Limited liability company

„Citrus Solutions"

(Unified registration number 50003752271)

2018 ANNUAL REPORT

PREPARED IN ACCORDANCE WITH THE
LAW ON THE ANNUAL FINANCIAL STATEMENTS AND
CONSOLIDATED FINANCIAL STATEMENTS OF THE REPUBLIC OF LATVIA
AND INDEPENDENT AUDITOR REPORT

Riga, 2019

CONTENT

Information on the Company

Name of the Company	***Citrus Solutions***
Legal status of the Company	Limited liability company
Number, place and date of registration	50003752271, Riga, June 28, 2005
Registered address	Ūnijas street 52, Riga, LV – 1084, Latvia Dzirnavu street 105, Riga,LV-1011,Latvia from 02.01.2019.
Stakeholder	SIA *Lattelecom* (100%) Dzirnavu street 105, Riga,LV-1011,Latvia Reg. No. 40003052786
Board members	Jūlija Grinberga - Chairman of the Board (from July 1, 2017) Raimonds Gerbis - member of the Board (from May 22, 2015) Dace Mačuļska - member of the Board (from May 22, 2015 until January 2, 2019) Kārlis Kostjukovs- member of the Board (from January 2, 2019)
Outsourcing accountant:	Ilvija Gredzena - Head of the Accountancy department of Financial Service of SIA Lattelecom
Reporting year:	1 January 2018 – 31 December 2018
Auditors and their address:	SIA Ernst&Young Baltic License No 17 Muitas street 1A Riga, LV-1010 Latvia Diāna Krišjāne Sworn Auditor of the Republic of Latvia Certificate No 124

MANAGEMENT REPORT

Board of SIA *Citrus Solutions* (hereinafter *Citrus Solutions* or the Company) provides the management report about the reporting year ended in 31 December 2018.

OVERVIEW OF THE COMMERCIAL OPERATIONS

Since 2006 the Company has been granted *Industrial safety certificate*, which confirms the rights of the Company to perform work, containing state secret, classified information of the international organizations or foreign institutions, within the framework of its commercial activity, as well as the ability of the Company to ensure protection of such information. The rights of use of the *Industrial safety certificate* expire on April 30, 2021. Since 2011 the Company has national railway technical inspection safety certificate of the Republic of Latvia, which allows performance of works in the protective areas of the railway, and expires on July 11, 2021.

SHARE CAPITAL

Citrus Solutions share capital is EUR 3 570 999. It consists of 3 570 999 shares, with the nominal value of EUR 1 each. SIA *Lattelecom* owns 100% of the share capital of *Citrus Solutions*.

SHARES IN OTHER COMPANIES

Citrus Solutions owns 100% of the share capital of *Citrus Solutions* GmbH and 1.85% shares of *Pirmais slēgtais pensiju fonds*. The Company is only a formal shareholder of the *Pirmais slēgtais pensiju fonds*, as all the risk arising from the operations of the pension fund and income is owned by the employees of *Citrus Solutions* – participants of the pension program.

OPERATING RESULTS

In the reporting year *Citrus Solutions* net turnover reached 30.4 million EUR.

In 2018 the company's largest projects were low voltage and electrical network construction in the multifunctional complex "Z-towers" (Client - SIA Merks and AS Towers Construction Management), construction of the automatic fire detection and alarm, automatic voice fire announcement and smoke and heat control system of the multifunctional centre "Akropole" (Client - SIA Merks), design and construction of the optical network in Kurzeme (Client - AS Latvijas Valsts Radio un televīzijas centrs), construction of apartment and office building in Mežaparks (Client - SIA Mežaparka rezidences), design, installation and guarantee assurance of video surveillance system in customs control points (Client – the State Revenue Service), internal engineering – heating, ventilation and air conditioning, water and sewage, as well as electrical network installation works in the new hotel construction project in Riga, Minsterejas street n/n, 11.novembra krastmala 33, Mārstaļu street 32 (Client - SIA Homeland Būve).

In 2018 *Citrus Solutions* continued work on reconstruction of SIA Lattelecom offices as Main Contractor, ensuring both performance of general construction works and systems.

In 2018 *Citrus Solutions* performed construction of telecommunication networks in Germany, inn Bavaria and Lower Saxony regions (Client - OFM Communications GmbH&Co KG). Revenue from operations in Germany amounted to 2.2 million EUR in 2018.

Citrus Solutions normalized EBITDA[1] profit in 2018 was 793.7 thousand EUR, EBITDA profit margin was 2.6%.

The amount of capital investments during the reporting year reached 1.310 million EUR, which were used for the renewal of production means and improvement of information technologies. In 2018 the Company paid 2.617 million EUR in various taxes in Latvia and 0.199 million EUR in Germany, considering the received tax allowances.

In 2018 the net profit of the Company was 528 thousand EUR. The financial performance of the Company was affected by the outcomes in large projects and in Germany.

[1] Normalized EBITDA (profit from the operating activities before interest, taxes, depreciation, amortization, losses from disposal of fixed assets and termination benefits) there is mentioned as a ratio widely used in telecommunications industry and investors' environment although it is not a common accounting term and it should not be explained as an alternative to profit and cash flow from operating activity.

MANAGEMENT REPORT (continued)

MANAGEMENT OF THE COMPANY

According to the Commercial Law, the Company's statutes anticipate two-level management procedure, which, according to the decision of the Company's Shareholders' meeting of 11 November 2008, is realized by the Shareholders' meeting and the Board.
In 2018 the duties of the member of the Board in the Company were performed by: Jūlija Grinberga, Raimonds Gerbis, Dace Mačuļska.

DISCLOSABLE INTEREST

Citrus Solutions members of the Board and their family members or companies under their management do not have shares or share options contracts in the company *Citrus Solutions* or companies of Lattelecom group. The members of the Board do not have interest in contracts or agreements related with *Citrus Solutions.*

RESPONSIBILITY OFTHE BOARD FOR THE ANNUAL REPORT

The Board is responsible for preparation of the Company's financial statements on the basis of the Company's initial accounting records for each reporting period.

The financial statement gives a fair view of the Company's financial state at the end of the reporting year, business result and cash flow for the reporting year.

