UAB TECE BALTIKUM

Independent auditor's report and financial statements for the year ended 31 December 2019

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of UAB "TECE BALTIKUM"

Qualified Opinion

We have audited the financial statements of UAB "TECE BALTIKUM" (the Company), which comprise the balance sheet as at December 31, 2019, and the income statement, for the year then ended and related explanatory notes.

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying financial statements on pages 5-20, give a true and fair view of the financial position of the UAB "TECE BALTIKUM" and of its financial performance as at December 31, 2019 in accordance with the Business Accounting Standards of Lithuanian Republic.

Basis for Qualified Opinion

There are accounted the amounts receivables in the Company's balance sheet as at December 31, 2019 at 71,9 thou Eur, which has the evidences of impairment and doubtful recoverability. If the company had made the appropriate adjustments in accordance with 18 business accounting standard "Financial assets and financial liabilities", the company's receivables and equity presented at the company balance sheet as at 31 December 2019 and 2019-year net profit presented in income statement would decrease by 71,9 thou Eur.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the requirements of the Law on Audit of Financial Statements of the Republic of Lithuania that are relevant to audit in the Republic of Lithuania, and we have fulfilled our other ethical responsibilities in accordance with the Law on Audit of Financial Statements of the Republic of Lithuania and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Emphasis of Matter

Without further qualifying our opinion we draw attention to the fact that as on 31st December 2019 the company's liabilities exceed the assets, and the company's equity amounted 956,2 thousand Euro is negative. According to the Republic of Lithuania on Companies Act, if the company's equity is less than ½ of the authorized capital, the Company's management must take action to the company's equity would be restored so that it would not be less than ½ of the authorized capital. Related company's management plans are disclosed in Note No.20.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Business Accounting Standards and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Jolanta Janušauskienė
Independent Lithuanian Auditor
Certificate Nr. 000390

UAB Crowe LT
Certificate Nr. 001472

The 27th of March, 2020
Vilnius, Lithuania

UAB „TECE BALTIKUM"
Company code 134758647
Address: Islandijos pl. 217-2, Kaunas

BALANCE SHEET
AS AT 31 DECEMBER 2019
(all amounts in EUR)

		Note	2019	2018
	ASSETS			
A.	**FIXED ASSETS**		**161908**	**206319**
1.	INTANGIBLE ASSETS	3.1	12015	10011
1.1.	Assets arising from development			
1.2.	Goodwill			
1.3.	Software		12015	10011
1.4.	Concessions, patents, licences, trademarks and similar rights			
1.5.	Other intangible assets			
1.6.	Advance payments			
2.	TANGIBLE ASSETS	3.2	149893	196308
2.1.	Land			
2.2.	Buildings and structures			
2.3.	Plant and machinery			
2.4.	Vehicles		79158	132001
2.5.	Other equipment, fittings and tools		70735	64307
2.6.	Investment property			
2.6.1.	Land			
2.6.2.	Buildings			
2.7.	Advance payments and construction in progress			
3.	FINANCIAL ASSETS	3.3		
3.1.	Shares in Group companies			
3.2.	Loans to Group companies			
3.3.	Amounts receivable from Group companies			
3.4.	Shares in associated entities			
3.5.	Loans to associated entities			
3.6.	Amounts receivable from the associated entities			
3.7.	Long-term investments			
3.8.	Amounts receivable after one year			
3.9.	Other financial assets			
4.	OTHER FIXED ASSETS			
4.1.	Deferred tax asset			
4.2.	Biological assets			
4.3.	Other assets			
B.	**CURRENT ASSETS**		**2407528**	**2046502**
1.	STOCKS	3.4	804830	722945
1.1.	Raw materials, materials and consumables		234	319
1.2.	Production and work in progress			
1.3.	Finished goods			
1.4.	Goods for resale		770472	699764
1.5.	Biological assets			
1.6.	Fixed tangible assets held for sale			
1.7.	Advance payments		34124	22862
2.	AMOUNTS RECEIVABLE WITHIN ONE YEAR	3.5	1247394	1075383
2.1.	Trade debtors		1244243	1074237
2.2.	Amounts owed by Group companies			
2.3.	Amounts owed by associated entities			
2.4.	Other debtors		3151	1146
3.	SHORT-TERM INVESTMENTS			
3.1.	Shares in Group companies			
3.2.	Other investments			
4.	CASH AND CASH EQUIVALENTS	3.6	355304	248173
C.	**PREPAYMENTS AND ACCRUED INCOME**	3.7	**13135**	**12327**
	TOTAL ASSETS		**2582571**	**2265147**

