS

These consolidated financial statements, for the year ended 31 December 2019, are the first the Group has prepared in accordance with IFRS. For periods up to and including the year ended 31 December 2018, the Group prepared its financial statements in accordance with Local GAAP. Accordingly, the Group has prepared financial statements that comply with IFRS applicable as at 31 December 2019, together with the comparative period data for the year ended 31 December 2018, as described in the summary of significant accounting policies. In preparing the financial statements, the Group's opening statement of financial position was prepared as at 1 January 2018, the Group's date of transition to IFRS.

This note explains the principal adjustments made by the Group in restating its Local GAAP financial statements, including the statement of financial position as at 1 January 2018 and the financial statements for the year ended 31 December 2018.

The Group assessed all contracts existing at 1 January 2018 to determine whether a contract contains a lease based upon the conditions in place as at 1 January 2018.

Lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at 1 January 2018. Right-of-use assets were measured at the amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before 1 January 2018. The lease payments associated with leases for which the lease term ends within 12 months of the date of transition to IFRS and leases for which the underlying asset is of low value have been recognised as an expense on either a straight-line basis over the lease term or another systematic basis.

Estimates

The estimates at 1 January 2018 and at 31 December, 2018 are consistent with those made for the same dates in accordance with Local GAAP (after adjustments to reflect any differences in accounting policies) apart from the following items where application of Local GAAP did not require estimation:

- Leases;
- Trade receivables;

The estimates used by the Group to present these amounts in accordance with IFRS reflect conditions at 1 January 2018, the date of transition to IFRS and as at 31 December 2018.

Group reconciliation of equity as at 1 January 2018 (date of transition to IFRS)

	Notes	Local GAAP EUR	Remeasurements EUR	IFRS as at 1 January 2018 EUR
ASSETS				
NON-CURRENT ASSETS				
Intangible assets				
Licenses		169 042		169 042
Development costs		242 830		242 830
TOTAL		**411 872**		**411 872**
Property, plant and equipment				
Land, buildings and constructions		8 780 792		8 780 792
Equipment and machinery		2 537 216		2 537 216
Other fixtures and fittings, tools and equipment		99 582		99 582
Right-of-use assets	A	-	259 248	259 248
Prepayments for property, plant and equipment		6 529		6 529
TOTAL		**11 424 119**		**11 683 367**
Non-current financial assets				
Investments in subsidiaries		-		**-**
Other non-current receivables	A	**13 918**	(13 918)	**-**
Loans to related companies		**-**		**-**
TOTAL		**13 918**		**-**
TOTAL NON-CURRENT ASSETS		**11 849 909**		**12 095 239**
CURRENT ASSETS				
Inventories				
Raw materials and consumables		1 367 758		1 367 758
Finished goods and goods for sale		896 466		896 466
Prepayments for goods		27 670		27 670
TOTAL		**2 291 894**	**-**	**2 291 894**
Receivables and prepayments				
Trade receivables	B	2 515 993	(98 689)	2 417 304
Prepaid expenses		36 392		36 392
Loans to shareholders		35 572		35 572
Other receivables	A	142 318	1 064	143 382
TOTAL		**2 730 275**		**2 632 650**
Cash		**306 063**		**306 063**
TOTAL CURRENT ASSETS		**5 328 232**	**-**	**5 230 607**
TOTAL ASSETS		**17 178 141**	**147 705**	**17 325 846**
EQUITY AND LIABILITIES				
EQUITY				
Share capital		35 000		35 000
Denomination reserve		572		572
Reorganization reserve		(8 491 750)		(8 491 750)
Foreigh exchahge rate fluctuations reserve		24 899		24 899
Retained earnings/(accumulated deficit)	A,C	148 327	(12 855)	135 472
Profit for the year	A,B,C	(239 138)	(67 991)	(307 129)
EQUITY ATTRIBUTABLE TO PARENT COMPANY\`S SHAREHOLDERS		**(8 522 090)**		**(8 602 936)**

Minority share		176 877		176 877
TOTAL EQUITY		**(8 345 213)**		**(8 426 059)**
LIABILITIES				
Non-current liabilities				
Loans from credit institutions		16 641 137		16 641 137
Other borrowings		167 093		167 093
Lease liabilities	C	-	111 398	111 398
Trade payables		757 532		757 532
TOTAL		**17 565 762**		**17 677 160**
Current liabilities				
Loans from credit institutions		1 700 000		1 700 000
Other borrowings		1 208 127		1 208 127
Lease liabilities	C	-	117 153	117 153
Trade payables		3 427 461		3 427 461
Contract liabilities		118 865		118 865
Taxes payable		325 638		325 638
Other liabilities		139 133		139 133
Accrued liabilities		1 009 365		1 009 365
Unpaid dividends to minority shareholder		29 003		29 003
TOTAL		**7 957 592**		**8 074 745**
TOTAL LIABILITIES		**25 523 354**		**25 751 905**
TOTAL EQUITY AND LIABILITIES		**17 178 141**	**147 705**	**17 325 846**

Group reconciliation of equity as at 31 December 2018

	Notes	**Local GAAP**	**Remeasurements**	**IFRS as at 31 December 2018**
		EUR	**EUR**	**EUR**
ASSETS				
NON-CURRENT ASSETS				
Intangible assets				
Licenses		166 578		166 578
Development costs		279 658		279 658
TOTAL		**446 236**		**446 236**
Property, plant and equipment				
Land, buildings and constructions		8 391 711		8 391 711
Equipment and machinery		2 126 376		2 126 376
Other fixtures and fittings, tools and equipment		109 805		109 805
Right-of-use assets	A	-	321 036	321 036
TOTAL		**10 627 892**		**10 948 928**
Non-current financial assets				
Investments in subsidiaries		-		**-**
Other non-current receivables	A	**34 113**	(34 113)	**-**
Loans to related companies		**-**		**-**
TOTAL		**34 113**		**-**
TOTAL NON-CURRENT ASSETS		**11 108 241**		**11 395 164**

CURRENT ASSETS				
Inventories				
Raw materials and consumables		1 380 966		1 380 966
Finished goods and goods for sale		899 109		899 109
Prepayments for goods		7 006		7 006
TOTAL		**2 287 081**	**-**	**2 287 081**
Receivables and prepayments				
Trade receivables	B	2 717 539	(85 978)	2 631 561
Prepaid expenses		47 356		47 356
Loans to shareholders		35 572		35 572
Other receivables	A	138 160	1 049	139 209
TOTAL		**2 938 627**		**2 853 698**
Cash		**342 277**		**342 277**
TOTAL CURRENT ASSETS		**5 567 985**		**5 483 056**
TOTAL ASSETS		**16 676 226**	**201 994**	**16 878 220**
EQUITY AND LIABILITIES				
EQUITY				
Share capital		35 000		35 000
Denomination reserve		572		572
Reorganization reserve		(8 491 750)		(8 491 750)
Foreigh exchahge rate fluctuations reserve		24 899		24 899
Retained earnings/(accumulated deficit)	A,B,C	(90 811)	(67 991)	(158 802)
Profit for the year	A,B,C,D	349 876	(129 024)	220 852
EQUITY ATTRIBUTABLE TO PARENT COMPANY`S SHAREHOLDERS		**(8 172 214)**		**(8 369 229)**
Minority share		194 356		194 356
TOTAL EQUITY		**(7 977 858)**		**(8 174 873)**
LIABILITIES				
Non-current liabilities				
Loans from credit institutions		**-**		**-**
Other borrowings		167 093		167 093
Lease liabilities	C	-	137 391	137 391
Trade payables		644 132		644 132
TOTAL		**811 225**		**948 616**
Current liabilities				
Loans from credit institutions	D	17 641 137	121 011	17 762 148
Other borrowings		1 384 137		1 384 137
Lease liabilities	C	-	140 607	140 607
Trade payables		3 443 308		3 443 308
Contract liabilities		38 127		38 127
Taxes payable		182 508		182 508
Other liabilities		130 153		130 153
Accrued liabilities		994 486		994 486
Unpaid dividends to minority shareholder		29 003		29 003
TOTAL		**23 842 859**		**24 104 477**
TOTAL LIABILITIES		**24 654 084**		**25 053 093**
TOTAL EQUITY AND LIABILITIES		**16 676 226**	**201 994**	**16 878 220**

Group reconciliation of total comprehensive income for the year ended 31 December 2018

	Notes	Local GAAP	Remeasurements	IFRS for the year ended 31 December 2018
Revenue from contracts with customers		21 265 701		21 265 701
Revenue from contracts with customers		**21 265 701**		**21 265 701**
Cost of sales	A,C	(15 872 424)	36	(15 872 388)
Gross profit		**5 393 277**		**5 393 313**
Distribution costs	A,C	(2 799 993)	(8 435)	(2 808 428)
Administrative expense	A,C	(1 470 121)	(3 217)	(1 473 338)
Other operating income	A,B,C	48 116	12 711	60 827
Other operating expense		(103 170)		(103 170)
Operating profit		**1 068 109**		**1 069 204**
Other interest and similar income		1 248		1 248
Other interest and similar expense	C,D	(652 772)	(130 119)	(782 891)
Profit before tax		**416 585**		**287 561**
Income tax expense		(49 230)		(49 230)
Profit for the year		**367 355**		**238 331**
Other comprehensive income		-		0
Total comprehensive income		**367 355**	**(129 024)**	**238 331**

Notes to the reconciliation of equity as at 1 January 2018 and 31 December 2018 and total comprehensive income for the year ended 31 December 2018:

A, C - Right-of-use assets and lease liabilities

The Group applied IFRS 16 Leases for the first time. The nature and effect of the changes as a result of adoption of this new accounting standard is described below. Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the consolidated financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases for which it is the lessee, except for short-term leases and leases of low-value assets. The Group recognised lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets. In accordance with the full retrospective method of adoption, the Group applied IFRS 16 at the date of initial application as if it had already been effective at the commencement date of existing lease contracts. IFRS 16.C5(a)

As at 1 January 2018, 31 December 2018 and 31 December 2019:

• 'Right-of-use assets' were recognised and presented separately in the statement of financial position.
• Additional lease liabilities were recognised and included under 'Lease liabilities.
• 'Retained earnings' decreased due to the net impact of these adjustments.