The Board confirms that appropriate accounting records methods were consequentially used and cautious estimates and forecasts were made, upon preparation of the financial statements for 2018. The Board confirms that the requirements of the Latvian legislation have been met and the financial statements have been prepared on the continued operation basis.
The Board is responsible for the appropriate accounting records and taking measures in order to save the Company's funds, reveal and avoid fraud and other irregularities.

RISK MANAGEMENT

Operations of *Citrus Solutions* are subject to several risks caused by business environment and market in which the Company operates. The most significant risks that could threaten *Citrus Solutions* operations in the future are such strategic risks as changes in the development of construction market, increase in the construction prices of the subcontractors, increase of salaries for those working in construction industry, as well as lack of construction resources.

Operational risks are related with the ability to realize large and complex projects. The management of financial risks in relation to the Company's liquidity, currency and interest rate fluctuations and credit risk of cooperation partners is based on financial risk management policy of *Lattelecom* group.

Citrus Solutions performs identification, evaluation of risks and develops operating plans to prevent, reduce or transfer risks to third parties that might have an adverse effect on, property, staff, finances or operating results of *Citrus Solutions*. To avoid financial losses in case any of the risks would materialize, part of those is insured. Currently *Citrus Solutions* has insurance cover in such spheres as property, commercial termination, civil third party liability, construction specialists' civil third party liability and employees' insurance.

EVENTS AFTER THE END OF REPORTING YEAR

In the period since the last date of the reporting year till the signing of this report there were no considerable events that would significantly impact the results of reporting year.

FURTHER DEVELOPMENT OF THE COMPANY

In future years, the Company's development is related to obtaining and implementation of orders of external clients (outside *Lattelecom* group), which will be the main priority of the Company, as well as gaining presence in export market.

Ability to offer integrated solutions to clients has served as a competitive advantage of the Company that will help to obtain new contracts with a higher added value.

On behalf of the Board

Chairman of the Board ______________________________ /Jūlija Grinberga/
Riga, January 29, 2019

Profit or loss account

(classified according to cost types)

	Notes	2018 EUR	2017 EUR
NET TURNOVER	1	**30 444 716**	**20 219 379**
Costs (capitalized) referenced to own long-term investments	2	-	19 678
Other operating income	3	194 824	320 880
Cost of materials:			
a) costs of raw materials and consumables;		(2 134 470)	(1 615 906)
b) other external costs		(82 224)	(85 775)
		(2 216 694)	(1 701 681)
Personnel costs:			
a) remuneration for work;		(5 724 994)	(4 213 541)
b) pensions from company funds;		(12 114)	(11 573)
c) state mandatory social insurance payments;		(1 394 600)	(1 002 096)
d) other social insurance costs		(174 101)	(171 132)
		(7 305 809)	(5 398 342)
Write-offs and value adjustments:			
a) a) depreciation and write off of fixed and intangible assets;	8, 9	(334 493)	(260 699)
b) write-off of the value of current assets, if these exceed such amounts of value write-offs, which the relevant company considers to be regular.	4	(49 580)	(42 553)
Other operating expenses	5	(20 171 998)	(13 071 087)
Other income from interest and similar income:			
a) from other persons		3 782	-
Interest payments and similar costs:			
a) to related companies	6	(32 927)	(52 041)
PROFIT OR LOSS BEFORE CORPORATE INCOME TAX		**531 821**	**33 534**
Corporate income tax	7	(3 602)	35 871
Revenue or costs from deferred tax asset or liability balance changes	7	-	(556 858)
PROFIT OF THE ACCOUNTING YEAR		**528 219**	**(487 453)**

The note forms an integral part of these financial statements.

On behalf of the Board

Chairman of the Board ________________________________/Jūlija Grinberga/

Outsourcing accountant ____________________________/Ilvija Gredzena/

Riga, January 25, 2019

Balance Sheet - Assets

	Notes	31 December 2018 EUR	31 December 2017 EUR
LONG-TERM INVESTMENTS			
Intangible assets			
Other intangible assets		159 860	184 203
Total Intangible assets	8	**159 860**	**184 203**
Fixed assets			
Land plots, buildings and engineering structures		2 570	3 565
Equipment and machinery		2 591	3 587
Other fixed assets and inventory		253 913	507 670
Creation of fixed assets and costs of unfinished construction objects		441 887	143 860
Total fixed assets	9	**700 961**	**658 682**
Long-term financial investments			
Interest in capital of related companies	10	25 000	-
Total long-term financial investments		**25 000**	**-**
Total long-term investments		**885 821**	**842 885**
CURRENT ASSETS			
Inventories			
Raw materials, basic materials and consumables		879 522	857 050
Advance payments for goods		45 418	7 817
Total inventories	11	**924 940**	**864 867**
Debtors			
Trade receivables	12	4 390 375	2 822 508
Receivables from related companies	21	1 763 486	2 659 014
Other debtors	13	357 547	240 327
Prepaid expenses		9 646	3 489
Accrued income	14	7 783 594	4 649 332
Total debtors		**14 304 648**	**10 374 670**
Cash	15	**1 035 490**	**360 514**
Total current assets		**16 265 078**	**11 600 051**
BALANCE SHEET		**17 150 899**	**12 442 936**

The note forms an integral part of these financial statements.

On behalf of the Board

Chairman of the Board__________________________________/Jūlija Grinberga/

Outsourcing accountant______________________________/Ilvija Gredzena/

Riga, January 25, 2019

Balance sheet - Liabilities

	Notes	31 December 2018 EUR	31 December 2017 EUR
EQUITY			
Share capital (fixed capital)	16	3 570 999	3 570 999
Retained profits/losses of the previous years		(487 453)	
Retained profits of the reporting year		528 219	(487 453)
Total Equity		**3 611 765**	**3 083 546**
PROVISIONS			
Other provisions	17	249 405	334 492
Total provisions		**249 405**	**334 492**
CREDITORS			
Long-term creditors			
Next period revenue		1 310	-
Total long-term creditors		**1 310**	**-**
Short-term creditors			
Advanced payments from customers		1 285 851	702 603
Accounts payable	18	3 148 280	2 152 831
Debts to related companies	21	5 355 923	2 929 920
Taxes and State mandatory social insurance payments	19	348 087	278 806
Other creditors		1 944	1 671
Deferred income		5 242	15 815
Accrued liabilities	20	3 143 092	2 943 252
Total short-term creditors		**13 288 419**	**9 024 898**
BALANCE SHEET		**17 150 899**	**12 442 936**

The note forms an integral part of these financial statements.

