

Limited liability company
„Citrus Solutions”
(Unified registration number 50003752271)

2019 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, 2020

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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	Dzirnavu street 105, Riga, LV-1011, Latvia Until 01.01.2019: Ūnijas street 52, Riga, LV – 1084, Latvia
Stakeholder	SIA <i>Tet</i> (until 01.04.2019. under the name <i>Lattelecom</i>) (100%) Dzirnavu street 105, Riga, LV-1011, Latvia Reg. No. 40003052786
Board members	Jūlija Zandersone - 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 SIA <i>Lattelecom</i>
Reporting year:	1 January 2019 – 31 December 2019
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 2019.

OVERVIEW OF THE COMMERCIAL OPERATIONS

Activities of *Citrus Solutions* are construction, design and maintenance.

Since 2005 the Company has been registered as construction merchant, register number 0095-R, which allows the Company to operate in 17 construction spheres. The Company employs 64 certified specialists. The Company has valid 1st (highest) qualification class.

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

In 2019 the share capital of *Citrus Solutions* was increased by 1 500 000 EUR, and comprises EUR 5 070 999. It consists of 5 070 999 shares, with the nominal value of EUR 1 each. SIA *Tet* owns 100% of the share capital of *Citrus Solutions*.

FOREIGN BRANCHES OF THE COMPANY

In 2019 the Company continues operation in representation in Germany.

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 30.997 million EUR.

In 2019 the company's largest projects were design and construction of the optical network in Kurzeme and entire territory of Latvia (Client - AS Latvijas Valsts Radio un televīzijas centrs), construction of airfield perimeter security system (Client - VAS Starptautiskā lidosta „Rīga”), construction of office building in Mežaparks (Client - SIA Mežaparka birojs), construction of electronic communication network and security systems of the National Armed Force territory and construction of internal electrical network, electronic communication network, security system, data centre, heating, ventilation and air conditioning system (Client - SIA Abora), construction of internal and external electronic communication networks, internal electronic networks, external electricity and lighting networks of the State Border control point in Terehova (Client - SIA Monum), design and construction of the air conditioning system of the State institution office building (Client - VAS Valsts nekustamie īpašumi).

Citrus Solutions normalized EBITDA¹ profit in 2019 was 1 751 thousand EUR, EBITDA profit margin was 5.6%.

The amount of capital investments during the reporting year reached 0.418 million EUR, which were used for the renewal of production means and improvement of information technologies. In 2019 the Company paid 3.644 million EUR in various taxes in Latvia, considering the received tax allowances.

In 2019 the net profit of the Company was 1.350 million EUR. The financial performance of the Company was affected by the outcomes in large projects.

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 2019 the duties of the member of the Board in the Company were performed by: Jūlija Zandersone, Raimonds Gerbis, Kārlis Kostjukovs.

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 *Tet* group. The members of the Board do not have interest in contracts or agreements related with *Citrus Solutions*.

RESPONSIBILITY OF THE 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 2019. 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.

DISTRIBUTION OF PROFIT RECOMMENDED BY THE BOARD

The Board of the Company, pursuant to the Policy on dividends of *Tet* group and the procedure of the laws and regulations, suggests paying out 80% of the profit to be distributed of the reporting year in dividends to the stakeholders.

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 *Tet* 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.

MANAGEMENT REPORT (continued)

FURTHER DEVELOPMENT OF THE COMPANY

In future years, the Company's development is related to obtaining and implementation of orders of external clients (outside *Tet* group), which will be the main priority of the Company.