For the year ended 31 December 2019:

• Depreciation expense increased because of the depreciation of additional assets recognised (i.e., increase in right-of-use assets, net of the decrease in 'Property, plant and equipment'). This resulted in increases in 'Cost of sales' EUR 38 187 (2018: EUR 30 988), 'Distribution costs' of EUR 73 497 (2018: EUR 81 391) and 'Administrative expenses' EUR 79 059 (2018: EUR 56 696), respectively.
• Rent expense included in Cost of sales' EUR 39 704 (2018: EUR 31 024), 'Distribution costs' of EUR 67 181 (2018: EUR 72 956) and 'Administrative expenses' EUR 73 085 (2018: EUR 53 479), relating to previous operating leases, decreased.
• 'Finance costs' increased by EUR 12 794 (2018: EUR 9 109) relating to the interest expense on additional lease liabilities recognised.

• Cash outflows from operating activities decreased by EUR 179 970 (2018: EUR 157 459) and cash outflows from financing activities increased by the same amount, relating to decrease in operating lease payments and increases in principal and interest payments of lease liabilities.

B - Trade and other receivables

Under Local GAAP, the provision for impairment of receivables consists of both a specific amount for incurred losses and general amount for expected future losses. IFRS does not permit recognition of impairment for expected future losses and this amount has been eliminated against retained earnings at 1 January 2018. The effect on earnings for the year ended 31 December 2018 is also recognised in profit for the year under IFRS.

D – Loans from credit institutions and other borrowings

Under Local GAAP, it is not necessary to discount estimated future cash flows through the expected life of the financial liability to the amortised cost of financial liability. Under IFRS 9 effective interest method has to be applied. It is used in the calculation of the amortised cost of a financial lliability and in the allocation and recognition of the interest expense in profit and loss statement over the relevant period. When calculating the effective interest rate, Group estimated the expected cash flows by considering all the contractual terms of the financial instrument.

2.5. Foreign currency translation

The functional and presentation currency of the Group is the euro (EUR), the monetary unit of the Republic of Latvia. Transactions in foreign currencies are translated into the euro at the euro foreign exchange reference rate published by the European Central Bank at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the euro applying the euro foreign exchange reference rate published by the European Central Bank at the last day of the reporting year. The differences arising on settlements of transactions or on reporting foreign currency transactions at rates different from those at which these transactions have originally been recorded are netted in the statement of comprehensive income accounts. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. The non-monetary items are carried at historical cost and no further retranslation is performed.

Non-financial assets and liabilities

2.6 Intangible assets

Intangible non-current assets are stated at cost and amortized over their estimated useful lives on a straight-line basis. The carrying values of intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Losses from impairment are recognized where the carrying value of intangible non-current assets exceeds their recoverable amount.

After initial recognition, development expenditure is recognized as intangible assets at cost less accumulated amortization and any accumulated impairment losses. Assets are amortized over their expected useful lives. At each reporting date, it is analyzed whether there is any indication that the asset may be impaired. When computer software is an integral element of hardware that cannot operate without that specific software, computer software is treated as property, plant and equipment. Other intangible assets are comprised of software and licenses. Amortization is calculated on straight line basis. Other intangible assets have a useful life of 3 – 10 years. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of comprehensive income when the asset is derecognized.

2.7. Research and development costs

Research costs are expensed as incurred. Development expenditures on an individual project are recognized as an intangible asset when the Group can demonstrate the technical feasibility of completing the intangible asset so that the asset will be available for use or sale, its intention to complete and its ability and intention to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset and the ability to measure reliably the expenditure during development. Other development expenditure is written off.

After initial recognition, development expenditure is recognized as intangible assets at cost less accumulated amortization and any accumulated impairment losses. Assets are amortized over their expected useful lives. At each reporting date, it is analyzed whether there is any indication that the asset may be impaired.

2.8. Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value, except for land and buildings that are measured at revaluated amount less accumulated depreciation (of the buildings) and impairment losses recognized after date of revaluation. Land is not depreciated. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset, as follows:

- Buildings 4% - 10%
- Equipment and machinery 6% - 33%
- Other property, plant and equipment 10% -50%

Depreciation starts when the asset is ready for its intended use.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the higher of an asset's fair value less costs to sell and its value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the cost of sales caption or in admirative expense caption.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the statement of comprehensive income in the year the item is derecognized.

Expenses related to leasehold improvements are capitalized as property, plant and equipment and depreciated over the lease period on a straight-line basis.

Construction in progress represents property, plant and equipment under construction and is stated at historical cost. This includes the cost of construction and other direct expenses. Construction in progress is not depreciated as long as the respective assets are not completed and available for use.

Estimates concerning property, plant and equipment

Useful lives of property, plant and equipment
The Group makes estimates concerning the useful lives and residual values of property, plant and equipment. These estimates are reviewed at the end of each reporting period and are based on the past experience and industry practice. Previous experience has shown that the actual useful lives have sometimes been longer than the estimates.

Recoverable amount of property, plant and equipment
When the events and circumstances indicate a potential impairment, the Group performs impairment tests for items of property, plant and equipment. According to these tests, assets are written down to their recoverable amounts, if necessary. For the purposes of impairment testing, the management uses various estimates for the cash flows arising from the use, sale, maintenance and repairs of the assets, as well as in respect of the inflation and interest rate growth.

2.9. Inventories

Inventories are stated at the lower of the following values: cost or market value. Costs comprise direct materials costs as well as, if applicable, direct labor costs and other directly attributable costs incurred in bringing the inventories to their present location and condition. Inventory cost price is determined using FIFO (first-in, first-out) method. If necessary, obsolete, slow moving and defective inventories are written-off.

2.10. Grants

Grants received from the government and international organizations are recognized where there is reasonable assurance that the grant will be received, and all attached conditions will be complied with.

Government grants are recognized as income on a systematic basis over the period when the Group expense the costs that the grants compensate. A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs is recognized as income of the period in which it becomes receivable.

2.11. Recognition and measurement of provisions

Provisions are recognized when the Group have a present obligation (legal or constructive) as a result of a 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. Where the Group expect some or all of provisions to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

2.12. Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Group recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

- Plant and machinery 2 to 5 years
- Motor vehicles 2 to 5 years

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. The right-of-use assets are also subject to impairment. Refer to the accounting policies in section 3.9 Impairment of non-financial assets.

Lease liabilities

At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognized as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset. The Group's lease liabilities are included in Interest-bearing loans and borrowings (Note 21).

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Financial assets and liabilities

2.13. Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset’s contractual cash flow characteristics and the Group’s business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price as disclosed in Note 2.18 Revenue from contracts with customers.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are ‘solely payments of principal and interest (SPPI)’ on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group’s business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows while financial assets classified and measured at fair value through OCI are held within a business model with the objective of both holding to collect contractual cash flows and selling.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

The Group classifies financial assets as follows:
- financial assets at amortized cost;
- equity investments at fair value through other comprehensive income (FVTOCI);
- financial assets at fair value through profit or loss (FVTPL),
- debt investments at fair value through other comprehensive income (FVTOCI).

Financial assets at amortized cost

A financial asset is measured at amortized cost in case it satisfies both of the following requirements and is not classified as at FVTPL: a) it is held within a business model whose objective is to hold assets to collect contractual cash flows; and b) its contractual terms on specified dates ensures cash flows that are solely payments of principal and interest. These assets are initially measured at fair value plus transaction costs, directly attributable to their acquisition. After the initial recognition, the assets are measured at amortized cost applying the effective interest rate method. The amortized cost value is decreased by impairment losses. Foreign exchange gains and losses, impairment, and interest income are recognized in profit or loss statement. On derecognition, any gain or loss is recognized in profit or loss statement.

Equity investments at FVTOCI

Upon initial recognition, the Group can choose to irrevocably classify its equity investments as equity instruments designated at fair value through OCI, in case these investments a) meet the definition of equity instrument under IAS 32 Financial Instruments and b) and are not held for trading. The Group evaluates and applies this classification for each instrument separately. These instruments are initially measured at fair value plus transaction costs, directly attributable to their acquisition. After the initial recognition, these instruments are measured at fair value. Dividends are recorded in profit or loss statement. Other net gains and losses are accumulated in OCI and are never applied or reclassified to profit or loss statement.

2.13. Financial assets (cont'd)

Financial assets at FVTPL

These financial instruments include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial instruments are deemed as held for trading in case they are planned to be sold in the short term. Derivatives are also classified as held for trading, except when they are hedging instruments. Financial instruments with contractual cash flows that are not solely principal and interest payments are classified and measured at fair value through profit or loss. For these instruments, directly attributable transaction costs are recognized in profit or loss as incurred. After the initial recognition, these instruments are measured at fair value. Net value changes are recognized in profit or loss statement.

Debt investments at FVTOCI

A debt investment is measured at FVTOCI if it meets both of the following requirements and is not classified as at FVTPL: a) it is held within a business model whose objective is to hold assets to collect contractual cash flows and to sell these financial assets; and b) its contractual terms on specified dates ensures cash flows that are solely payments of principal and interest. These assets are initially measured at fair value plus transaction costs directly attributable to their acquisition. After the initial recognition, the assets are measured at fair value. Foreign exchange gains and losses, interest income calculated using the effective interest method, and impairment are recognized in profit or loss. Other net gains and losses are recognized in other comprehensive income (OCI). In case of derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's financial statement of financial position) when:
• The rights to receive cash flows from the asset have expired or
• The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through arrangement; and either
(a) the Group has transferred substantially all the risks and rewards of the asset, or
(b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor
transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2.14. Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, and derivative financial instruments.