On behalf of the Board

Chairman of the Board__________________________________/Jūlija Grinberga/

Outsourcing accountant_____________________________/Ilvija Gredzena/

Riga, January 25, 2019

Statement of changes in equity

	Share capital	Reserves	Retained profits	Total
	EUR	EUR	EUR	EUR
Balance at 31 December 2016	**1 070 999**	**-**	**90 336**	**1 161 335**
Increase of share capital	2 500 000	-	-	2 500 000
Dividends paid	-	-	(90 336)	(90 336)
Profits of the reporting year	-	-	(487 453)	(487 453)
Balance at 31 December 2017	**3 570 999**	**-**	**(487 453)**	**3 083 546**
Increase of share capital	-	-	-	-
Dividends paid	-	-	-	-
Profits of the reporting year	-	-	528 219	528 219
Balance at 31 December 2018	**3 570 999**	**-**	**40 766**	**3 611 765**

The note forms an integral part of these financial statements.

On behalf of the Board

Chairman of the Board__________________________________/Jūlija Grinberga/

Outsourcing accountant_____________________________/Ilvija Gredzena/

Riga, January 25, 2019

Cash flow statement
(according to the indirect method)

	Notes	2018 EUR	2017 EUR
Cash flow from operating activities			
Profit before taxes		531 821	33 534
Adjustments:			
- amortization of intangible assets;	8	72 455	54 950
- depreciation of fixed assets;	9	262 038	205 749
- other interest revenue and similar revenue	5, 3	(116 120)	(77 693)
- provisions (excluding provisions for doubtful debts);	17	(85 087)	(28 676)
- profit or losses from no currency exchange rate fluctuations;		(5 335)	19 292
- interest payments and similar costs.	6	32 927	32 052
Profit before adjustments for the effect of changes to current assets and short term liabilities		692 699	239 208
Decrease (increase) in accounts receivable		(3 880 175)	(1 557 412)
Decrease (increase) in inventories		(60 073)	458 108
Increase (decrease) in accounts payable to suppliers, contractors and other creditors		4 000 651	(785 311)
Gross cash flows from operating activities		753 102	(1 645 407)
Interest paid		(32 927)	(32 052)
Corporate income tax paid	19	(49 801)	(75 167)
Net cash flows from operating activities		**670 374**	**(1 752 626)**
Cash flows from investing activities			
Purchase of shares of related companies, associated companies or other companies		(25 000)	-
Purchase of fixed and intangible assets		(1 309 940)	(434 361)
Income from disposal of fixed and intangible assets		1 073 631	81 064
Net cash flows from investing activities		**(261 309)**	**(353 297)**
Cash flows from financing activities			
Income from share and bond or capital share investments		-	2 500 000
Loans received		3 816 714	4 027 127
Repayment of loans		(3 556 138)	(4 204 399)
Dividends paid		-	(90 336)
Net cash flows from financing activities		**260 576**	**2 232 392**
Result of fluctuations in the foreign currency exchange rates		5 335	(19 292)
Net (decrease) / increase of cash and cash equivalents		**674 976**	**107 177**
Cash and cash equivalents at the beginning of the reporting year		360 514	253 337
Cash and cash equivalents at the end of the reporting year	15	**1 035 490**	**360 514**

The note forms an integral part of these financial statements.

On behalf of the Board

Chairman of the Board________________________________/Jūlija Grinberga/

Outsourcing accountant____________________________/Ilvija Gredzena/

Riga, January 25, 2019

Note of financial statements

Accounting policies

GENERAL INFORMATION

The Limited Liability Company *Citrus Solutions* (hereinafter *Citrus Solutions* or the Company) was established and registered in the Commercial Register of the Republic of Latvia on 28 June 2005 under the common registration number 50003752271, its legal address is Ūnijas street 52, Riga. The Company's parent company is *Lattelecom*, which holds 100% of the Company's share capital. The main business lines of *Citrus Solutions* are construction and servicing of telecommunication infrastructure for corporate clients. The number of employees at *Citrus Solutions* at the end of the reporting year was 268.

Stakeholder or shareholder of the Company, which prepares the consolidated annual report, including the Company as its subsidiary, is SIA *Lattelecom,* reg. No .40003052786, Dzirnavu street 105, Riga, LV-1011. Copies of the consolidated annual reports are available in website of SIA *Lattelecom* https://www.lattelecom.lv/par-lattelecom/par-mums/gada-parskati.

ACCOUNTING AND ASSESSMENT PRINCIPLES

Basis of the preparation of financial statements

The financial statement has been prepared in accordance with the laws "On Accounting" and "Law on Annual Statements and Consolidated Annual Statements" of the Republic of Latvia". The Company is a subsidiary of *Lattelecom* group and the consolidated statement of the group is prepared in accordance with requirements of the International accounting standards.

The financial statements have been prepared on the historical cost measurement principle basis.

All amounts disclosed in the financial statements are provided in euro (EUR), if not stated otherwise.

The reporting period is the calendar year. The balances on 31 December 2018 represent the financial state of the Company at the end of the day.

The profit or loss account was prepared according to the period costs method.

The cash flow statement is prepared applying the indirect method.

Amounts, whose terms of receipt, payment or write off are due more than one year after the balance sheet date, are classified as long-term. Amounts to be received, paid or written off within one year of the balance sheet date are classified as short term.

In accordance with the criteria stipulated in the law, the Company is classified as medium Company.

The law provided for additional allowances to small and medium companies in preparation of financial statements, but at the same time also stipulates that the financial statement shall provide a true and clear notion on the financial condition and profit or losses of the company, but for the annual report of a large and medium company – also for the cash flow.