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 Zandersone/

Riga, January 31, 2020

Profit or loss account

(classified according to cost types)

	Notes	2019 EUR	2018 EUR
NET TURNOVER	1	30 997 114	30 444 716
Costs (capitalized) referenced to own long-term investments	2	23 957	-
Other operating income	3	172 738	194 824
Cost of materials:			
a) costs of raw materials and consumables;		(1 874 946)	(2 134 470)
b) other external costs		(77 347)	(82 224)
		(1 952 293)	(2 216 694)
Personnel costs:			
a) remuneration for work;		(6 433 897)	(5 724 994)
b) pensions from company funds;		(13 524)	(12 114)
c) state mandatory social insurance payments;		(1 583 472)	(1 394 600)
d) other social insurance costs		(185 383)	(174 101)
		(8 216 276)	(7 305 809)
Write-offs and value adjustments:			
a) depreciation and write off of fixed and intangible assets;	8, 9	(235 673)	(334 493)
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	(3 802)	(49 580)
Other operating expenses	5	(19 394 930)	(20 171 998)
Other income from interest and similar income:			
a) from other persons		1 012	3 782
Interest payments and similar costs:			
a) to related companies	6	(42 212)	(32 927)
PROFIT OR LOSS BEFORE CORPORATE INCOME TAX		1 349 635	531 821
Corporate income tax	7	103 673	(3 602)
PROFIT OF THE ACCOUNTING YEAR		1 453 308	528 219

The note forms an integral part of these financial statements.

On behalf of the Board

Chairman of the Board _____/Jūlija Zandersone/

Outsourcing accountant _____/Ilvija Gredzena/

Riga, January 31, 2020

Balance Sheet - Assets

	Notes	31 December 2019 EUR	31 December 2018 EUR
LONG-TERM INVESTMENTS			
Intangible assets			
Other intangible assets		214 396	159 860
Total intangible assets	8	214 396	159 860
Fixed assets			
Land plots, buildings and engineering structures		1 575	2 570
Equipment and machinery		2 125	2 591
Other fixed assets and inventory		389 697	253 913
Creation of fixed assets and costs of unfinished construction objects		3 696	441 887
Total fixed assets	9	397 093	700 961
Long-term financial investments			
Interest in capital of related companies	10	1 525 000	25 000
Total long-term financial investments		1 525 000	25 000
Total long-term investments		2 136 489	885 821
CURRENT ASSETS			
Inventories			
Raw materials, basic materials and consumables		980 258	879 522
Advance payments for goods		273 244	45 418
Total inventories	11	1 253 502	924 940
Debtors			
Trade receivables	12	4 893 102	4 390 375
Receivables from related companies	21	777 068	1 763 486
Other debtors	13	407 189	357 547
Prepaid expenses		16 773	9 646
Accrued income	14	8 934 612	7 783 594
Total debtors		15 028 744	14 304 648
Cash	15	355 264	1 035 490
Total current assets		16 637 510	16 265 078
BALANCE SHEET		18 773 999	17 150 899

The note forms an integral part of these financial statements.

On behalf of the Board

Chairman of the Board _____/Jūlija Zandersone/

Outsourcing accountant _____/Ilvija Gredzena/

Riga, January 31, 2020

Balance sheet - Liabilities

	Notes	31 December 2019 EUR	31 December 2018 EUR
EQUITY			
Share capital (fixed capital)	16	5 070 999	3 570 999
Retained profits/losses of the previous years		8 153	(487 453)
Retained profits of the reporting year		1 453 308	528 219
Total Equity		6 532 460	3 611 765
PROVISIONS			
Other provisions	17	230 299	249 405
Total provisions		230 299	249 405
CREDITORS			
Long-term creditors			
Next period revenue		5 320	1 310
Total long-term creditors		5 320	1 310
Short-term creditors			
Advanced payments from customers		1 389 769	1 285 851
Accounts payable	18	3 272 332	3 148 280
Debts to related companies	21	3 519 262	5 355 923
Taxes and State mandatory social insurance payments	19	576 231	348 087
Other creditors		3 855	1 944
Deferred income		15 728	5 242
Accrued liabilities	20	3 228 743	3 143 092
Total short-term creditors		12 005 920	13 288 419
BALANCE SHEET		18 773 999	17 150 899

The note forms an integral part of these financial statements.