The Group classifies financial liabilities as follows:
- financial liabilities at amortized cost;
- financial liabilities at fair value through profit or loss (FVTPL).

Financial liabilities at amortized cost

A financial liability is measured at amortized cost in case it is not held-for-trading and is not designated as held-for-trading in the initial recognition. These financial liabilities are initially measured at fair value less directly attributable transaction costs. After the initial recognition, these liabilities are measured at amortized cost, using the effective interest rate.

2.14. Financial liabilities (cont'd)

Financial liabilities at FVTPL

A financial liability is classified as at FVTPL in case it is held-for-trading or is designated as held-for-trading in the initial recognition. For this type of liabilities, directly attributable transaction costs are recognized in profit or loss statement, as incurred. Liabilities at FVTPL are measured at fair value, with changes in value and interest expense recognized through profit or loss statement.

In case the Group and the Parent Company uses derivative financial instruments, such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Derivative embedded in a hybrid contract, with a financial liability is separated from the host and accounted for as a separate derivative if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are menasured at fair value with changes in fair value recognized in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or 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 the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

2.15. Impairment of financial instruments

The Group and recognizes an allowance for expected credit losses (ECLs) for financial assets measured at amortized cost. The impairment model is based on the premise of providing for expected losses.

Impairment is measured with one of the following approaches: a) 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and b) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

For trade receivables, the Group apply a simplified approach – a loss allowance is always established equal to the amount of credit losses expected over the remaining life of the asset (lifetime ECLs).

For individually assessed financial assets that are measured at amortized cost (Loan to shareholder) the IFRS 9 general approach is used, applying the Expected Credit Losses Model, which foresees calculating the financial asset value adjustments as the product of three variables: Exposure at Default (EAD), Loss Given Default (LGD) and the Probability of Default (PD).

For financial assets measured at amortized cost, considered to have acceptable credit risk, the ECLs are based on the 12-month ECLs. However, when there has been a significant increase in credit risk since origination, the allowance is based on the lifetime ECLs.

2.16. Cash and cash equivalents

Cash and cash equivalents include cash in bank and in hand, deposits held at call with banks with maturities of three months or less.

2.17. Receivables

A receivable represents the Group right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

Accounts receivable in the balance sheet are stated at their nominal value less provision for doubtful receivables. On each balance sheet date, the Group evaluates if there is an objective evidence indicating that the client will not be able to meet payment terms. Each debtor is analyzed individually. Provisions for doubtful debts are made, the amount of which is determined as the difference between the recoverable value and nominal value.

2.17. Receivables (cont'd)

Factoring

Factoring transactions, whereby the claim seller retains the obligation to repurchase the claim, are recognized as a collateral loan (factoring liability). The claim is recognized in the balance sheet until the claim is received or the right of recourse expires.
When the factoring liability is removed from the balance sheet, the difference between the carrying amount of the liability and the consideration paid for it is recognized as an expense in the income statement.

2.18. Revenue from contracts with customers

The Group is in the business of building materials production and sales.

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled inexchange for those goods or services. The Group has generally concluded that it is the principal in its revenue arrangements.
Revenue from sale of building materials is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the materials at the customer's location. The normal credit term is 30 to 95 days upon delivery.

Volume rebates

The Group provide retrospective volume rebates to certain customers once the quantity of products purchased during the period exceeds a threshold specified in the contract. Rebates are only applied to the aggregate amount of goods purchased in the relevant period (in one calendar year) and are not attributed to other periods. Rebates are offset against amounts payable by the customer.

Significant financing component

Generally, the Group receive short-term advances from its customers. Using the practical expedient in IFRS 15, the Group do not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised good or service to the customer and when the customer pays for that good or service will be one year or less

2.19. Fair value measurement

The Group measures non-financial assets at fair value at each balance sheet date. Fair value is 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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:
• In the principal market for the asset or liability
Or
• In the absence of a principal market, in the most advantageous market for the asset or liability
The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

• Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities

• Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

• Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Group's Management determines the policies and procedures for both recurring fair value measurement and for non-recurring measurement. At each reporting date, the Group's Management analyses the movements in the values of assets and liabilities which are required to be remeasured or re-assessed as per the Group's accounting policies. For this analysis, the Group's Management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

2.20. Contingencies

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

2.21. Initial recognition and measurement of financial liabilities

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, and derivative financial instruments.

2.22. Subsequent measurement

For purposes of subsequent measurement, financial liabilities are classified in two categories:

- Financial liabilities at fair value through profit or loss
- Financial liabilities at amortised cost (loans and borrowings)

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

Financial liabilities at amortised cost (loans and borrowings)

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss. This category generally applies to interest-bearing loans and borrowings. For more information, refer to Note 21.

2.23. Taxes

2.23.1. Current corporate income tax

Legal entities have not been required to pay income tax on earned profits starting from 1 January 2018 in accordance with amendments made to the Corporate Income Tax Law of the Republic of Latvia. Corporate income tax is paid on distributed profits and deemed profit distributions. Consequently, current and deferred tax assets and liabilities are measured at the tax rate applicable to undistributed profits. Starting from 1 January 2018, both distributed profits and deemed profit distributions have been subject to the tax rate of 20 per cent of their gross amount, or 20/80 of net expense. Corporate income tax on dividends is recognized in the consolidated profit or loss as expense in the reporting period when respective dividends are declared, while, as regards other deemed profit items, at the time when expense is incurred in the reporting year. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or other comprehensive income, in which case it is recognized in equity or other comprehensive income.
According to the currently valid legislation in Estonia, the profit of the company is not the object of taxation. Instead, income tax is paid on dividends, fringe benefits, gifts, entertaining expenses, non-business payments and transfer price adjustments. The tax rate applicable is 20/80 on the actual dividends paid. The rate of corporation tax on a regularly paid out dividends are 14/86.
The income tax due on dividend distribution is recorded as liability in balance sheet and expensed in the income statement when respective disbursements are declared, irrespective of period for which the dividends were declared or actual date of payment. The due date of income tax liability in Estonia is the 10th day of the month following a taxable distribution.

In Republic of Lithiania current income tax payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Income tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period. In 2019, the income tax applied to the Company was 15% (in 2018, 15%).

2.23.2. Deferred corporate income tax

Deferred tax is provided using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying value for accounting purposes. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized, or the liability is settled, based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Corporate income tax on dividends and deferred income tax expense on dividends of subsidiaries and joint ventures are reported in the consolidated statement of comprehensive income.

2.23.3. Value added tax

Expenses and assets are recognized net of the amount of value added tax, except:

- When value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, value added tax is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable,

- When receivables and payables are stated with the amount of value added tax included.

The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

2.24. Related parties

The parties are considered related when one party has a possibility to control the other one or has significant influence over the other party in making financial and operating decisions. Related parties of the Parent Company are shareholders who could control or who have significant influence over the Parent Company in accepting operating business decisions, key management personnel of the Parent Company and close family members of any above-mentioned persons, as well as entities over which those persons have a control or significant influence. Related parties of the Group do not include subsidiaries.

2.25. Business combination

2.25.1. Business combination under common control

A common control transaction is a transfer of assets or an exchange of equity interests among entities under the same parent's control. "Control". "Control" can be established through a majority voting interest, as well as variable interests and contractual arrangements. Entities that are consolidated by the same parent—or that would be consolidated, if consolidated financial statements were required to be prepared by the parent or controlling party—are considered to be under common control. The Group has elected to use the pooling of interest approach. The merger is in substance the redemption of shares in the subsidiary, in exchange for the underlying assets of the subsidiary.

The acquired assets and assumed liabilities are recognised at the carrying amounts in the consolidated financial statements as of the date of the legal merger. This includes any associated goodwill, intangible assets, or other purchase price allocation adjustments that were recognised when the subsidiary was originally acquired, less the related amortisation, depreciation, impairment losses, as applicable. Group has elected o use the pooling of interest method where the difference between the amounts assigned to the assets and liabilities and the carrying amount of the investment in the merged subsidiary is recognised directly in equity under the heading "Reorganization reserve".

2.26. Subsequent events

Post-year-end events that provide additional information about the Group's position at the balance sheet date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

3. Significant accounting judgments, estimates and assumptions

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses, and disclosure of contingencies. The significant areas of judgment used in the preparation of the financial statements relate to going concern assessment. Estimates include depreciation, allowances for doubtful receivables and inventories and contract assets, and impairment evaluation. Although these estimates are based on the management's best knowledge of current events and actions, the actual results may ultimately differ from those estimates.

3.1. Going concern

The Group has closed 2019 with a profit of EUR 8,99 milion including finance income of EUR 8.6 million of forfeited liabilities from Luminor Bank. As at 31 December 2019 equity amounted to EUR 1,84 milion compared to 31 December 2018 when it was negative EUR 8,17 milion. Significant changes are related to the refinancing of credit liabilities of Group companies.

In 2019, credit liabilities to AS Luminor Bank were refinanced, thus cancelling all liabilities to AS Luminor Bank. For its implementation, Group's companies have attracted funds from AS BlueOrange Bank in the amount of EUR 6 milion (EUR 4 milion loan, EUR 2 milion overdrafts) and funds from the bond issue in the amount of EUR 3 milion. Additionally, a credit line with a limit of EUR 1,7 milion was received from AS BlueOrange to finance current assets. Refinancing plan executed by the Sakret & BlueOrange is planned as long-lasting cooperation.