Applied accounting principles

The items of financial statements were evaluated in accordance with the following accounting principles:

a) assumption that the Company will continue to operate;
b) the same valuation methods will be used as in the previous year, except for the debtor accounting policy, see Trade receivables;
c) evaluation was done with due caution:
    - the financial statements reflect only the profit generated to the date of the balance sheet,
    - all expected risk amounts and losses incurred during the reporting year or prior years have been taken into consideration even if discovered in the period of time between the balance sheet date and the date of preparation of the financial statements,
    - all impairments and depreciation have been taken into consideration irrespective of whether the financial result was a loss or profit;

Accounting policies (continued)

d) income and expenses incurred during the reporting year have been taken into consideration irrespective of the payment date or date when the invoice was issued or received. Expenses were matched with revenue for the reporting period;
e) assets and liabilities have been valued separately;
f) the opening balance agrees with the prior year closing balance;
g) all material items, which would influence the decision-making process of users of the financial statements, have been indicated and insignificant items have been combined and their details disclosed in the notes;
h) business transactions are recorded taking into account their economic contents and substance, not the legal form.

Related parties

The Company considers that related parties are the group's parent company and subsidiaries in the group, as well as other companies which may have a significant impact on the Company's activities.

Other related parties of the Company are the highest level managers of the Company and their close family members, as well as companies under the control or significant influence of such individuals.

Foreign currency revaluation

Transactions in foreign currency are translated into euro on the basis of the reference exchange rate published by the European Central Bank (hereinafter "ECB") that is effective at the beginning of the day when the transaction takes place, however, the last available foreign currency exchange rate that can be used in accounting is applied, if the transaction date is a working day in Latvia but it does not have a published foreign currency exchange rate to be used in accounting, as according to the calendar of foreign currency exchange rate publishing source it is a holiday. Profit or loss resulting from these transactions, as well as resulting from revaluation of monetary assets and liabilities denominated in the local currency is recognized in the profit or loss account.
At the end of the year financial assets and liabilities in foreign currency are revalued on the basis of exchange rate set by the ECB effective on the last day of the reporting period and all relevant fluctuations of currency rate are disclosed in profit or loss account.

Euro exchange rate against currencies in which the Company has had transactions:

	31 December 2018	**31 December 2017**
USD	1.1450	1.1993

Intangible assets

Intangible assets include trademarks, software licenses, capitalized project groups' staff expenses and service expenses related to implementation of software. If software is an integral part of equipment and it cannot operate without the specific program, software is recognized under fixed assets.

Intangible assets are recognized at purchase costs, deducting accumulated amortization and accrued losses from value reduction. Intangible assets are amortized by linear method over their useful life (over 3 to 5 years).

On each balance sheet date, it is assessed whether certain indications exist that would show that the value of an asset might be decreased. The recoverable value of intangible assets not ready for use is determined every year regardless of the fact whether indications exist that would show that the value of an asset might be decreased. For purposes of impairment assessment, intangible assets are divided in groups so that they would represent as small unit as possible for which it is possible to determine the amount of cash flow.

If the book value of an intangible asset exceeds the expected recoverable amount, which is the highest of the net realizable value and value in use, then its book value is immediately reduced to the recoverable value, including the difference in the profit or loss account.

Accounting policies (continued)

Fixed assets

Fixed assets are carried at purchase costs, deducting accumulated depreciation and accrued losses from value reduction. Depreciation of fixed assets is calculated by linear method, allocating the equally purchase costs of fixed assets until the expected disposal value to the forecast length of useful life of fixed assets:

	Useful life in years
Buildings	7
Energy equipment	10
Other fixed assets	3 – 5

Useful life of fixed assets is reviewed at least once a year. Impact caused by changes in the useful life is disclosed in the profit or loss account in the period when the changes incurred and in next periods.
If the book value of a fixed asset exceeds the expected recoverable amount, which is the highest of the net realizable value and value in use of a fixed asset, then its book value is immediately reduced to the recoverable value, including the difference in the profit or loss account.
Current maintenance and repair costs of tangible assets are recognized in the profit or loss account period as incurred.
Profit or loss from disposal of fixed assets are determined by comparing revenue from sales with balance value of fixed assets and are included in the profit from operating activities.

Participation in group subsidiaries

Investments in subsidiaries (i.e., companies, in which the Company owns more than 50% of the share capital or which it controls otherwise) shall be accounted, using the cost method. After initial recognition the investments in subsidiaries shall be booked at their initial value, minus losses from value depreciation. If any events or change of circumstances shows that the balance value of the investments in subsidiaries could be unrecoverable, the value of the relevant investments in subsidiary shall be reviewed to determine their value depreciation.

Accounting of lease contracts

Lease transactions that essentially transfer all risks and rewards characteristic of property rights to the object to the lessor are classified as finance lease transactions. All other lease transactions are classified as operating lessee transactions.

(i) The company is a lessor

If the Company's assets are involved in the operating lease, income from operating lease is included in the profit or loss account by linear method during lease period. The initial direct costs arising from the lease transaction are included in the book value of the leased asset and recognized in the profit or loss account in the period, when income from the sales is recognized.
When the Company is a lessor under financial lease terms, it discloses the leased asset in the balance sheet as accounts receivable that is equal to the current value of lease payment. Revenue from lease is included in the profit or loss account in the lease contract period applying a constant periodical interest rate for the balance of claims.

(ii) The company is a lessee

Payments made in accordance with the operating lease contract are included in the profit or loss account by linear method over the period of lease.
If the Company is a lessee under financial lease terms, in the balance sheet the Company includes fixed asset and liabilities at the lowest of the fixed asset's fair value at the beginning of the lease or current value of minimum lease payment. Each lease payment is divided in reduction of liabilities and financial payment that is calculated applying consistent interest rate to the remaining value of liabilities. Interest payments are recognized in the profit or loss account during the period of lease. Leased fixed asset is amortized over the shortest of the lease terms or useful life.

Accounting policies (continued)

Inventories

Inventories are evaluated by the lowest of the purchase costs or net sales value. Purchase value is determined applying the average weighted inventories evaluation method. In cases, when the net sales value of inventories is lower than weighted average purchase price, appropriate provisions are created for these inventories to reduce their value to net sales value.