On behalf of the Board

Chairman of the Board _____/Jūlija Zandersone/

Outsourcing accountant _____/Ilvija Gredzena/

Riga, January 31, 2020

Statement of changes in equity

	Share capital	Reserves	Retained profits	Total
	EUR	EUR	EUR	EUR
Balance at 31 December 2017	3 570 999	-	(487 453)	3 083 546
Dividends paid	-	-	-	-
Profits of the reporting year	-	-	528 219	528 219
Balance at 31 December 2018	3 570 999	-	40 766	3 611 765
Increase of share capital	1 500 000	-	-	1 500 000
Dividends paid	-	-	(32 613)	(32 613)
Profits of the reporting year	-	-	1 453 308	1 453 308
Balance at 31 December 2019	5 070 999	-	1 461 461	6 532 460

The note forms an integral part of these financial statements

On behalf of the Board

Chairman of the Board _____/Jūlija Zandersone/

Outsourcing accountant _____/Ilvija Gredzena/

Riga, January 31, 2020

Cash flow statement

(according to the indirect method)

	Notes	2019 EUR	2018 EUR
Cash flow from operating activities			
Profit before taxes		1 349 635	531 821
Adjustments:			
- amortization of intangible assets	8	102 981	72 455
- depreciation of fixed assets;	9	132 692	262 038
- other interest revenue and similar revenue	5, 3	(28 779)	(116 120)
- provisions (excluding provisions for doubtful debts);	17	(19 106)	(85 087)
- profit or losses from no currency exchange rate fluctuations;		1 013	(5 335)
- interest payments and similar costs.	6	42 212	32 927
Profit before adjustments for the effect of changes to current assets and short term liabilities		1 580 648	692 699
Decrease (increase) in accounts receivable		(620 650)	(3 880 175)
Decrease (increase) in inventories		(328 562)	(60 073)
Increase (decrease) in accounts payable to suppliers, contractors and other creditors		(1 522 358)	4 000 651
Gross cash flows from operating activities		(890 922)	753 102
Interest paid		(42 212)	(32 927)
Corporate income tax paid	19	-	(49 801)
Net cash flows from operating activities		(933 134)	670 374
Cash flows from investing activities			
Purchase of shares of related companies, associated companies or other companies		(1 500 000)	(25 000)
Purchase of fixed and intangible assets		(417 740)	(1 309 940)
Income from disposal of fixed and intangible assets		460 178	1 073 631
Net cash flows from investing activities		(1 457 562)	(261 309)
Cash flows from financing activities			
Income from share and bond or capital share investments		1 500 000	-
Loans received		5 854 123	3 816 714
Repayment of loans		(5 610 027)	(3 556 138)
Dividends paid		(32 613)	-
Net cash flows from financing activities		1 711 483	260 576
Result of fluctuations in the foreign currency exchange rates		(1 013)	5 335
Net (decrease) / increase of cash and cash equivalents		(680 226)	674 976
Cash and cash equivalents at the beginning of the reporting year		1 035 490	360 514
Cash and cash equivalents at the end of the reporting year	15	355 264	1 035 490

The note forms an integral part of these financial statements.

On behalf of the Board

Chairman of the Board _____/Jūlija Zandersone/

Outsourcing accountant _____/Ilvija Gredzena/

Riga, January 31, 2020

Note of Financial statement

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 Dzirnavu street 105, Riga. The Company's parent company is SIA *Tet* (until 01.04.2019 named as *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 302.

Stakeholder or shareholder of the Company, which prepares the consolidated annual report, including the Company as its subsidiary, is SIA *Tet*, reg. No 40003052786, Dzirnavu street 105, Riga, LV-1011. Copies of the consolidated annual reports are available in website of SIA *Tet* <https://www.tet.lv/par-tet/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 2019 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, terms of receipt, payment or write off of which 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 2019	31 December 2018
USD	1.1234	1.1450

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 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 occurred 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 following provisions rates were applied in the Company:

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

Pursuant to group policies, the bad debt provision rates are reviewed annually as estimate.

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.

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.