(Continued on next page)

UAB „TECE BALTIKUM"
Company code 134758647
Address: Islandijos pl. 217-2, Kaunas

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2019
(all amounts in EUR)

		Note	2019	2018
	EQUITY AND LIABILITIES			
D.	**EQUITY**		**(956206)**	**(1106210)**
1.	CAPITAL	3.8	323628	323628
1.1.	Authorised (subscribed) or primary capital			
1.2.	Subscribed capital unpaid (-)			
1.3.	Own shares (-)			
2.	SHARE PREMIUM ACCOUNT		64726	64726
3.	REVALUATION RESERVE			
4.	RESERVES	3.8	32365	32365
4.1.	Compulsory reserve or emergency (reserve) capital			
4.2.	Reserve for acquiring own shares			
4.3.	Other reserves			
5.	RETAINED PROFIT (LOSS)	3.8	(1376925)	(1526929)
5.1.	Profit (loss) for the reporting year		150003	41981
5.2.	Profit (loss) brought forward		(1526928)	(1568910)
E.	**GRANTS, SUBSIDIES**	3.9		
F.	**PROVISIONS**			
1.	Provisions for pensions and similar obligations			
2.	Provisions for taxation			
3.	Other provisions			
G.	**AMOUNTS PAYABLE AND OTHER LIABILITIES**		**3532455**	**3371007**
1.	AMOUNTS PAYABLE AFTER ONE YEAR AND OTHER LONG-TERM	3.10		
1.1.	Loans			
1.2.	Loans from credit institutions			
1.3.	Prepayments received			
1.4.	Trade creditors			
1.5.	Amounts payable under the bills and checks			
1.6.	Amounts payable to the Group companies			
1.7.	Amounts payable to the associated entities			
1.8.	Other amounts payable and long-term liabilities			
2.	AMOUNTS PAYABLE WITHIN ONE YEAR AND OTHER SHORT-TERM LIABILITIES		**3532455**	**3371007**
2.1.	Loans			
2.2.	Loans from credit institutions	3.10		
2.3.	Prepayments received		15396	6181
2.4.	Trade creditors		38163	50354
2.5.	Amounts payable under the bills and checks			
2.6.	Amounts payable to the Group companies	3.11	3217377	3169716
2.7.	Amounts payable to the associated entities		5747	
2.8.	Profit tax payable		6832	5873
2.9.	Liabilities related to employment relations		199795	116249
2.10.	Other amounts payable and short-term liabilities	3.12	49145	22634
H.	**ACCRUALS AND DEFERRED INCOME**	3.13	**6322**	**350**
	TOTAL EQUITY AND LIABILITIES		**2582571**	**2265147**

The accompanying Notes are the integral part of these Financial Statements. *(End)*

Financial Statements approved on 27 March 2020 by:

General Manager

Chief Accountant

UAB „TECE BALTIKUM"
Company code 134758647
Address: Islandijos pl. 217-2, Kaunas

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2019
(all amounts in EUR)

		Note	2019	2018
1.	Sales	3.14	5589380	5205140
2.	Cost of sales	3.15	(3529717)	(3380207)
3.	Fair value adjustments of the biological assets			
4.	**GROSS PROFIT (LOSS)**		**2059663**	**1824933**
5.	Selling expenses	3.16	(1205763)	(1120063)
6.	General and administrative expenses	3.16	(707125)	(662108)
7.	Other operating results	3.17	11555	2666
8.	Income from investments in the shares of parent, subsidiaries and associated entities			
9.	Income from other long-term investments and loans			
10.	Interest and similar income	3.18		
11.	Impairment of the financial assets and short-term investments			
12.	Interest and other similar expenses	3.18		
13.	**PROFIT (LOSS) BEFORE TAXATION**		**158330**	**45428**
14.	Profit Tax	3.20	(8327)	(3447)
15.	**NET PROFIT (LOSS)**		**150003**	**41981**

The accompanying Notes are the integral part of these Financial Statements.