At the end of the reporting period, current liabilities exceeded current assets by EUR 3,16 milion, the main factors being loans from credit institutions (EUR 3,42 milion): short-term portion of long-term loans (EUR 1 milion),working capital financing - overdrafts (EUR 1.61 milion) and credit line (EUR 814 thousand). Extension of both overdraft and credit line terms is planned until 2023 to finance current assets, their current terms are currently December 31, 2020 and February 22, 2021, respectively. The Bank has confirmed readiness to prolong these agreements at least until 2023 if the covenants will be met during this period. Additional current liabilities components are payables to affiliated companies (EUR 585 thousand). In 2020 the Group has received confirmations from affiliated companies that repayment of the debt will not be requested in case if it would harm ability of the Group to continue operations as going concern.

For going concern evaluation, the management considers overdraft amounting to EUR 1.61 million, credit line amounting to EUR 814 thousand and payables to affiliated companies amounting to EUR 585 thousand as non-current liabilities, thus by having these considerations as of 31 December 2019 current liabilities exceed current assets by EUR 0,15 miliion. The management is planning to settle this difference with positive cash flow from operations in 2020 and if necessary, with available additional overdraft funds in amount EUR 393 thousand and credit line in amount EUR 86 thousand. Taking into consideration the non-current nature of mentioned liabilities, the management of the Group believes that there is sufficient amount of current assets available to cover current liabilities.

To ensure liquidity, the Group plans to divert the positive cash flow of 2020 from economic activities. In 2020, EBITDA is planned in the amount of 2,4mil EUR, of which 1,9mil EUR is planned to be used for loan servicing.

After the end of the financial year, in March 2020, restrictions related to the spread of COVID-19 have entered into force in the Republic of Latvia and many other countries, which significantly reduce economic development in Latvia and the world. It is not expected how the situation will develop in the future, and therefore there is uncertainty about economic development. Group's management monitors the situation and assesses potential risks. In order to be able to ensure the Group's economic activity, after risk assessment, measures related to the state of emergency in the country have been introduced - work is performed remotely, factory and office work is provided in accordance with the strictest security measures, attention is paid to raw material supply logistics, process continuity, sales organization, increased attention is paid to customer solvency. Although customers do not represent industries that have been suspended under COVID-19, their activities may be disrupted due to national restrictions.

The Group continues to serve the existing customers and acquiring new customers. No significant changes occur to either in the business environment of the market both in the EU and Latvia, except for the emergency situation due to COVID-19 virus spread estimated effects on the Group key financial indicators.

Overall, as of date of signing these financial statements the Group is slightly below the initial budget, and the management has made an assessment of possible negative impact of COVID-19. The management believes that maximum decrease of revenue in 2020 could be up to 20%. In order to ensure sufficient liquidity in case of this scenario, the Group has received confirmation from Blue Orange Bank that Group could utilize principal payment and interest payment holidays for the existing loan principal amounts. The management has verified that could utilize the opportunities of the government support to Sakret Group to improve liquidity situation during the COVID-19 virus spread extraordinary situation, if necessary. The Group has secured a working capital loan within the framework of state aid program in amount up to EUR 1 million, which will be available in case of necessity.

Additionally, as stated in the subsequent event paragraph, Group has increased available overdraft for EUR 400 thousand to ensure additional financing for its increased production capacity due to active season.

The activities of the Group are based on the information available at the time of signing these financial statements and the impact of future events on the Group's future operations may differ from the management's current assessment.

Group's top priority is safety and security of its employees and continuation of the operations during COVID-19 emergency situation period. As per report preparation date among Group's employees there are no infection cases. All business units operate at the available capacity.

These financial statements have been prepared on a going concern basis and do not include any adjustments that may be required if the going concern assumption were not applicable.

3.2. Deferred tax assets and liabilities

The temporary differences associated with investments in the Group's subsidiaries, associates and joint ventures, for which a deferred tax liability has not been recognized in the periods presented, aggregate 0 (2018: 0). The Group has determined that the undistributed profits of its subsidiaries, will not be distributed in the foreseeable future. The Group has an agreement with BlueOrange bank AS, the largest long-term financier. According to the agreement, a specific covenant is included in the Terms of the Notes issue, based on which the Group must not pay out dividends, including dividends within the group, if audited consolidated Net Debt/Equity indicator is below 3.5. Dividends paid in 2019 and 2018 were 0 EUR.

The payment of dividends is limited to the fulfillment of financial conditions, which are not forecasted until 2022. The Group controls the timing of the reversal of the temporary difference and believes that the latter will not reverse in the foreseeable future. Deferred tax liabilities arising from the subsidiaries profit are not recognized in the Group's financial statements (Note 9).

3.3. Provision for expected credit losses of trade receivables and contract assets

The Group uses a provision matrix to calculate ECLs for trade receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables and contract assets is disclosed in Note 17.

3.4. Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing of the asset. An impairment test is performed on a CGU if one of the indications in IAS 36.12 is detected. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the performance of the assets of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. These estimates are most relevant to intangibles with indefinite useful lives recognised by the Group. The key assumptions used to determine the recoverable amount for the different CGUs, including a sensitivity analysis, are disclosed and further explained in Note 14.

3.5. Determining the lease term of contracts with renewal and termination options – Group as lessee

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

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

3.6. Leases - Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating). The Group has used the IBR of 3% -7%.

4. Revenue from contracts with customers

	2019	2018
Revenue from sale of goods and services transferred at a point in time	21 867 685	21 265 701
TOTAL:	**21 867 685**	**21 265 701**

Geographical markets	2019	2018
Latvia	9 560 761	8 899 983
Estonia	6 167 332	6 199 408
Lithuania	5 755 479	5 709 887
Other	384 113	456 423
TOTAL:	**21 867 685**	**21 265 701**

Contract Balances

	31 December		1 January
	2019	2018	2018
Trade receivables (Note 17)	2 372 748	2 632 561	2 417 304
Contract liabilities	322 072	38 127	118 865

Performance obligations

Information about the Group's performance obligations are summarised below.

The main business of the Group is producing and sale of dry and ready-made liquid mixes, paints and other goods for construction.

Group's customers are mainly wholesalers and retail companies (~95%) as well as construction companies. All of the sales are being done exclusively through wholesalers and retailer in order to minimize non-payment risk. The performance obligation is satisfied upon delivery of the goods and payment is generally due within 30 to 95 days from delivery.

The contracts provide the customers with a right of return products with inadequate quality and replace it.

Contract liabilities include advances received for delivery of goods to the customers.

Set out below is the amount revenue recognized from:

	31 December		1 January
	2019	2018	2018
Amounts included in contract lialilities at the beginning of the year	322 072	38 127	118 865
Perfomance obligations satisfied in previous years	322 072	38 127	-

5. Cost of sales

	2019	2018
Purchase cost of raw materials	12 387 916	12 492 428
Remuneration for work (Note 11)	1 207 732	1 066 665
Depreciation and amortization (Note 12,13)	757 516	826 803
Energy resources expenses	502 501	495 641
Repair and spare parts expenses	294 557	298 396
Mandatory state social security contributions and entrepreneurial Risk duty (Note 11)	242 299	292 299
Franchise expenses	168 022	160 301
Short-term leases	16 891	26 929
Other expenses	251 871	212 926
TOTAL:	**15 829 305**	**15 872 388**

6. Distribution costs

	2019	2018
Goods delivery expenses	1 189 718	1 102 853
Remuneration for work (Note 11)	678 881	599 933
Advertising and marketing expenses	428 868	466 956
Sales employees transport expenses	119 924	111 627
Mandatory state social security contributions and entrepreneurial Risk duty (Note 11)	126 427	174 128
Depreciation and amortization (Note 12,13)	108 824	121 235
Other expenses	250 768	231 696
TOTAL:	**2 903 410**	**2 808 428**

7. Administrative expense

	2019	2018
Remuneration for work (Note 11)	616 466	540 565
Business consulting services	255 383	286 545
Mandatory state social security contributions and entrepreneurial Risk duty (Note 11)	116 739	148 862
Depreciation and amortization (Note 12,13)	150 484	123 463
Legal services	44 541	39 733
Communication expenses	14 500	16 388
Other expenses	437 322	317 782
TOTAL:	**1 635 435**	**1 473 338**

In 2019, Sakret Group companies refinanced credit liabilities. (Note 21)

8. Finance income

	2019	2018
Long-term creditor adjustment (Note 21)	8 493 675	-
Other finance income	1 245	1 248
TOTAL:	**8 494 920**	**1 248**

In 2019, the Sakret Group has successfully settled its liabilities to Luminor Bank AS. The Group has partially repaid credit liabilities to Luminor Bank AS, and the other part of liabilities was forfeited by Luminor Bank AS. As a result of forfeited liabilities, the Group's profit for the reporting year has increased by EUR 8 493 675. See Note 21.

9. Income tax expense

Current and deferred corporate income tax

	2019	2018
Current corporate income tax charge for the reporting year*	(52 505)	(49 230)
Deferred corporate income tax due to changes in temporary differences	-	-
Corporate income tax charged to the statement of profit or loss:	**(52 505)**	**(49 230)**

*deemed profit distributions are taxed at income tax rate, but related expense is not presented as income tax expense but on Statement of comprepREhensive income line Other operating expense instead.
The Board recommends directing the profit of the reporting year to the further development of the Group.