Accounting policies (continued)

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

	2019	2018
	EUR	EUR
Income from construction of engineering systems and infrastructure	25 606 798	25 580 087
Income from servicing and maintenance services provided to electronic communication network	3 512 323	2 719 615
Income from sale of materials	1 877 993	2 145 014
Total	30 997 114	30 444 716

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

	2019	2018
	EUR	EUR
Personnel costs	22 545	-
Other costs	1 412	-
Total	23 957	-

3. OTHER OPERATING INCOME

	2019	2018
	EUR	EUR
Income from lease of fixed assets	8 299	8 262
Gain on disposal of fixed assets	28 779	116 120
Recovered receivables	5 255	21 855
Other income	130 405	48 587
Total	172 738	194 824

4. WRITE-OFF OF THE VALUE OF CURRENT ASSETS

	2019	2018
	EUR	EUR
Write-off accounts receivable and creation of provisions	(2 610)	(29 309)
Costs of write-off inventories	(1 192)	(20 271)
Total	(3 802)	(49 580)

5. OTHER OPERATING COSTS

	2019	2018
	EUR	EUR
Engineering systems, infrastructure construction services costs and material costs	(15 867 343)	(17 172 382)
Car lease, maintenance costs	(993 994)	(1 023 502)
Network, equipment maintenance services costs and material costs	(1 527 167)	(943 369)
Office and administrative expenses	(282 685)	(303 730)
Other costs of economic activity	(247 594)	(291 147)
Rent and maintenance of premises, public utilities	(249 514)	(225 615)
IT services costs	(180 359)	(212 253)
Total	(19 394 930)	(20 171 998)

6. INTEREST INCOME AND EXPENSES

	2019	2018
	EUR	EUR
Other income from interest and similar income		
net profit from exchange rate fluctuations	1 012	3 782
Total	1 012	3 782
Interest payments and similar costs		
on loans	(42 212)	(32 927)
Total	(42 212)	(32 927)

7. INCOME TAXES

	2019 EUR	2018 EUR
Corporate income tax:		
- reporting year	-	(11 337)
- correction of the previous year*	103 673	7 735
Total	103 673	(3 602)

*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.

8. INTANGIBLE ASSETS

	Other Intangible assets EUR	Creation of Intangible assets EUR	Total EUR
Purchase value			
31 December 2018	333 745	39 530	373 275
Purchased	-	157 517	157 517
Put into operation	188 707	(188 707)	-
Excluded	(17 822)	-	(17 822)
31 December 2019	504 630	8 340	512 970
Amortization			
31 December 2018	(213 415)	-	(213 415)
Amortization	(102 981)	-	(102 981)
Excluded	17 822	-	17 822
31 December 2019	(298 574)	-	(298 574)
Remaining value			
31 December 2018	120 330	39 530	159 860
31 December 2019	206 056	8 340	214 396

In 2019 capital investment in the intangible assets were EUR 157 517 (in 2018 - EUR 48 112).

9. FIXED ASSETS

	Buildings EUR	Equipment and machinery EUR	Other fixed assets and inventory EUR	Creation of fixed assets EUR	Total EUR
Purchase value					
December 31, 2018	6 963	80 255	2 375 444	441 887	2 904 549
Purchased	-	-	-	260 223	260 223
Put into operation	-	-	698 414	(698 414)	-
Excluded in the reporting year	-	(733)	(516 957)	-	(517 690)
December 31, 2019	6 963	79 522	2 556 901	3 696	2 647 082
Depreciation					
December 31, 2018	(4 394)	(77 663)	(2 121 531)	-	(2 203 588)
Depreciation	(995)	(467)	(131 230)	-	(132 692)
Excluded in the reporting year	-	733	85 558	-	86 291
31 December 2019	(5 389)	(77 397)	(2 167 203)	-	(2 249 989)
Remaining value					

31 December 2018	2 569	2 592	253 913	441 887	700 961
December 31, 2019	1 574	2 125	389 698	3 696	397 093

In 2019 capital investment in the fixed assets were EUR 260 223 (in 2018 - EUR 1 261 828).