Financial Statements approved on 27 March 2020 by:

General Manager

Chief Accountant

1. General information

- Private limited liability company TECE BALTIKUM, company registration number 134758647, registered office address Islandijos pl.217-2 Kaunas . Register administered by: State Enterprise Centre of Registers.
- The Company was established on 1996 July 4 and 2001 March 9 re-registered as a company with foreign invested capital.
- As at the end of the reporting period, the Company was owned by German company TECE GmbH, located at Hollefeld Str.57, Emsdetten, Germany, with company registration number DE814768916.
- The company has a branch in Klaipeda, Dubysos str. 25A and in Vilnius, Verkių g. 34A. The company also has a branch in Latvia at Mūkusalas iela 41B-8, Riga, branch code 40006014606 and a branch in Estonia at Tuleviku tee 10, Tallinn, company registration code 12138592.
- The main activities of the Company are Company's main activities Wholesale of hardware, plumbing and heating equipment and supplies (NACE code 467400)
-
- Average number of employees during the financial year: 20 persons
  Average number of employees during the previous financial year: 20 persons
- In 2020 the Company intends to continue its activities. As at the end of the reporting period, the Company did not have any rights and obligations not included in the Balance Sheet and was not involved in any litigation proceedings, which, in the opinion of the management, could have significant influence on the Financial Statements.
- The financial year of the Company coincides with the calendar year.
- The Company prepares and files the condensed set of financial statements, company used its right not to prepare the changes of equity and cash flow statements.

2. Summary of significant accounting principles

Basis of the Financial Statements preparation

The Financial Statements were prepared in accordance with the legal acts of the Republic of Lithuania, which regulate the issues of accounting and financial statements, as well as the applicable Business Accounting Standards (BAS).

The Financial Statements were prepared on the basis of the acquisition cost.

The Financial Statements are presented in Euros (EUR), the legal currency in Lithuania.

A summary of significant accounting principles is presented below.

Changes in accounting policies

During the reporting period, there were no changes in the accounting policies of the Company.

Corrections of material errors

There were no material errors during the reporting period.

Non-current intangible assets (except goodwill)

Acquired intangible assets

Any acquired intangible assets are accounted for at cost less the accumulated amortisation and impairment losses. Amortisation is calculated using the linear method. The useful life and the amortisation methods are reviewed at the end of each reporting period by making any prospective changes in the accounting estimate.

The following intangible asset groups and terms of useful life of the assets have been established:

Non-current intangible assets	Useful life
Patents, licenses, trademarks and similar rights	5 years
Software	3 years
Other intangible assets	4 years

Recognition of internally generated intangible assets - costs of research

Costs of research are recognised as expenses in the period when they are incurred.

Costs incurred in the development phase are recognised as an intangible asset if, and only if, an entity can demonstrate all of the following:

- the technical feasibility as well as financial and other resources necessary for completing the development activities;
- its intention to complete creating the intangible asset and use or sell it;
- its ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits to the entity;

- its ability to measure reliably costs attributable to the intangible asset during its development.

The production (creation) cost of Company internally generated intangible asset is the sum of expenditure incurred from the date when the intangible asset first meets the recognition criteria specified above. If the Company cannot reasonably allocate costs as an intangible asset, research and development costs are recognised as expenses in the period when they are incurred.

The Company internally generated intangible asset are accounted for at cost less the accumulated amortisation and impairment losses using the same method as acquired intangible assets.

Non-current tangible assets

Non-current tangible assets include assets, which are managed and controlled by the Company, from which future economic benefits are expected, which are used for more than one year, acquisition (production) cost of which can be measured reliably and the value of which is higher than EUR 232 in Lithuania , 230 EUR in Estonia , 200 EUR in Latvia.