10. Earnings per share

Earnings per share are calculated by dividing the net result for the year after taxation attributable to shareholders of the parent by the weighted average number of shares in issue during the year. The table below presents the income and share data used in the computations of basic earnings per share for the Group:

	2019 EUR	2018 EUR
Net profit attributable to shareholders of the parent	8 993 988	220 852
Weighted average number of shares	750 000	25 000
Earnings per share (EUR):	11,99	8,83

11. Staff costs and number of employees

	2019	2018
Remuneration for work	2 521 284	2 203 548
Mandatory state social security contributions and entrepreneurial Risk duty	501 477	604 330
Changes in vacation pay reserve	(34 217)	14 574
TOTAL:	**2 988 544**	**2 822 452**

The total staff costs are included in the following captions of the statement of comprehensive income:

	2019	2018
Cost of sales	1 450 031	1 358 964
Distribution costs	805 308	774 061
Administrative expense	733 205	689 427
TOTAL:	**2 988 544**	**2 822 452**

Key management personnel compensation:

Council Members	2019	2018
Remuneration for work	60 000	56 050
Mandatory state social security contributions and entrepreneurial Risk duty	14 467	13 515
TOTAL:	**74 467**	**69 565**

Board Members	2019	2018
Remuneration for work	155 975	150 847
Mandatory state social security contributions and entrepreneurial Risk duty	29 310	45 075
TOTAL:	**185 285**	**195 922**

	2019	2018
Average number of employees during the reporting year	139	132
TOTAL:	**139**	**132**

12. Intangible assets

	Licenses	Developed products	Product development in progress	TOTAL
Cost				
As at 1 January 2018	**364 723**	**79 715**	**166 925**	**611 363**
Additions	22 980	-	57 925	80 905
Reclassification	-	38 312	(38 312)	-
Disposals	-	-	(11 934)	(11 934)
As at 31 December 2018	**387 703**	**118 027**	**174 604**	**680 334**
Additions	7 744	-	46 924	54 668
Reclassification	-	22 063	(22 063)	-
As at 31 December 2019	**395 447**	**140 090**	**199 465**	**735 002**
Depreciation and impairment				
As at 1 January 2018	**195 681**	**3 810**	**-**	**199 491**
Amortization charge for the year	25 444	9 163	-	34 607
As at 31 December 2018	**221 125**	**12 973**	**-**	**234 098**
Amortization charge for the year	24 778	12 100	-	36 878
As at 31 December 2019	**245 903**	**25 073**	**-**	**270 976**
Closing net carrying amount				
At 1 January 2018	169 042	75 905	166 925	411 872
At 31 December 2018	166 578	105 054	174 604	446 236
At 31 December 2019	**149 544**	**115 017**	**199 465**	**464 026**

Fully amortized intangible assets

A number of intangible assets that have been fully amortized and are still in active use. The total cost value of these intangible assets as at the end of the year was EUR 147 647 (31.12.2018: EUR 108 648).

Amortization

The total amortization costs are included in the following captions of the statement of comprehensive income:

	2019	2018
Cost of sales (Note 5)	11 462	8 399
Distribution costs (Note 6)	3 140	6 200
Administrative expense (Note 7)	21 638	19 244
TOTAL:	**36 240**	**33 843**

13. Property, plant and equipment

	Land and Buildings	Equipment and machinery	Other fixtures and fittings, tools and equipment	Right of use asset*	Prepayment for property.plant and equipment	**TOTAL**
Cost						
At 1 January 2018	**13 645 852**	**8 854 509**	**1 343 874**	**725 961**	**6 529**	**24 576 725**
Additions	-	15 033	52 940	230 862	-	298 835
Reclassification	-	6 529	-	-	(6 529)	-
Disposals	-	(29 190)	(58 664)	-	-	(87 854)
At 31 December 2018	**13 645 852**	**8 846 881**	**1 338 150**	**956 823**	**-**	**24 787 706**
Additions	758	23 997	40 595	285 036	-	350 386
Reclassification	-	-	-	-	-	-
Disposals	-	(16 097)	(89 205)	(3 233)	-	(108 535)
At 31 December 2019	**13 646 610**	**8 854 781**	**1 289 540**	**1 238 626**	**-**	**25 029 557**
Depreciation						-
At 1 January 2018	**4 865 060**	**6 317 293**	**1 244 292**	**466 713**	**-**	**12 893 358**
Depreciation charge for the year	389 081	432 402	42 717	169 074	-	1 033 274
Disposals	-	(29 190)	(58 664)	-	-	(87 854)
At 31 December 2018	**5 254 141**	**6 720 505**	**1 228 345**	**635 787**	**-**	**13 838 778**
Depreciation charge for the year	380 370	363 027	44 235	190 743	-	978 375
Disposals	-	(16 097)	(87 015)	-	-	(103 112)
At 31 December 2019	**5 634 511**	**7 067 435**	**1 185 565**	**826 530**	**-**	**14 714 041**
Closing net					-	
At 1 January 2018	**8 780 792**	**2 537 216**	**99 582**	**259 248**	**6 529**	**11 683 367**
At 31 December 2018	**8 391 711**	**2 126 376**	**109 805**	**321 036**	**-**	**10 948 928**
At 31 December 2019	**8 012 099**	**1 787 346**	**103 975**	**412 096**	**-**	**10 315 516**

*As of 1 January 2018, the Group has adopted IFRS 16: Leases. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ("lessee") and the supplier ("lessor"). The new standard requires lessees to recognize most leases on their financial statements. As the Group applies IFRS 16 Leases for annual periods beginning on or after 1 January 2018, IFRS 16 was adopted using the full retrospective approach. As a result, comparative information is restated in accordance with IAS 8 Accounting policies, Changes in Accouting Estimates and Errors. For more information please see Note 21.

Fully depreciated assets

A number of properties, plant and eguipment that have been fully depreciated and are still in active use. The total cost value of these non-current assets as at the end of the year was EUR 5 675 917(2018: EUR 5 317 946).

13. Property, plant and equipment (cont'd)

Pledges and other encumbrances on property

All shares of the Group share capital and property pledged in favour of the bank serve as borrowings security for the Sakret Group's loan from AS BlueOrange Bank and as collateral for bonds. The loan is issued to finance long-term investments, the credit line - to finance current assets.

The loan agreement concluded between the companies of the Sakret Group and AS BlueOrange Bank (hereinafter - the "Bank") stipulates that if one of the borrowers fails to repay the part of the loan issued to the Bank or any part thereof, the relevant interest or penalty, or fails to secure other claims of the Bank arising from the agreement, then all other borrowers shall immediately cover all claims of the Bank in full.

Depreciation

The total depreciation costs are included in the following captions of the statement of comprehensive income:

	2019 EUR	2018 EUR
Cost of sales (Note 5)	746 054	818 404
Distribution costs (Note 6)	105 684	115 035
Administrative expense (Note 7)	128 846	104 219
TOTAL:	**980 584**	**1 037 658**

14. Impairment of non-current assets

The Group at least once a year evaluates whether there is any indication that non-current asset is impaired. If any such indication exists, the Group performs an impairment test to evaluate the possible impairment need.

As at 31 December 2019, the Group's management assessed the external factors (changes in economic and regulatory environment, market composition, interest rates, etc.) and the internal factors (changes in the purpose of use and useful life of assets, cash flow generation capacity of assets, etc.) that might impact the value of non-current assets. Each subsidiary in the Group is considered by management as a separate CGU. Based on that, it was decided to perform an impairment test for the subsidiary UAB Sakret LT. Following the impairment test, the recoverable amount exceeded the carrying amount of CGU. The main aspects of testing are described below.

The recoverable amount of CGU was estimated with reference to the value in use calculations. These calculations take into account the forecasts of financial performance results prepared by the management for the period of five years. Continuous cash flow is estimated using the discounted cash flow in the fifth year. The management estimated the projected operating profit in view of historical data, forecasts of market position. Key assumptions used in performing the impairment test as at 31 December 2019 were as follows:

1. The value in use was estimated with reference to the most up-to-date budget for the year 2020 and the management's forecast covering the period 2021-2024, the projected post-tax discounted cash flows using a post-tax weighted average capital cost (WACC) of 12%. The WACC was estimated with reference to risk-free borrowing cost, the risk premium for the equity and the relative risk rate for the sector, calculated using publicly available market data and based on the terms and conditions of the new credit agreements.
2. Cash flow forecasts are prepared by the management as a result of financial projections based on the financial performance results, market development expectations and regulatory environment. Basically, the approved company's and its subsidiaries 2020 budget has been used. Development for the period until 2024 is projected to be moderate with an increase of 3% annually in domestic markets (Estonia, Latvia and Lithuania). Taking into account the full load of the Latvian plant, in 2020 it is planned (budgeted) to use the spare capacity of the Lithuania plant, (Sakret LT UAB) doubling the production volume for the Latvian market, compared to 2019. In the period until 2024, we forecast an increase in Lithuania production by 5 times the volume of exports to Latvia. The calculations take into account the effects of inflation on both revenue and cost components. A more significant impact of growth is expected on wage costs, which are projected to increase by 7% annually.

As a result of the impairment test in CGU, it was determined that the assets' recoverable amount of EUR 5 216 thousand exceeded their carrying amount (including net working capital) of EUR 4 977 thousand as of 31 December 2019. Accordingly, no impairment was recognised. The sensitivity of the recoverable amount to changes in the WACC (discount rate) is presented in the table below. If the WACC increased by 0.5%, the recoverable amount of CGU would amount to EUR 4 972 thousand or to EUR 4 749 thousand, if the WACC increased by 1 %. The table below also reveals the dependence of recoverable amount on the long-term cash flow growth assumption. The impairment test was based on a long-term cash flow growth assumption of 1%.

14. Impairment of non-current assets (cont'd)

Analysis of the recoverable amount sensitivity to changes in WACC:

WACC change, %	(1.5)%	(1.0)%	(0.5)%	0.0%	0.5%	1.0%
WACC, %	10.5%	11.0%	11.5%	12.0%	12.5%	13.0%
Recoverable amount, EUR thousand	6 100	5 776	5 482	5 216	4 972	4 749
Recoverable amount compared to carrying amount, EUR thousand	1 123	799	505	239	(5)	(228)

Analysis of the recoverable amount sensitivity to the changes of the long-term cash flow growth assumption, other assumptions remain constant.