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 2019 the capitalized costs amounted to EUR 23 957 (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 1 565 737 (in 2018 - EUR 1 504 127).

10. PARTICIPATION IN SHARE CAPITAL OF RELATED COMPANIES

Purchase value of the investments

Company	Participation (%)	31.12.2019. EUR	31.12.2018. EUR
<i>Citrus Solutions GbmH</i>	100	1 525 000	25 000
Total		1 525 000	25 000

Financial information on subsidiary

Company	Address	Equity		Reporting year profit / (losses)	
		2019 EUR	2018 EUR	2019 EUR	2018 EUR
<i>Citrus Solutions GbmH</i>	Schmidtstadt 5,92268, Etzelwang	1 951 051	16 393	434 658	(8 607)

In 2018 a subsidiary was registered in Germany - Citrus Solutions Gbmh. The company Citrus Solutions Gbmh provides telecommunication construction services. In 2019 the subsidiary had gained income of 8 719 107 EUR and its net profit reached 434 658 EUR (financial accounting data are according to the accounting principles of mother company; audited annual reports are not available at the moment of preparing of the annual report).

11. INVENTORIES

	31.12.2019. EUR	31.12.2018. EUR
Raw materials and materials	1 065 578	970 096
Provision for obsolete and slow-moving goods	(85 319)	(90 574)
Advance payments for goods	273 244	45 418
Total Inventories	1 253 502	924 940

Provision for obsolete and slow-moving goods

	2019 EUR	2018 EUR
Provisions at the beginning of reporting year	90 574	112 429
Created/(reduced) provisions in the reporting year, net	(5 255)	(21 855)
Provisions at the end of reporting year	85 319	90 574

12. TRADE RECEIVABLES

	31.12.2019. EUR	31.12.2018. EUR
Accounts receivable	5 034 489	4 559 916
Provision for doubtful debts	(141 387)	(169 541)
Total trade receivables	4 893 102	4 390 375

Movement of provisions for doubtful and bad debts

	2019	2018
	EUR	EUR
Provisions at the beginning of reporting year	169 541	141 482
Written off doubtful accounts receivable	(30 764)	(1 250)
Created provisions for doubtful accounts receivable	2 610	29 309
Provisions at the end of reporting year	141 387	169 541

13. OTHER DEBTORS

	31.12.2019.	31.12.2018.
	EUR	EUR
Advanced payments to foreign suppliers	11 917	8 906
Overpaid taxes (Notes 19)	161 362	191 842
Advanced payments to Latvian suppliers	147 549	90 801
Other debtors	481	2 676
Settlements with employees	85 880	63 322
Total other debtors	407 189	357 547

14. ACCRUED INCOME

	31.12.2019.	31.12.2018.
	EUR	EUR
Accrued income*	8 934 612	7 783 594
Total accrued income	8 934 612	7 783 594

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

15. CASH

	31.12.2019.	31.12.2018.
	EUR	EUR
Cash in banks	355 264	1 035 490
Total cash	355 264	1 035 490

16. SHARE CAPITAL (FIXED CAPITAL)

At the end of 2019 share capital of *Citrus Solutions* was EUR 5 070 999 and it was constituted by 5 070 999 shares with nominal value of EUR 1 each. SIA *Tet* holds 100% of *Citrus Solutions* share capital.

17. PROVISIONS

Movement in provisions for warranty repairs

	2019	2018
	EUR	EUR
Provisions at the beginning of reporting year	249 405	334 492
Created/ (reduced) provisions in the reporting year, net	(19 106)	(85 087)
Provisions at the end of the reporting year	230 299	249 405

18. ACCOUNTS PAYABLE TO SUPPLIERS AND CONTRACTORS

	31.12.2019.	31.12.2018.
	EUR	EUR
Settlements with suppliers	3 272 332	3 148 280
Total accounts payable to suppliers and contractors	3 272 332	3 148 280