Non-current tangible assets are accounted for at their acquisition (production) cost less the accumulated depreciation and impairment losses, if any.

Depreciation of non-current tangible assets is calculated using the linear method. The residual value is established only in Lithuania and is equal to EUR 0,29.

The following terms of useful life have been established with regard to the following asset groups:

Non-current tangible assets	Useful life
Machinery and equipment	5 years
Vehicles	4-6 years
Other equipment, fittings and tools	2-6 years

At the end of each year, the Company reviews the terms of useful life, the residual value and the depreciation methods of non-current assets, and measures the effect of changes, if any, which is recognised by applying the prospective method.

Repair and maintenance costs incurred after the start of use of non-current tangible assets are added to the value of non-current tangible assets, if such costs extend the useful life or improve useful properties of the assets. Any other costs of repair are recognised as expenses in the Income Statement when incurred.

Expenses of repair of the leased assets and/or the assets used on the basis of a loan-for-use contract, when such repair extends the useful life or improves the useful properties of the leased assets, are attributed to the assets and are recognised as expenses over the remaining term of the lease.

Assets acquired by way of a finance lease are depreciated over the same term of useful life, which is applied with regard to the own assets.

Any profit received or losses suffered in relation to the transfer of non-current tangible assets is/are recognised in the Income Statement for that year.

Impairment of assets

Impairment of the assets of the Company is estimated only when events or circumstances indicate that the value of the assets may no longer be recovered. Such circumstances did not exist as at the end of 2019 and 2018.

On each date of preparation of the Financial Statements, the Company reviews residual value of the assets in order to see whether there are any indications of impairment of such assets. If such indications do exist, the Company measures the recoverable amount of such assets for the purposes of measurement of impairment (if any). When it is impossible to measure the recoverable amount of the assets, the Company calculates the recoverable amount of the group of assets, which generates income and to which such assets are attributed. The assets of the Company are distributed to separate cash-generating units when it is possible to establish a reliable and coherent asset distribution approach, or the assets of the Company are distributed to the smaller cash-generating unit groups for which a reliable and coherent allocation approach can be established.

Inventories

Inventories are accounted for at the lower of cost or net realizable value. Net realizable value represents the selling price under the normal business conditions less the costs of completion of production and any possible selling costs.

The cost of inventories includes the costs of acquisition and transportation as well as preparation for sale of inventories. The cost of inventories is calculated using FIFO method.

Inventories, which are in transit, are recognised in accordance with the INCOTERMS, when the risk and benefit pertaining to the inventories pass over to the Company.

Financial assets

All financial assets are recognised and written off on a trading day on which a right is acquired or a liability is assumed on the basis of a signed financial derivatives contract the terms and conditions whereof require provision of financial assets in accordance with the market terms, and at the initial recognition are measured at the acquisition cost by adding any direct costs of the transaction.

<u>Loans and amounts receivable</u>

Loans and amounts receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, except: a) assets of the economic entity available for sale immediately or within the shortest period of time, which must be attributed to the assets held for sale and measured at fair value; b) assets which may not bring back the initial amount of investments made by the holder of such assets (due to bad debts); c) assets, which are invested in the collective investment entities.

Loans and amounts receivable are initially accounted for at the cost of acquisition, in subsequent periods they are accounted for at the amortised cost by using the effective interest rate method less any impairment losses. Income from interest is recognised on the basis of the effective interest rate method, except short-term amounts receivable the recognition of the interest whereof would be insignificant.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, cash in transit and cash in bank accounts as well as any other short-term (with the maturity term of up to three months from the date of conclusion of an agreement), highly liquid investments that may be easily converted to known cash amount and the risk of changes in the value whereof is minor.

Impairment of financial assets

On each date of preparation of the Financial Statements, financial assets are measured for any impairment. Financial assets are impaired when objective factors show that one or several events that occurred after the initial recognition of financial assets had an effect on the expected future cash flows from such assets.