Change of the long-term cash flow growth assumption, %	(1.0)%	(0.5)%	0.0%	0.5%	1.0%	1.5%
Long-term cash flow growth assumption, %	0.0%	0.5%	1.0%	1.5%	2.0%	2.5%
Recoverable amount, EUR thousand	49 377	5 070	5 216	5 375	5 549	5 743
Recoverable amount compared to carrying amount, EUR thousand	(40)	93	239	398	572	766

As it is stated above the effect of COVID-19 to the impairment test cannot be reasonably quantified at this stage by the management due to great level of uncertainty associated with further development of COVID-19 pandemic situation in the countries of operation, however below the analysis of the sensitivity of the recoverable amount to changes in the revenue growth assumption for the year 2020, other assumptions remaining constant is provided as revenue change is believed to be one of the main uncertainies in the light of COVID-19.

Change in revenue assumption for 2020,% of growth comparing to budgeted 2020	(10.0)%	(5.0)%	0.0%	5.0%	10.0%	15.0%
Revenue amount 2020, EUR thousand	6 363	6 716	7 070	7 423	7 777	8 130
Recoverable amount, EUR thousand	4 575	4 920	5 216	5 507	5 797	6 085
Recoverable amount compared to carrying amount, EUR thousand	(402)	(57)	239	530	820	1 108

As at 31 December 2018, the Group has also performed an impairment test. The impairment test showed that the recoverable amount of the asset exceeded its carrying amount and no impairment was recognized.

Other assumptions and estimates
Other areas involving estimates include useful lives of tangible and intangible assets, inventory write-off to net realizable value, impairment of accounts receivable.

15. Other loans

Current:	Agreement No. and currency	Interest rate (%)	Maturity	31/12/2019 EUR	31/12/2018 EUR	01/01/2018 EUR
„Māris un Partneri" SIA	Nr.1, EUR	3.5%	31.12.2020	35 572	35 572	35 572
			TOTAL	**35 572**	**35 572**	**35 572**

The currency of the loan is EURO, loan is unsecured.

16. Inventories

	31/12/2019 EUR	31/12/2018 EUR	01/01/2018 EUR
Raw materials and consumables	1 236 815	1 380 966	1 367 758
Finished goods and goods for sale	890 680	899 109	896 466
Prepayments for goods	16 275	7 006	27 670
TOTAL:	**2 143 770**	**2 287 081**	**2 291 894**

The total value of inventories used during year 2019 was EUR 12 387 916 and during year 2018 EUR 12 492 428.

All shares of the Group's share capital and property pledged in favour of the bank serve as borrowings security for the Sakret Group's loan from AS BlueOrange Bank. The loan is issued to finance long-term investments, the credit line - to finance current assets.

The loan agreement concluded between the companies of the Sakret Group and AS BlueOrange Bank (hereinafter - the "Bank") stipulates that if one of the borrowers fails to repay the part of the loan issued to the Bank or any part thereof, the relevant interest or penalty, or fails to secure other claims of the Bank arising from the agreement, then all other borrowers shall immediately cover all claims of the Bank in full.

17. Trade receivables

	31/12/2019	31/12/2018	01/01/2018
Receivables for goods and services	2 574 964	2 886 274	3 122 421
Allowance for doubtful receivables	(173 017)	(168 735)	(606 428)
TOTAL:	**2 401 947**	**2 717 539**	**2 515 993**

Trade receivables with factoring EUR 0 (2018: EUR 1 058 179). Trade receivables are non-interest bearing and are generally on terms of 30 to 95 days. In 2019, insurance of purchasers and customers was introduced.

The Group recognizes an allowance for expected credit losses (ECLs) for financial assets measured at amortized cost and contract assets. The impairment model is based on the premise of providing for expected losses. The Group applies a simplified approach to determining expected credit losses, according to which accumulations of expected credit losses during lifetime are made for all trade receivables, which are divided into groups based on common credit characteristics and overdue delays.

The amount of expected credit losses depends on the dynamics of payments (for sales) in 2018 and 2019, as well as historical credit losses in the mentioned period. The amount of historical loss is adjusted to reflect current and future information.

As at 31 December 2018, the ageing analysis of the receivables may be specified as follows:

	Total	**Neither past due nor impaired**	**Past due but not impaired**				
			<30	**30-60**	**60-90**	**90-120**	**>120**
	EUR	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**
Applied ECL %		0,14%	0,36%	0,25%	6,11%	92,58%	100%
Trade receivables, gross	2 717 539	2 095 140	302 130	132 442	109 828	41 771	36 228
Allowances for expected credit loss	(85 978)	(2 960)	(1 082)	(330)	(6 708)	(38 670)	(36 228)
2018	**2 631 561**	**2 092 180**	**301 048**	**132 112**	**103 120**	**3 101**	**-**

17. Trade receivables (cont'd)

As at 31 December 2019, the ageing analysis of the receivables may be specified as follows:

	Total	Neither past due nor impaired	Past due but not impaired				
			<30	30-60	60-90	90-120	>120
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Applied ECL %		0,17%	0,31%	0,25%	2,09%	11,57%	97,67%
Trade receivables, gross	2 401 947	1 873 491	270 875	121 145	96 186	19 212	21 038
Allowances for expected credit loss	(29 199)	(3 270)	(848)	(301)	(2 010)	(2 222)	(20 548)
2019	**2 372 748**	**1 870 221**	**270 027**	**120 844**	**94 176**	**16 990**	**490**

18. Cash

	31/12/2019	31/12/2018	01/01/2018
Cash at bank	308 186	339 082	295 603
Cash in hand	7 059	3 195	10 460
TOTAL:	**315 245**	**342 277**	**306 063**

The carrying amount of cash and cash equivalents approximates to their fair value. All the Group's cash are denominated in the euro.

19. Share capital

As at 31 December 2019, the registered and fully paid share capital of the Parent company was EUR 1 050 000 (31 December 2018: EUR 35 000; 1 January 2018: EUR 35 000). Share capital consists of 750 000 shares with a nominal value of EUR 1,4 (2018 1,4) per share. As a result of introduction of EUR and denomination in 2014, the share capital decrease of EUR 572 is reflected in the Company's share capital under "Denomination reserve" item.

	31/12/2019	31/12/2018	01/01/2018
Share capital	1 050 000	35 000	35 000
TOTAL:	**1 050 000**	**35 000**	**35 000**

In the process of refinancing the share capital of AS Saket Holdings was increased to EUR 1 050 000 by cash contribution.

Dividends paid in 2019 and 2018 were 0 EUR.

The Board of the Group recommends directing the profit for the reporting year to the further development of the Group.

20. Reorganization reserve

On 1 November 2013 the Parent Company acquired 100% of SIA "SAKRET", OU "SAKRET", UAB "SAKRET LT" and 90% of SIA "SAKRET PLUS" shares. The total amount of cash paid for the shares was EUR 470. Share purchase transactions were made among the related parties. As a result of the acquisition negative Group's reorganization reserve of EUR 8 491 750 was formed.

Negative reorganization reserve and minority shareholder's share at acquisition date was determined as follows:

	SIA SAKRET EUR	OU SAKRET EUR	UAB SAKRET EUR	SIA SAKRET PLUS EUR	Total
Acquisition value	(142)	(100)	(100)	(128)	**(470)**
Net assets at acquisition date (negative equity)	(1 144 478)	(3 887 810)	(4 441 677)	1 091 873	**(8 382 092)**
Minority share at acquisition date	-	-	-	(109 188)	**(109 188)**
TOTAL:	**(1 144 620)**	**(3 887 910)**	**(4 441 777)**	**982 557**	**(8 491 750)**

21. Loans from credit intitutions

Non-current:	Interest rate (%)	Maturity	31/12/2019 EUR	31/12/2018 EUR	01/01/2018 EUR
BlueOrange Bank (loan)	6 mēn. Euribor+7%	22.08.2023	2 009 253	-	-
AS Luminor Bank (loan)	3 mēn. Euribor+6%	11.10.2019	-	-	16 641 137
		TOTAL	**2 009 253**	**-**	**16 641 137**

Current:	Interest rate (%)	Maturity	31/12/2019 EUR	31/12/2018 EUR	01/01/2018 EUR
BlueOrange Bank (loan)	6 month Euribor+7%	31.12.2020	1 000 000	-	-
BlueOrange Bank (overdraft)	7%	22.08.2020	1 607 988	-	-
BlueOrange Bank (creditline)	7%	22.02.2021	813 578	-	-
AS Luminor Bank (loan)	3 mēn. Euribor+6%	11.10.2019	-	17 762 148	1 700 000
		TOTAL	**3 421 566**	**17 762 148**	**1 700 000**

The loan and accrued interest in favor of AS Luminor Bank were repaid in full on 11 October 2019.

The Group loan agreements with AS BlueOrange Bank include a number of obligatory conditions and duties to submit a quarterly report to the bank. On 31 December 2019, the Group's parent company had fulfilled all financial regulations.

During 2019, the loan liabilities of Sakret Group companies to AS Luminor Bank were refinanced, thus canceling all liabilities to AS Luminor Bank. For this purpose, the Group attracted financing from AS BlueOrange Bank in the amount of EUR 6 million (EUR 4 million long-term loan, EUR 2 million overdrafts), as well as a EUR 3 million of the proceeds from the bond issue. In addition, AS BlueOrange Bank has granted a credit line with a limit of EUR 1.7 million to finance the Group's working capital. The refinancing plan implemented by Sakret and AS BlueOrange Bank serves as a basis for long-term cooperation. The Group's other income includes income in the amount of EUR 8 493 675 arising from the settlement of liabilities to AS Luminor Bank, equity has been improved by the corresponding amount.