19. TAXES AND STATE MANDATORY SOCIAL INSURANCE PAYMENTS

(a) Tax payments in Latvia

	Balance 31.12.2019	Balance 31.12.2018
	EUR	EUR
Corporate income tax	(141 476)	(37 803)
Value added tax	210 300	143 371
State mandatory social insurance payments	277 837	204 616
Business risk state tax	114	100
Total taxes	346 775	310 284

(b) Tax payments in Germany

	Balance 31.12.2019	Balance 31.12.2018
	EUR	EUR
State mandatory social insurance payments	-	-
Resident income tax	-	-
Corporate income tax (Note 7)	(19 886)	(11 998)
Value added tax	87 980	(142 041)
Total taxes	68 094	(154 039)
	EUR	EUR
Total taxes (a), (b)	414 869	156 245
Total	414 869	156 245

incl. tax liabilities	576 231	348 087
tax overpayment	(161 362)	(191 842)

20. ACCRUED LIABILITIES

	31.12.2019. EUR	31.12.2018. EUR
Accrued expenses for construction of engineering systems and infrastructure	1 965 381	2 004 792
Accrued bonuses costs for the work results of reporting year	740 470	697 552
Accrued expenses on unused vacations	522 892	440 748
Total accrued liabilities	3 228 743	3 143 092

21. RECEIVABLES FROM RELATED COMPANIES AND PAYABLES TO RELATED COMPANIES

SIA *Citrus Solutions* is 100% subsidiary of SIA *Tet* (until 01.04.2019 – named as *Lattelecom*). SIA *Citrus Solutions* holds 100% of subsidiary *Citrus Solutions GbmH*.

(a) Balances of accounts receivable/ payable

	31.12.2019. EUR	31.12.2018. EUR
Related company debts		
<i>Tet</i>	607 678	994 529
<i>Citrus Solutions GbmH</i>	169 390	768 957
Total related companies debts	777 068	1 763 486

Payables to related companies		
<i>Tet</i>	150 757	1 695 556
<i>T2T</i>	19 360	-
<i>Citrus Solutions GbmH</i>	-	555 319
Loan from <i>Tet</i> , principal amount	3 349 145	3 105 048
Total debts to related companies	3 519 262	5 355 923

In the reporting year *Citrus Solutions* used credit line from the parent company *Tet*, which is issued until June 30, 2021, 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 3 349 145 (in 2018 - EUR 3 105 048). 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

	2019 EUR	2018 EUR
Recognized revenue*	10 461 279	18 841 353
Recognized expenses*	(6 383 963)	(13 798 198)
Total amount of advance payments received from clients	1 313 526	1 285 851
Total	5 390 842	6 329 006

* Major on-going construction projects of 2019 are optical network design and construction in Kurzeme and the entire territory of Latvia, design and construction of the air conditioning systems of the State institution office buildings, construction of management and automatization system and fire detection and alarm system in the shopping centre, construction of electronic communication network and security systems of the National Armed Force territory and construction of internal electrical network, electronic communication network, security system, data centre, heating, ventilation and air conditioning system.

23. NUMBER OF EMPLOYEES

	2019	2018
Average number of Board members in the reporting year	3	3
The annual average number of other employees	294	257

24. REMUNERATION OF MANAGEMENT

	2019 EUR	2018 EUR
Member of the board:		
- remuneration	291 537	259 306
- State mandatory social insurance payments	70 144	62 388
Total	361 681	321 694

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, 2019 the Company had received guarantees of EUR 4 176 940 (in 2018 - EUR 3 768 047).

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:

	2019 EUR	2018 EUR
Liabilities for materials and raw materials	324 581	170 566
Total	324 581	170 566

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 *Tet* 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 *Tet*. The Company has access to the credit line provided by *Tet* in the amount of 5.0 million EUR until June 30, 2021.

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 in recoverable amount. 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 2019.

On behalf of the Board

Chairman of the Board _____ /Jūlija Zandersone/

Outsourcing accountant _____ /Ilvija Gredzena/

Riga, January 31, 2020