Assets from certain categories of financial assets, as, for example, trade receivables, which do not have any individually determined impairment, are measured jointly. Objective evidence of impairment of the portfolio of amounts receivable could include the increased amount of delayed payments within the portfolio of amounts receivable with the average term of delay exceeding 90 days, also any noticed changes in the economic conditions, which correlate with non-performance of the obligations pertaining to the amounts receivable.

In case of impairment of the amounts receivable, their carrying amount is reduced through the provisions account. When the amount receivable is not recovered, such amount is written off through the provisions account. Amounts written off but later recovered are used to reduce the provisions account. Changes in the carrying amount of provisions are recognised in the Income Statement.

Financial liabilities

Contractual obligations to pay cash or any other financial assets are classified as financial liabilities.

When measuring financial liabilities, the Company attributes them to the following groups: financial liabilities related to market prices and financial liabilities not related to market prices.

Financial liabilities related to market prices

These are financial liabilities the value whereof depends on the changes of fair value of certain securities or the market index, which determines the fair value of the securities.

Initially, financial liabilities related to market prices are recognised at cost, transaction-related costs are recognised as expenses in the Income Statement of the reporting period. In subsequent reporting period, such financial liabilities are accounted for at fair value.

Financial liabilities not related to market prices

Financial liabilities not related with market prices include loans and trade payables.

Initially, financial liabilities not related to market prices are measured at cost; transaction costs are recognised as expenses in the Income Statement of the reporting period. In subsequent periods, such financial liabilities are accounted for at amortised cost by applying the effective interest rate. Short-term financial liabilities are accounted for at cost as the effect of application of the effective interest rate is insignificant.

Effective interest rate method

Effective interest rate method is a method of calculating the amortised cost of financial assets and liabilities and allocating the interest income and expenses over the respective period of time. Effective interest rate is an internal rate of return on a financial asset or financial liability that accurately discounts the flow of estimated future payments (including all paid or received amounts, which are the integral part of the effective interest rate, costs of transaction and other premiums or discounts) to the initial net carrying amount over the expected term or (if applicable) over the respectively shorter term of a financial asset or financial liability.

Grants, subsidies

Accounting for grants is carried out on the accrual basis, i.e. received grants or their parts are recognised as used during periods in which grants-related expenses are incurred.

Grants related to assets

Grants related to assets are decreased by amounts equal to the amounts of depreciation of subsidised portion of non-current assets included in expense. If grant is received in cash for acquisition of non-current assets, its utilisation is not recognised until the depreciation of the acquired asset commences.

Grants related to income

Grants which include grants received for compensating the costs and unearned income of the current and previous reporting period, and all other grants not attributable to those related to assets, are classified as grants related to income. Grants related to income are presented as used during the periods in which the related expenses are incurred or income, for the compensation of which the grant or its part has been allocated, is unearned.

Recognition of income

Revenue is recognised on the basis of the accrual principle of accounting, i.e. it is registered when it is earned, irrespective of when cash is received. Income is measured at fair value of the consideration received or receivable for the goods or services supplied.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the Company has transferred to the buyer the risks and rewards of ownership of the goods;
- the Company retains neither continuing managerial involvement nor effective control over the goods sold;
- it is probable that the economic benefits associated with the transaction will flow to the Company and the amount of revenue can be measured reliably;
- costs related to the sale transaction can be measured reliably.

Rendering of services

Revenue from services is recognized based on the stage of completion of the service. When service is completed in the same accounting period when it was commenced revenue is recognized in the same accounting period for the full contractual amount. When, in accordance with service agreement, service is being provided for a longer period than the accounting period, revenue is proportionally allocated between different accounting periods during which they have been provided based on the stage of completion.

Interest income

Income from interest is recognised, when it is probable that the economic benefit will flow to the Company and the amount of income can be measured reliably. Income from interest is accrued over the period of time by taking into account the outstanding amount and the effective interest rate, which accurately discounts the estimated future cash inflows over the estimated term of such financial assets to the initial net carrying amount of such assets.

Income from lease

The policy of the Company applied with regard to the recognition of income from lease is presented below

Recognition of expenses

Expenses are recognised on the basis of the accrual and comparability principles in the reporting period during which the related income is earned, regardless of the time of spending the cash.