Accounts receivable

Accounts receivable represent amounts to be repaid in less than one year and reflected in the balance sheet, deducting provisions for doubtful or bad debts.

Provisions for doubtful debts are created in cases, when the Company's management believes that the recoverability of these liabilities is uncertain.
Provisions for doubtful accounts receivable are calculated based on the information about the financial state of the respective debtor and debt recovery, as well as analysis of the debt age structure. Provisions for the separate accounts receivable are made in cases when there are objective evidence that recovery of these accounts receivable is doubtful. General provisions for the doubtful accounts receivable are calculated based on the analysis of debt age. The provision rate estimation was changed in 2018, which was reviewed, based on the actual amount of losses during the last five years. The following provisions rates were applied in the Company:
As of December 31, 2017

Accounts receivable (delay in days)	1 – 30	31 – 90	91 – 180	181 – 365	> 365
Rate of provisions, %	2	15	60	85	100

As of December 31, 2018

Accounts receivable (delay in days)	Not delayed	1 - 30	31 - 90	91 - 180	181 - 365	> 365
Rate of provisions, %	0.3	3	25	65	65	100

Bad debts are written off, when their recovery is considered as impossible.

Cash and cash equivalents

Cash and cash equivalents are bank account balances, cash in transit and bank deposits, the initial term of which do not exceed three months.

Loans

Loans are recognized at purchase value that is the fair value of the received compensation, deducting transaction costs that are directly attributable to receipt of a loan. In the next periods loans are evaluated at amortized purchase value, using effective interest rate method. Revenue or loss are recognized in the profit or loss account as interest income or expenses when liabilities are excluded from the balance sheet, using amortization process. Part of loans, repayment term of which exceeds 12 months, is included in the long-term liabilities.

Provisions

Provisions are made in cases when the Company, as a result of past events, has current legal liabilities or caused as a result of practice and it is expected that resources of economic value will be necessary to settle these liabilities and it possible to estimate the amount of these liabilities reliably.
In the balance sheet provisions are reflected, indicating as precisely as possible the amount of expenses, which is necessary to settle liabilities in the amount disclosed at the balance sheet date. Provisions are used only in relation to expenses for which they were initially created and they are reduced in case the possible outflow of resources cannot be estimated.
At the end of the reporting year, there provisions have been created for guarantee repairs, evaluating conditions of contracts concluded with clients and the respective projects. Provision is created as certain percentage from revenue of implemented projects for the guarantee period defined in the contract. The provision percentage is determined, based on the historical experience of the Company in similar projects and other available information.

Accounting policies (continued)

Accrued liabilities

Accrued liabilities are clearly known amounts of settlement with suppliers and contractors for goods or services received in the reporting year, if a relevant payment document has not been received at the balance sheet date.

As of the end of the reporting year, the accrued expenses of unused vacations, accrued expenses for bonuses for performance results in the reporting year, termination benefits and other accrued expenses for which services have been received in the reporting year have been created. The accrued expenses for unused vacations are calculated by multiplying the number of unused vacation days of an employee with the average day salary of the employee. The accrued expenses for bonuses are created on the basis of the assessment of the Company's and individual goals completion in accordance with the bonus scheme implemented in the Company. The accrued expenses for termination benefits are created in accordance with termination rates determined by the trade union on the basis of the annual salary and time an employee has worked in the Company. The compulsory state social security contributions are added to the accrued expenses for unused vacations, bonuses and termination benefits.

Possible liabilities and assets

Possible liabilities are not disclosed in the financial statements. Information on the possible liabilities is disclosed in the note, except for cases, when the probability of outflow of resources that include economic benefits is immaterial. Possible assets are not disclosed in the financial statements but information is disclosed in the notes, if inflow of economic benefits is probable.

Pension fund

The amount of payments to the pension fund, within prescribed limit, is chosen by each employee independently.

Payments to the pension fund are accounted as expenses in the period when the respective employee has provided the services stipulated in the labor contract.

The Company holds 1.85% of AS *Pirmais Slēgtais Pensiju Fonds* shares, however, the Company is only a formal shareholder. Investment in the share capital of the fund was written off as expenses as at the date of establishment, as risks and rewards related to the pension fund are related only to the participants of the pension plan – employees of the Company.

Income taxes

Starting with January 1, 2018 in accordance with the changes of the "On Corporate Income Tax" of the Republic of Latvia the legal entities do not have to pay income tax for the gained profit. The corporate income tax shall be paid for the distributed profit and relevantly distributed profit. Therefore in Latvia no differences will arise between the value of the assets, which has been determined for the tax purposes, and the accounting book value, which would then result in deferred income tax assets or liabilities. Starting with January 1, 2018 20% tax rate from the gross amount or 20/80 of the net costs shall be applied to the distributed profit and relevantly distributed profit. The corporate income tax for the payment of dividends shall be booked in profit or loss calculation as costs in the reporting period, when the relevant dividends have been announced, whereas for other relevant profit items – at the moment of incurring of the costs within the framework of the reporting year.

Deferred tax assets and liabilities

The law "On Corporate Income Tax", which was effective until December 31, 2017, determined differences between the value of the assets and liabilities, which has been determined for the tax purposes, and the accounting book value. The deferred tax was calculated by applying the liability method to all temporary differences between the asset and liabilities values, which were used for tax calculation purposes and their value in the accounting books. In order to determine the scope of the deferred tax assets and liabilities, tax rates expected in the periods, when the relevant asset would be used or the liability would be settled, were applied, based on the tax rates, determined at the balance sheet date.

Pursuant to the changes of the laws and regulations of the Republic of Latvia, which come into effect on January 1, 2018, in 2017 the deferred tax asset and liabilities shall not be recognized. The deferred tax liabilities or assets, which have been accrued for the previous reporting periods in 2017 annual report have been written off in the profit or loss statement. Based on the International Accounting Standard, the changes in the tax legislation shall be reflected in the financial statement in the period, where these changes would be accepted.

Accounting policies (continued)

Revenue recognition
Revenue is recognized when goods are delivered and services are provided.
Revenue from sales of goods are recognized at the time of delivery, if material risks and rewards related to property rights are transferred to the buyer and the seller does not retain further management rights that usually are related to property rights, not real control over the goods sold.
Revenue for the services provided are recognized at the moment when services are provided, on the basis of time spent.
Interest income is recognized in the profit or loss account applying the effective interest rate method.