As part of the refinancing process, the share capital of AS Saket Holdings was increased to EUR 1 050 000 (31.12.2018: EUR 35 000). Share capital consists of 750 000 shared with a nominal value of EUR 1.40 per share.

Additional transaction costs in amount of EUR 683 959 EUR were incurred during implementation of the transaction.

All shares of the Group's share capital and property pledged in favour of the bank serve as borrowings security for the Sakret Group's loan from AS BlueOrange Bank and as collateral for bonds. The loan is issued to finance long-term investments, the credit line - to finance current assets.

The loan agreement concluded between the companies of the Sakret Group and AS BlueOrange Banka (hereinafter - the "Bank") stipulates that if one of the borrowers fails to repay the part of the loan issued to the Bank or any part thereof, the relevant interest or penalty, or fails to secure other claims of the Bank arising from the agreement, then all other borrowers shall immediately cover all claims of the Bank in full.

22. Leases

The Group has lease contracts for various items of plant, machinery and vehicles used in its operations. Leases of plant and machinery generally have lease terms between 2 and 5 years, while motor vehicles generally have lease terms between 2 and 5 years. The Group's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the Group is restricted from assigning and subleasing the leased assets and some contracts require the Group to maintain certain financial ratios. There are several lease contracts that include extension and termination options and variable lease payments, which are further discussed below.

Set out below are the carrying amounts of right-of-use assets recognized and the movements during the period:

	Plant and machinery EUR	Motor vehicles EUR	Total EUR
Cost			
As at 1 January 2018	**89 184**	**636 777**	**725 961**
Additions	6 396	224 466	230 862
As at 31 December 2018	**95 580**	**861 243**	**956 823**
Additions	81 990	203 046	285 036
Disposals	-	(3 233)	(3 233)
As at 31 December 201	**177 570**	**1 061 056**	**1 238 626**
Depreciation			
As at 1 January 2018	**50 696**	**416 017**	**466 713**
Depreciation expense	26 313	142 761	169 074
As at 31 December 2018	**77 009**	**558 778**	**635 787**
Depreciation expense	33 513	157 230	190 743
As at 31 December 2019	**110 522**	**716 008**	**826 530**
Net book value			
As at 1 January 2018	**38 488**	**220 760**	**259 248**
As at 31 December 2018	**18 571**	**302 465**	**321 036**
As at 31 December 2019	**67 048**	**345 048**	**412 096**

Set out below are the carrying amounts of lease liabilities (included under interest-bearing loans and borrowings) and the movements during the period:

	2019 EUR	2018 EUR
As at 1 January	**277 998**	**228 551**
Additions	277 206	197 797
Disposals	(2 835)	-
Accretion of interest	12 794	9 109
Payments	(179 970)	(157 459)
As at 31 December	**385 193**	**277 998**
Current	144 901	140 607
Non-current	240 292	137 391

The following are the amounts recognized in statement of comprehensive income:

	2019 EUR	2018 EUR
Depreciation expense of right-of-use assets	190 743	169 074
Interest expense on lease liabilities	12 794	9 109
Expenses relating to short-term leases (included in cost of sales)	(39 704)	(31 024)
Expenses relating to short-term leases (distribution costs)	(67 181)	(72 956)
Expenses relating to short-term leases (administrative expense)	(73 085)	(53 479)
Total amount recognized in statement of comprehensive income	**23 567**	**20 724**

23. Other borrowings

Non-current:	Agreement No. and currency	Interest rate (%)	Maturity	31/12/2019 EUR	31/12/2018 EUR	01/01/2018 EUR
Bond	Terms of the notes issue, EUR	9%	30.08.2024.	2 782 555	-	-
Other borrowings*	200901/200902/ 200903/200904, EUR	5%	31.12.2023.	167 093	167 093	167 093
			Total	**2 949 648**	**167 093**	**167 093**

In August 2019, the Group registered a bond issue in the amount of EUR 3 790 000 with the Latvian Central Depository and starting from 2nd March 2020 bonds are included in the Nasdaq Riga Baltic First North list. The bond issue is secured with Group's share capital and property pledges. The bonds are issued at nominal value EUR 1 000, their maturity is five years.

Current:	Agreement No. and currency	Interest rate (%)	Maturity	31/12/2019 EUR	31/12/2018 EUR	01/01/2018 EUR
WERELEND VARA OU	Annex No. 3 2.1-14-8/20	10%	31.12.2019.	-	150 000	150 000
Bikuvos prekyba UAB	24.04.2017. agreement	10%	31.12.2020.	300 000	300 000	300 000
SIA „Luminor Līzings Latvija”	Factoring agreement No. 0000157/158/159/001	3 month Euribor + 3%	31.12.2019.	-	934 137	720 582
Albau SIA finance lease		15%	31.07.2018	-	-	37 545
			Total	**300 000**	**1 384 137**	**1 208 127**

Factoring agreement No. concluded with SIA „Luminor Līzings Latvija”. 0000157/158/001, with an interest rate of 3% + 3 months. EURIBOR, repayment term: 31.12.2019, with recourse.

24. Trade payables

	31/12/2019	31/12/2018	01/01/2018
Trade payables*	3 580 931	4 087 440	4 184 993
TOTAL:	**3 580 931**	**4 087 440**	**4 184 993**

* Including liabilities (deferred payment) to the Ultimate Beneficial Owner of the Group in accordance with the agreement from 23 August 2019:

Non-current part 574 642 EUR (31.12.2018 – 644 132 EUR;01.01.2018 -757 532 EUR),
Current part 69 490 EUR (31.12.2018 – 84 000 EUR; 01.01.2018 – 60 000 EUR).

Trade payables are non-interest bearing and are normally settled within the term of 30-60 days.

25. Taxes and state social insurance mandatory contribution

	31.12.2019	31.12.2018.
State social insuarance mandatory contribution	92 758	121 785
Personal income tax	48 514	50 799
Corporate income tax	42 588	3 305
Value added tax	(59 743)	(73 168)
Immovable property tax	2 200	2 650
Natural resources tax	27 462	2 507
Business risk state fee	46	55
Funded pension	1 116	1 407
Total:	**154 941**	**109 340**
Including credit	**214 684**	**182 508**
debit	**(59 743)**	**(73 168)**

26. Accrued liabilities

	31/12/ 2019	31/12/2018	01/01/2018
Clients' annual discounts	468 794	719 859	754 033
Accrual for unused vacations	163 569	197 110	183 153
Expenses for which invoices have been received in the next financial year	85 941	75 387	70 049
Other accrued liabilities	1 854	2 130	2 130
Total accrued liabilities	**720 158**	**994 486**	**1 009 365**

27. Related party disclosures

Related parties		Sales to related parties*	Purchases from related parties*	Amounts owed by related parties as at December 31st	Amounts owed to related parties as at December 31st
	2019	**2 998**	**325 344**	**3 638**	**729 279**
SIA LM 21		2 220	325 344	2 686	94 637
SIA MĀRIS UN PARTNERI		579	-	711	-
SIA PĀRVALDĪBAS SISTĒMAS		199	-	241	-
Ultimate Beneficial Owner		-	-	-	634 642
	2018	**2 915**	**311 648**	**5 396**	**955 977**
SIA LM 21		2 220	311 648	-	261 335
SIA MĀRIS UN PARTNERI		695	-	5 396	-
SIA PĀRVALDĪBAS SISTĒMAS		-	-	-	-
Ultimate Beneficial Owner		-	-	-	694 642
	2017	**-**	**-**	**9 309**	**961 763**
SIA LM 21		-	-	2 686	201 721
SIA MĀRIS UN PARTNERI		-	-	6 623	-
SIA PĀRVALDĪBAS SISTĒMAS		-	-	-	-
Ultimate Beneficial Owner		-	-	-	760 042
	TOTAL for 2019:	**2 998**	**325 344**	**3 638**	**729 279**
	TOTAL for 2018:	**2 915**	**311 648**	**5 396**	**955 977**
	TOTAL for 2017:	**-**	**-**	**9 309**	**961 763**

* The total amount of invoices issued and received for the specified period.

Outstanding balances as at the year end are unsecured. There have been no guarantees provided or received for any related party receivables.

28. Financial risk management

The Group's principal financial instruments comprise loans from credit institutions and cash. The main purpose of these financial instruments is to ensure financing for the Group's operations. The Group has various other financial instruments such as trade and other receivables and trade and other payables, which arise directly from its operations. The activities of the Group exposes it to a variety of financial risks, mostly interest rate risk, liquidity risk and credit risk. The Group is not exposed to foreign currency risk as the Group has no significant financial assets and liabilities other than the euro The Group's financial management identifies and evaluates financial risks in close co-operation with the Group's operating units.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the market interest rates. The Group is exposed to cash flow interest rate risk mainly in relation to borrowings with floating interest rates as the finance costs increase significantly with the interest rate growing.

The Group is exposed to interest rate risk mainly through its current and non-current borrowings. The average interest rate payable on the Group's borrowings is disclosed in Note 21.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on mainly EURIBOR floating rate borrowings). There is no impact on the equity, except for the effect on the current year result.

Interest rate risk (cont'd)

Interest rate sensitivity for the Group may be specified as follows:

Year	EURIBOR	Effect on profit before tax, EUR
2019	+0.5%	(16 000)
2018		(92 876)
2019	+1.0%	(32 000)
2018		(185 753)
2019	-0.5%*	-
2018		-

* The signed credit agreements do not provide for a negative EURIBOR% rate adjustment

The impact of the change in interest rate on the profit is calculated by multiplying all liability balances (including maximum credit line limits) as at 31 December by the respective change in the interest rate.