Accounting of lease

A lease is classified as a finance lease when all risks and benefits of ownership of the asset are in principle transferred under the terms and conditions of lease. Any other leases are classified as operating leases.

Company as lessor

The lessor recognises the payments received from the lessees according to the finance lease agreements at the value of the Company's net investment in the lease as amounts receivable. Income from lease is allocated over the lease term so as to reflect the continuous rate of return on assets by taking into account the remaining amount of the Company's net investment in the lease.

Income from the operating lease is recognised on the basis of the straight-line method of accounting over the entire term of the respective lease. The initial direct expenses related with negotiations and coordination of the operating lease are added to the carrying amount of the leased assets and are recognised on the basis of the straight-line method of accounting over the entire lease term.

Company as lessee

Assets leased by way of the finance lease are initially recognised as the assets of the Company on the basis of the value, which is equal to the fair value of the leased assets at the beginning of the lease or at the value of effective minimum payments, if lower. The respective obligation to the lessor is presented in the Balance Sheet as the finance lease liability.

Lease payments are allocated for the reduction of financial expenses and outstanding liabilities so as to reflect the constant indicator of return on the liability against the balance of the outstanding obligation. Financial expenses are immediately recognised as profit or loss. Contingent lease payments are recognised as expenses, when incurred.

Operating lease payments are accounted for as expenses in the Income Statement using the straight-line method of accounting applied over the lease term unless the application of any other systematic method would be better suited to reflect the economic benefit derived from the leased assets. Contingent operating lease payments are recognised as expenses, when incurred.

In the event of receipt of any incentive payments for the conclusion of operating lease contracts, such incentive payments are recognised as liabilities. Lease costs are reduced by the accumulated incentive benefit using the straight-line method unless the application of any other systematic method would be better in order to reflect the economic benefit derived from the leased assets in terms of time.

Foreign currency

Transactions in foreign currency reflected in the currency other than Euros are converted into Euros using the official currency exchange rate fixed by the Bank of Lithuania on the date of such transaction, which is approximately equal to the market exchange rate. At the end of each reporting period, the monetary items denominated in a foreign currency are converted using the currency exchange rate fixed on that specific date.

Monetary assets and liabilities are converted into Euros on the basis of the currency exchange rate fixed on the date of preparation of the Financial Statements. When converting monetary assets or liabilities into Euros, income and expenses from the fluctuations of the currency exchange rate are included in the Income Statement of the reporting period.

Borrowing costs

Borrowing costs are recognised in the Income Statement on the basis of the accrual principle, when incurred.

Income tax

Income tax expenses reflect the aggregate amount of the current income tax and deferred tax.

Current income tax

Current income tax is determined in respect of the taxable profit of the reporting period. Taxable profit is different from the profit presented in the Income Statement because it does not include any income or expense items, which become taxable or are offset in future reporting periods, and does not include items, which are never taxable or offset. Income tax is calculated by applying the tax rate effective on or adopted before the end of the reporting period. In 2019, the corporate income tax rate applied with respect to the Company was 15 per cent. (2018 - 15%).

Deferred tax

Deferred tax is expected to be paid or recovered due to temporary differences in the carrying amounts of assets and liabilities and their respective tax bases. Deferred tax liabilities are generally recognised with respect to all temporary differences, and the deferred tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. Such assets and liabilities are not recognised if temporary differences are related to goodwill or if the assets or liabilities recognised during a transaction (other than business merger) do not have any effect on either the taxable or the financial profit.

Deferred tax assets are reviewed on the date of preparation of the Financial Statements and are reduced to the amount which will probably reduce the taxable profit in future reporting periods, if it is not probable that in future reporting periods the Company will have sufficient taxable profit for the realisation of such assets.

Deferred tax assets and liabilities are measured by applying the income tax rates established in the years in which such temporary differences are expected to be covered or settled, on the basis of the tax rates (and tax laws), which are or will be approved before the end of the reporting period. Deferred tax assets and liabilities reflect the future tax consequences expected by the Company at the end of the reporting period in order to settle or cover own assets or liabilities.