Long-term contracts
Long-term contract is a specific contract on establishment of the object or set of assets. Set of assets are assets that are closely related or mutually dependent upon the project, technology and function, or due to their final purpose or use.
Long-term contracts are contracts specifying that works shall be commenced in one financial reporting period and completed in other, although the total term for completion may be less than 12 months.
If the result of a long-term contract can be reliably estimated, revenue and expenses related to such contract are recognized in the profit or loss account as income and expenses, considering the stage of completion of the contractual works in per cent at the balance sheet date. If the result of a long-term contract cannot be reliably estimated, revenue is recognized to the extent it is possible to recover the expenses related to the contract and a part of the expected profit is not recognized. Expenses related to contract are recognized when incurred. The stage of completion is assessed in per cent, on the basis of costs of work accomplished. Expected losses from the contract are recognized as expenses in the profit or loss account.

Dividends
Dividends are recognized in the financial statements in the period when the Company's shareholders general meeting confirms payment of dividends.

Events after the balance sheet date
Amounts recognized in the financial statements are adjusted considering events after the balance sheet date, which provide additional information about the Company that was true at the balance sheet date (adjusting events). Events after the balance sheet date that are not considered adjusting are reflected in the note of the financial statements, if they are significantly.

Comparative figures
In cases, when the classification of certain items of the financial statements is changed to provide a more fair view on the Company’s financial state, the comparative figures of its operating results and cash flows are adjusted in accordance with the new classification.

Application of assessments and more important assumptions
Upon preparing of the financial statements, the management, in accordance with Latvian Accounting Regulations, has to rely on certain estimates and assumptions related to recognition of assets, liabilities, revenues and expenses and contingent liabilities. Estimates are mainly related to recognition of revenues from long-term contracts, useful life of fixed assets, provisions for guarantee repairs, provisions for doubtful debts and obsolete stocks, as well as fixed assets impairment evaluation. Although these estimates are based on comprehensive management information on current events and activities, actual results may differ from these estimates.

1. NET TURNOVER

	2018 EUR	2017 EUR
Income from construction of engineering systems and infrastructure	25 580 087	16 016 058
Income from servicing and maintenance services provided to electronic communication network	2 719 615	2 501 631
Income from sale of materials	2 145 014	1 701 690
Total	**30 444 716**	**20 219 379**

2. COSTS (CAPITALIZED) REFERENCED TO OWN LONG-TERM INVESTMENTS

	2018 EUR	2017 EUR
Personnel costs	-	17 086
Other costs	-	2 592
Total	**-**	**19 678**

3. OTHER OPERATING INCOME

	2018 EUR	2017 EUR
Income from lease of fixed assets	8 262	6 479
Gain on disposal of fixed assets	116 120	77 693
Recovered receivables	21 855	126 724
Other income	48 587	109 984
Total	**194 824**	**320 880**

4. WRITE-OFF OF THE VALUE OF CURRENT ASSETS

	2018 EUR	2017 EUR
Write-off accounts receivable and creation of provisions	(29 309)	(29 823)
Costs of write-off inventories	(20 271)	(12 730)
Total	**(49 580)**	**(42 553)**

5. OTHER OPERATING COSTS

	2018 EUR	2017 EUR
Engineering systems, infrastructure construction services costs and material costs	(17 172 382)	(10 097 264)
Car lease, maintenance costs	(1 023 502)	(838 123)
Network, equipment maintenance services costs and material costs	(943 369)	(863 716)
Office and administrative expenses	(303 730)	(379 088)
Other costs of economic activity	(291 147)	(503 157)
Rent and maintenance of premises, public utilities	(225 615)	(212 537)
IT services costs	(212 253)	(177 202)
Total	**(20 171 998)**	**(13 071 087)**

6. INTEREST INCOME AND EXPENSES

	2018 EUR	2017 EUR
Other income from interest and similar income		
net profit from exchange rate fluctuations	3 782	-
Total	**3 782**	**-**
Interest payments and similar costs		
on loans	(32 927)	(32 052)
net losses from exchange rate fluctuations	-	(19 989)
Total	**(32 927)**	**(52 041)**

7. INCOME TAXES

	2018 EUR	2017 EUR
Corporate income tax:		
- reporting year	(11 337)	(19 148)
- correction of the previous year*	7 735	55 019
Deferred tax	-	(92 166)
Deferred tax write-off	-	(464 692)
Total	**(3 602)**	**(520 987)**

* Correction of Corporate Income Tax for the previous year refers to the accrued expenses, the external supporting documents of which were not received at the moment of preparation of 2017 annual report, and therefore those were considered as expenses that are not deductible in the calculation of the Corporate Income Tax, while at the date of submission of the Corporate Income Tax declaration the external supporting documents were received and the taxable income adjustment was not necessary.

Actual income tax comparison with theoretical calculations:

	2018 EUR	2017 EUR
Profit before taxes	**-**	**33 534**
Theoretically calculated corporate income tax - 15%	-	5 030
Tax correction for:		
expenses that are not deductible, determining taxable income	-	21 243
other	-	30 022
deferred tax write-off	-	464 692
Total	**-**	**520 987**

Changes of deferred tax

	2018 EUR	2017 EUR
Balance at the beginning of the reporting year	-	553 756
Income of deferred tax	-	(89 064)
Balance at the end of the reporting year	**-**	**464 692***

In the Balance sheet position “Deferred tax assets” includes the following amounts:

	31.12.2018 EUR	31.12.2017 EUR
From temporary differences between the fixed assets value in the balance sheet and tax calculation purpose	-	(45 851)
From provisions for outdated inventories	-	16 864
From doubtful accounts receivable	-	-
From accrued liabilities and provisions	-	493 679
Deferred tax asset*	**-**	**464 692***

*The deferred tax asset has been written off in the profit or loss calculation in 2017 in accordance with the changes of the laws and regulations of the Republic of Latvia, which come into effect, starting from January 1, 2018.