The calculation method provides a more accurate reflection of the risk associated with future interest rate fluctuations using the maximum balances of financial liabilities on the last day of the reporting period.

Liquidity risk

The Group's liquidity and cash flow risk management objective is to maintain an adequate amount of cash and cash equivalents and the availability of non-current borrowings through access to sufficient credit amounts to meet the existing and expected liabilities.

The Group manages its liquidity risk by arranging an adequate amount of committed credit facilities with banks, planning of terms of payment of trade payables, developing and analyzing future cash flows comprising both the existing and planned loans and interest on such loans.

Liquidity analysis (contractual undiscounted cash flows)

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

Year ended 31 December 2019	**On demand**	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**> 5 years**	**TOTAL**
	EUR	EUR	EUR	EUR	EUR	EUR
Loans from credit institutions	-	-	3 421 566	2 200 000	-	5 621 566
Other borrowings	-	-	300 000	3 957 093	-	4 257 093
Lease liabilities	-	-	179 970	205 223	-	385 193
Trade payables	-	3 006 289	-	574 642	-	3 580 931
Total	**-**	**3 006 289**	**3 901 536**	**6 936 958**	**-**	**13 844 783**

Year ended 31 December 2018	**On demand**	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**> 5 years**	**TOTAL**
	EUR	EUR	EUR	EUR	EUR	EUR
Loans from credit institutions	-		17 641 137	-	-	17 641 137
Other borrowings	-		1 384 137	167 093	-	1 551 230
Lease liabilities	-		157 459	120 539		277 998
Trade payables	-	3 443 308	-	644 132	-	4 087 440
Total	**-**	**3 443 308**	**19 182 733**	**931 764**	**-**	**23 557 805**

1 January 2018	**On demand**	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**> 5 years**	**TOTAL**
	EUR	EUR	EUR	EUR	EUR	EUR
Loans from credit institutions	-		1 700 000	16 641 137	-	18 341 137
Other borrowings	-		1 208 127	167 093	-	1 375 220
Lease liabilities	-		146 025	82 526	-	228 551
Trade payables	-	3 427 461	-	757 532	-	4 184 993
Total		**3 427 461**	**3 054 152**	**17 648 288**	**-**	**24 129 901**

Credit risk

The Group is exposed to credit risk through its trade receivables and cash. The Group manages its credit risk by continuously assessing the credit risk history of customers and assigning trade credit limits and terms on an individual basis. In addition, receivable balances are monitored on an ongoing basis to ensure that the Group's exposure to bad debts is minimized. The Group uses credit risk insurance for factoring transactions where credit limits and credit ratings are established. The Group's counterparties in money transactions are local financial institutions.

The Group's revenue from its largest customer does not exceed 10% of its total turnover. Except for that, the Group has no other customer or customer group the transactions with which would exceed 10% of the Group's total turnover.

		31/12/2019	**31/12/2018**	**01/01/2018**
		EUR	EUR	EUR
Trade receivables – not insured		513 352	1 573 382	1 609 288
Insured trade receivables		1 859 396	1 058 179	808 016
	Total	**2 372 748**	**2 631 561**	**2 417 304**
Factoring prepayment made		-	934 137	720 582
	Total	**-**	**934 137**	**720 582**

Trade receivables and contract assets

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit quality of a customer is assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment. Outstanding customer receivables and contract assets are regularly monitored and any shipments to major customers are generally covered by letters of credit or other forms of credit insurance obtained from reputable banks and other financial institutions.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written-off if past due for more than one year and are not subject to enforcement activity. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in Note 17. The Group does not hold collateral as security. The letters of credit and other forms of credit insurance are considered integral part of trade receivables and considered in the calculation of impairment. The Group evaluates the concentration of risk with respect to trade receivables and contract assets as low, as its customers are located in several jurisdictions and industries and operate in largely independent markets.

Set out below is the information about the credit risk exposure on the Group's trade receivables and contract assets using a provision matrix.

As at 31 December 2018, the ageing analysis of the receivables may be specified as follows:

	Total	**Neither past due nor impaired**	**Past due but not impaired**				
			<30	**30-60**	**60-90**	**90-120**	**>120**
	EUR	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**
Applied ECL %		0,14%	0,36%	0,25%	6,11%	92,58%	100%
Trade receivables, gross	2 717 539	2 095 140	302 130	132 442	109 828	41 771	36 228
Allowances for expected credit loss	(85 978)	(2 960)	(1 082)	(330)	(6 708)	(38 670)	(36 228)
2018	**2 631 561**	**2 092 180**	**301 048**	**132 112**	**103 120**	**3 101**	**-**

As at 31 December 2019, the ageing analysis of the receivables may be specified as follows:

	Total	**Neither past due nor impaired**	**Past due but not impaired**				
			<30	**30-60**	**60-90**	**90-120**	**>120**
	EUR	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**
Applied ECL %		0,17%	0,31%	0,25%	2,09%	11,57%	97,67%
Trade receivables, gross	2 401 947	1 873 491	270 875	121 145	96 186	19 212	21 038
Allowances for expected credit loss	(29 199)	(3 270)	(848)	(301)	(2 010)	(2 222)	(20 548)
2019	**2 372 748**	**1 870 221**	**270 027**	**120 844**	**94 176**	**16 990**	**490**

29. Fair value measurement

The Group's management believes that the carrying amounts of financial assets and financial liabilities do not differ materially from their fair values. The Group has certain financial liabilities at fixed rates.

Fair value hierarchy:

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

• Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

• Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;

• Level 3: techniques which use inputs which have a significant effect on the recorded fair values that are not based on observable market data.

For fair value measurement and disclosure Group's management is using discounted cash flows with market interest rates.

2019			Fair value measurement using		
	Carrying amount	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets for which fair values are disclosed:					
Other loan	35 572	35 572	-	35 572	-

2018			Fair value measurement using		
	Carrying amount	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets for which fair values are disclosed:					
Other loan	35 572	35 572	-	35 572	-

2019			Fair value measurement usig		
	Carrying amount	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Liabilities for which fair values are disclosed:					
Loans					
Loans from credit intitutions	5 430 819	5 430 819	-	5 430 819	-
Other borrowings	3 249 348	3 249 348	-	3 249 348	-
Lease liabilities	385 193	385 193	-	385 193	-

2018			Fair value measurement usig		
	Carrying amount	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Liabilities for which fair values are disclosed					
Loans from credit intitutions	17 762 148	17 762 148	-	17 762 148	-
Other borrowings	1 551 230	1 551 230	-	1 551 230	-
Lease liabilities	277 998	277 998	-	277 998	-

30. Events after reporting date

Subsequent to the year end, in the Republic of Latvia as well as in many other countries in March 2020 there came into effect restrictions to limit the coronavirus spread leading to a considerable economic slowdown in Latvia and all over the world. Further events cannot be predicted, therefore, there is uncertainty as to the economic development. The Group's management is constantly monitoring the situation. In order to maximize the Group's business operations and budget execution, several measures were implemented after assessing the potential risks: as far as possible, work is performed remotely, factory and office staff work under the strictest security conditions, attention is paid to raw material supply logistics, process continuity as well as sales organization. Although customers and suppliers do not represent industries that have been largely influenced by COVID-19, they may be influenced due to restrictions imposed in the country or the consequences thereof. The Group's management believes that the Group will be able to overcome the emergency situation by ensuring the availability of products. The Group pays increased attention to the solvency of its customers. However, this conclusion is based on the information available at the time of signing these financial statements and the impact of future events on the Group's future operations may differ from management's assessment.

Therefore, after assessing all the above risks and the uncertainty of the economic situation, the management of the Sakret Group decided to use the support offered by the Latvian government to improve liquidity during the emergency situation related to the spread of COVID-19. AS SAKRET HOLDINGS subsidiary SIA SAKRET, unified registration No. 40003622109 in accordance with the set criteria got the opportunity to obtain additional working capital financing of EUR 1 million from AS "Attīstības finanšu institūcija Altum", unified registration No. 50103744891. The granted additional working capital financing will be available until December 18, 2020, and SIA SAKRET will decide on its use, considering the development of the situation and the actual circumstances.

On March 27, 2020, amendments were made to SIA Sakret's overdraft agreement No.OJ-51/2019 of August 23, 2019, which envisages increasing the limit by EUR 400,000 to EUR 1,400,000 for financing the Group's current assets during the season. The increase of the limit will be gradually reduced to EUR 1,000,000 in the period from September 1, 2020 to December 1, 2020. Negotiations with AS BlueOrange Bank on attracting additional financing for the provision of working capital were started in December 2019 and are not related to the spread of the coronavirus COVID-19.

On 3rd of July, 2020 the rules for share capital increase of UAB Sakret LT have been approved. The rules regulate the issue of new 123 670 shares with a nominal value of 28,96 EUR for one share. After the share capital increase the share capital of UAB Sakret LT is 6 050 033,60 EUR, and it consists of 208 910 shares. Increase of share capital did not result in changes in shareholding in UAB Sakret LT.

After the end of the financial year, by the decision of the Group, a review of the useful lives of property, plant and equipment was performed, during which the depreciation rates of these assets were assessed and adjusted, and the valuation results are reflected in the property, plant and equipment accounting.

As of the last day of the reporting year until the date of signing these financial statements there have been no events requiring adjustment of or disclosure in the financial statements or notes thereto

Māris Ķelpis	Andis Ziedonis	Juris Grīnvalds	Oksana Birkāne
Chairman of the Board	Member of the Board, responsible for report preparation	Member of the Board	Chief Accountant, person in charge of the preparation of the annual report

17 July 2020