Deferred tax assets and liabilities are offset when it is legally allowed to offset the current tax assets and liabilities and when they are related with income taxes fixed by the same taxation authority and the Company intends to offset the current tax assets and liabilities at their fair value.

Current tax and deferred tax for the reporting period

Current tax and deferred tax are accounted for as expenses in the Income Statement, except the cases when they relate to the items recognised outside the Income Statement (directly in equity), in which case the tax shall also be recognised in the Income Statement, or if they emerge at the time of recognition of business merger.

Financial risk management policy

In managing the risk, the Company mainly concentrates on operational, financial and legal risks. Strategic risk management decisions are being made by the Company management. The primary objective of the financial risk management function is to establish risk limits, and then ensure that exposure to risks stays within these limits.

The main risks arising from the financial instruments are market risk (including currency risk, cash flow and price risk), liquidity risk and credit risk. The risks are identified and disclosed below.

Credit risk

Credit risk is a risk that counterparty shall fail to meet the contractual obligations resulting in financial losses for the Company. The Company pursues the policy to conclude transactions only with reliable partners and to demand, where necessary, sufficient amounts of deposits as a risk management tool in the event of emergency of losses due to non-performance of financial obligations. The Company conducts transactions only with reliable and financially strong companies. Such information is obtained, where possible, from independent credit rating agencies, and if such information is not available, the Company uses other publicly available financial information and own trading data in order to assess its key customers. The Company continuously monitors the concentration of customers and risk, and transactions are entered into only with the approved customers.

The Company does not have any significant credit risk concentration because credit risk is dispersed among a considerable number of buyers.

Credit risk related with funds in banks, is limited because the Company conducts transactions with the banks with high credit ratings granted by foreign credit rating agencies.

Interest rate risk

The main part of the Company's loans received is with variable interest rates linked to EURIBOR. The Company manages interest rate risk using an interest rate swap.

Liquidity risk

The Company manages liquidity risk by retaining sufficient reserves, banking services and reserve credit instruments, by continuously monitoring the actual and expected cash flows and by coordinating the terms of repayment of financial assets and liabilities.

The Company pursues the policy to retain sufficient quantities of cash and cash equivalents or to secure the financing with the help of the relevant amount of credit lines in order to meet the obligations provided for in the strategic plans.

Foreign currency risk

In order to manage foreign currency risk, the Company concludes credit agreements only in Euros. Most of the Company's purchase transactions are also conducted in Euros.

Provisions

Provisions are accounted for when the Company has an obligation (legal or irrevocable) as a result of past events and it is probable that an outflow of economically beneficial resources will be required for settling such obligation and a reliable estimate can be made of the amount of the obligation.

The amount of provisions reflects the estimate required for the settlement of the obligations of the current reporting period by taking into account the risks and uncertainties arising out of such obligations. When provisions are measured by using the expected cash flows for the settling of the obligation, their carrying amount is the current value of such cash flows.

When it is expected that the whole economic benefit or any part thereof required for the settling of the provision will be recovered from the third party, the amount receivable is be recognised as assets, if it is absolutely clear that compensation will be received and a reliable estimate can be made of the amount.

Related parties

Related parties are legal entities and/or private persons, which/who satisfy at least one of the following conditions:
a) directly or indirectly controls the entity;
b) may have a significant influence over the entity;
c) has joint control over a joint venture;
d) is an entity under the control of the same parent company or by the same natural person (their group);
e) is an associate or subsidiary company;
f) is a joint venture that under the jointly control;
g) is one of the managers of the entity or parent company;
h) is a close family member of one of the persons specified under a), b), c) or g);
i) is an entity under control, joint control or significant influence by any of the persons specified under g) or h);
j) is an entity accumulating and paying post-employment pensions and other benefits to the employees of the company or a legal entity related with the company.

Events after the Balance Sheet date

Events after the Balance Sheet date, which provide supplementary information about the position of the Company on the date of preparation of the Financial Statements (adjusting events), are reflected in the Financial Statements. Events after the Balance Sheet date, which are not the adjusting events, are described in the notes, when their effect is significant.