8. INTANGIBLE ASSETS

	Other Intangible assets EUR	Creation of Intangible assets EUR	Total EUR
Purchase value			
31 December 2017	**305 829**	**19 334**	**325 163**
Purchased	-	48 112	48 112
Put into operation	27 916	(27 916)	-
31 December 2018	**333 745**	**39 530**	**373 275**
Amortization			
31 December 2017	**(140 960)**	**-**	**(140 960)**
Amortization	(72 455)	-	(72 455)
31 December 2018	**(213 415)**	**-**	**(213 415)**
Remaining value			
31 December 2017	**164 869**	**19 334**	**184 203**
31 December 2018	**120 330**	**39 530**	**159 860**

In 2018 capital investment in the intangible assets were EUR 48 112 (In 2017 - EUR 30 552).

9. FIXED ASSETS

	Buildings EUR	Equipment and machinery EUR	Other fixed assets and inventory EUR	Creation of fixed assets EUR	Total EUR
Purchase value					
31 December 2017	**6 963**	**82 084**	**2 897 472**	**143 860**	**3 130 379**
Purchased	-	-	-	1 261 828	1 261 828
Put into operation	-	-	963 801	(963 801)	-
Excluded in the reporting year	-	(1 829)	(1 485 829)	-	(1 487 658)
31 December 2018	**6 963**	**80 255**	**2 375 444**	**441 887**	**2 904 549**
Depreciation					
31 December 2017	**(3 399)**	**(78 497)**	**(2 389 801)**	**-**	**(2 471 697)**
Depreciation	(995)	(704)	(260 339)	-	(262 038)
Excluded in the reporting year	-	1 538	528 609	-	530 147
31 December 2018	**(4 394)**	**(77 663)**	**(2 121 531)**	**-**	**(2 203 588)**
Remaining value					
31 December 2017	**3 564**	**3 587**	**507 671**	**143 860**	**658 682**
31 December 2018	**2 569**	**2 592**	**253 913**	**441 887**	**700 961**

In 2018 capital investment in the fixed assets were EUR 1 261 828 (In 2017 - EUR 403 809).

The additions of fixed assets include personnel and other costs that are directly related with introduction of fixed assets and are capitalized on basis of the amount of spent hours in these projects. In 2017 the capitalized costs amounted to EUR 19 678 (Note 2).

The Company in its economic activity uses also fully depreciated intangible assets and fixed assets. The initial purchase value of these intangible assets and fixed assets is EUR 1 504 127 (In 2017 - EUR 1 505 233).

10. PARTICIPATION IN SHARE CAPITAL OF RELATED COMPANIES

Purchase value of the investments

Company	Participation (%)	31.12.2018. EUR	31.12.2017. EUR
Citrus Solutions Gbmh	100	25 000	-
Total		**25 000**	**-**

In May 2018 a subsidiary was registered in Germany - Citrus Solutions Gbmh.

11. INVENTORIES

	31.12.2018 EUR	31.12.2017 EUR
Raw materials and materials	970 096	969 479
Provision for obsolete and slow-moving goods	(90 574)	(112 429)
Advance payments for goods	45 418	7 817
Total Inventories	**924 940**	**864 867**

Provision for obsolete and slow-moving goods

	2018 EUR	2017 EUR
Provisions at the beginning of reporting year	112 429	239 153
Created/(reduced) provisions in the reporting year, net	(21 855)	(126 724)
Provisions at the end of reporting year	**90 574**	**112 429**

12. TRADE RECEIVABLES

	31.12.2018. EUR	31.12.2017. EUR
Accounts receivable	4 559 916	2 963 990
Provision for doubtful debts	(169 541)	(141 482)
Total trade receivables	**4 390 375**	**2 822 508**

Movement of provisions for doubtful and bad debts

	2018 EUR	2017 EUR
Provisions at the beginning of reporting year	141 482	111 659
Written off doubtful accounts receivable	(1 250)	-
Created provisions for doubtful accounts receivable	29 309	29 823
Provisions at the end of reporting year	**169 541**	**141 482**

13. OTHER DEBTORS

	31.12.2018. EUR	31.12.2017. EUR
Advanced payments to foreign suppliers	8 906	900
Overpaid taxes (Notes 18)	191 842	120 364
Advanced payments to Latvian suppliers	90 801	44 376
Other debtors	2 676	2 033
Settlements with employees	63 322	72 654
Total other debtors	**357 547**	**240 327**

14. ACCRUED INCOME

	31.12.2018. EUR	31.12.2017. EUR
Accrued income*	7 783 594	4 649 332
Total accrued income	**7 783 594**	**4 649 332**

* Accrued income for the construction projects in progress are recognized on the basis of percentage of completion at the balance sheet date.

15. CASH

	31.12.2018. EUR	31.12.2017. EUR
Cash in banks	1 035 490	360 514
Total cash	**1 035 490**	**360 514**

16. SHARE CAPITAL (FIXED CAPITAL)

At the end of 2018 share capital of *Citrus Solutions* was EUR 3 570 999 and it was constituted by 3 570 999 shares with nominal value of EUR 1 each. SIA *Lattelecom* holds 100% of *Citrus Solutions* share capital.

17. PROVISIONS

Movement in provisions for warranty repairs

	2018 EUR	2017 EUR
Provisions at the beginning of reporting year	334 492	363 168
Created/ (reduced) provisions in the reporting year, net	(85 087)	(28 676)
Provisions at the end of the reporting year	**249 405**	**334 492**

18. ACCOUNTS PAYABLE TO SUPPLIERS AND CONTRACTORS

	31.12.2018 EUR	31.12.2017 EUR
Settlements with suppliers	3 148 280	2 152 831
Total accounts payable to suppliers and contractors	**3 148 280**	**2 152 831**

19. TAXES AND STATE MANDATORY SOCIAL INSURANCE PAYMENTS

(a) Tax payments in Latvia

	Balance 31.12.2018 EUR	Balance 31.12.2017 EUR
Corporate income tax	(37 803)	(98 276)
Value added tax	143 371	140 787
State mandatory social insurance payments	204 616	133 877
Business risk state tax	100	77
Total taxes	**310 284**	**176 465**

(b) Tax payments in Germany

	Balance 31.12.2018 EUR	Balance 31.12.2017 EUR
State mandatory social insurance payments	-	(3 254)
Resident income tax	-	4 065
Corporate income tax (Note 7)	(11 998)	(3 693)
Value added tax	(142 041)	(15 141)
Total taxes	**(154 039)**	**(18 023)**

	EUR	EUR
Total taxes (a), (b)	156 245	158 442
Total	**156 245**	**158 442**
incl. tax liabilities	348 087	278 806
tax overpayment	(191 842)	(120 364)

20. ACCRUED LIABILITIES

	31.12.2018 EUR	31.12.2017 EUR
Accrued expenses for construction of engineering systems and infrastructure	2 004 792	2 153 091
Accrued bonuses costs for the work results of reporting year	697 552	507 338
Accrued expenses on unused vacations	440 748	282 823
Total accrued liabilities	**3 143 092**	**2 943 252**

21. RECEIVABLES FROM RELATED COMPANIES AND PAYABLES TO RELATED COMPANIES

SIA *Citrus Solutions*, SIA *TET* (name until 11.10.2018. *Lattelecom BPO*) and SIA *Lattelecom Technology* are 100% subsidiaries of SIA *Lattelecom*. SIA *Citrus Solutions* holds 100% of the subsidiary *Citrus Solutions GmbH.* Whereas SIA *Lattelecom* indirectly owns 100% subsidiaries of SIA *TET* - SIA *Baltijas Datoru Akadēmija,* SIA *Helio Media* (name until 08.08.2018. *Media 360)* and SIA *Data Experts.*

(a) Balances of accounts receivable/ payable

	31.12.2018 EUR	31.12.2017 EUR
Related company debts		
Lattelecom	994 529	2 659 014
Citrus Solutions Gbmh	768 957	-
Total related companies debts	**1 763 486**	**2 659 014**
Payables to related companies		
Lattelecom	1 695 556	85 448
Citrus Solutions Gbmh	555 319	-
Loan from *Lattelecom,* principal amount	3 105 048	2 844 472
Total debts to related companies	**5 355 923**	**2 929 920**

In the reporting year Citrus Solutions used credit line from the parent company Lattelecom, which is issued until June 30, 2018 and is available in the amount of EUR 5 000 000. At the end of the reporting year the Company used credit line in amount of EUR 3 105 048 (in 2017 - EUR 2 844 472). The interest rate of credit line is linked to the inter-bank one-month credit interest rate EURIBOR.
Assets of Citrus Solutions are not pledged as a security for loan and available credit resources.

22. INFORMATION ON ONGOING CONSTRUCTION CONTRACTS

	2018 EUR	2017 EUR
Recognized revenue*	18 841 353	10 591 726
Recognized expenses*	(13 798 198)	(7 440 656)
Total amount of advance payments received from clients	1 285 851	702 603
Total	**6 329 006**	**3 853 673**

*Major on-going construction projects of 2018 are low voltage and electrical network construction in the multifunctional complex, automatic fire detection and fire alarm, automatic voice fire announcement and smoke and heat control system construction in the multifunctional shopping centre, design and construction of optical network in Kurzeme region, ventilation and air conditioning engineering network delivery and installation, construction of external power supply networks, construction of apartment and office building.

23. NUMBER OF EMPLOYEES

	2018	2017
Average number of Board members in the reporting year	3	4
The annual average number of other employees	257	201

24. REMUNERATION OF MANAGEMENT

	2018 EUR	2017 EUR
Member of the board:		
- remuneration	259 306	305 719
- State mandatory social insurance payments	62 388	72 119
Total	**321 694**	**377 838**

25. OFF-BALANCE SHEET LIABILITIES

Bank guarantees
In accordance with the contracts, signed with AS „Swedbank” and AS „SEB banka” on issuing of guarantees, on December 31, 2018 the Company had received guarantees of EUR 3 768 047
(In 2017 - EUR 2 388 379).

Liability of inventory purchases
Inventories purchase transactions for which contracts have been signed but the actual performance has not been performed and liabilities have not been included in the financial statements, are as follow:

	2018 EUR	2017 EUR
Liabilities for materials and raw materials	170 566	108 046
Total	**170 566**	**108 046**

26. FINANCIAL RISK MANAGEMENT

Management of financial risks in relation to the Company’s liquidity, currency and interest rate fluctuations and credit risk of the transaction partners in the *Lattelecom* group companies is centralized.

Financing and liquidity risk
The group’s cash management policy anticipates provision of sufficient liquidity of the group’s companies, as well as their ability to finance their operations without any financing limits. According to the group’s policy, allocation of the necessary financing to *Citrus Solutions* is organized by the parent company *Lattelecom*. The Company has access to the credit line provided by *Lattelecom* in the amount of EUR 5.0 million until June 30, 2019.

Currency risk
The group’s policy is to limit the net currency fluctuation risk as to the all known and expected transactions in foreign currency.
The euro is the dominant currency in the settlements with foreign business partners.
Cash in foreign currencies was accumulated for the limitation of currency exchange fluctuations regarding with anticipated transactions.

Interest rate risk
Considering that *Citrus Solutions* loan from parent company has a floating interest rate that is defined for 1 month period, the Company is exposed to interest rate fluctuations risk. Interest rate risk hedging measures in the group are implemented centrally, assessing the interest rate risk impact on the group's financial indicators.

Credit risk
Financial instruments that potentially expose the Company to a certain level of credit risk concentration primarily represent accounts receivables and cash in bank. The Company’s policy ensures that goods and services are sold to clients with appropriate credit history. Accounts receivables are shown after deducting the value of doubtful debts. According to the group’s cash management policy, the Company’s partners in derivative financial instruments and cash transactions are financial institutions

with appropriate credit reputation. The parent company is strictly monitoring and limiting the credit risk that is allowed for the group companies with each separate financial institution.

27. EVENTS AFTER THE END OF REPORTING YEAR

In the period since the last day of the reporting year there have been no events that would significantly influence the Company's financial state on 31 December 2018.

On behalf of the Board

Chairman of the Board___________________________________/Jūlija Grinberga/

Outsourcing accountant______________________________/Ilvija Gredzena/

Riga, January 25, 2019