After the end of the financial year until approval of these Financial Statements, the Company did not face any events after the Balance Sheet date, which had an effect on these Financial Statements or had to be additionally disclosed.

Significant accounting estimates and key sources of estimation uncertainty

Application of the Company's accounting policies requires the management to make estimates, judgments and assumptions on the reported amounts of assets and liabilities, which are not easily determined with the help of other sources. Estimates and related assumptions are based on the past experience and other directly related factors. The actual results may differ from the estimates.

Estimates and key assumptions are continuously reviewed. The results of review of the accounting estimates are recognised within such reporting period, when the review was performed and the results thereof had an effect on the said reporting period or on the period of the review and any future reporting periods, if the review has an effect on the current and future reporting period.

Significant estimates and key sources of estimation uncertainty

The following paragraphs contain the key future assumptions and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of adjustment of the carrying amount of assets and liabilities in future reporting periods.

Impairment of property, equipment and facilities

At least once per year, the Company examines any possible existence of the elements showing impairment of the carrying amount of the property, equipment and facilities. If such elements do exist, the Company performs an impairment test. The recoverable value of the cash-generating asset group is determined on the basis of the calculated value in use. As of 31 December 2019 and 2018, no elements showing any possible impairment of the carrying amount of the property, equipment and facilities existed.

Other assumptions and estimates

Other estimates include the duration of the useful life of property, equipment and facilities as well as intangible assets, deferrals for reserves, doubtful trade receivables, provisions, accumulated guarantee reserve, degree of completeness of long-term contracts. In the opinion of the management, the above mentioned estimates should not make any significant adjustments in the Financial Statements.

3. NOTES

3.1. Intangible assets

	Concessions, patents, licenses, trademarks and similar rights	Software	Total
Acquisition cost			
31 December 2017		**28941**	**28941**
- acquisitions		3730	3730
- transfers and write-downs			
- reclassifications			
- impairment			
31 December 2018		**32671**	**32671**
- acquisitions		7006	7006
- transfers and write-downs		(22011)	(22011)
- reclassifications			
- impairment			
31 December 2019		**17666**	**17666**
Accumulated amortisation			
31 December 2017		**21433**	**21433**
- amortisation		1227	1227
- transfers and write-downs			
- reclassifications			
31 December 2018		**22660**	**22660**
- amortisation		5000	5000
- transfers and write-downs		(22009)	(22009)
- reclassifications			
31 December 2019		**5651**	**5651**
Carrying amounts:			
31 December 2018		**10011**	**10011**
31 December 2019		**12015**	**12015**

As of 31 December, the acquisition cost of the non-current intangible assets that are fully amortised but are still used in the activities of the Company was as follows:

	2019	2018
Software	-	19043
Total	**-**	**19043**

As of 31 December 2019 and 2018, the Company did not have intangible assets the control of which was restricted by legal acts or certain agreements.

Amortisation of the Company's non-current intangible assets was accounted for in the Income Statement under the General and Administrative Expenses.

3.2. Tangible assets

	Land	Buildings and structures	Vehicles	Other equipment, fittings and tools	Advance payments and assets under construction	Total
Acquisition cost						
31 December 2017			**234675**	**153651**	**13382**	**401708**
- acquisitions			41518	15097		56615
- transfers and write-downs			(44891)	(2663)	(13382)	(60936)
- reclassifications						
- impairment						
31 December 2018			**231302**	**166085**		**397387**
- acquisitions				34847		34847
- transfers and write-downs			(45263)	(45056)		(90319)
- reclassifications						
- impairment						
31 December 2019			**186039**	**155876**		**341915**
Accumulated depreciation						
31 December 2017			**107538**	**74727**		**182265**
- depreciation			29483	29713		59196
- transfers and write-downs			(37720)	(2662)		(40382)
- reclassifications						
31 December 2018			**99301**	**101778**		**201079**
- depreciation			39404	27445		66849
- transfers and write-downs			(31825)	(44082)		(75907)
- reclassifications						
31 December 2019			**106880**	**85141**		**192021**
Carrying amounts:						
31 December 2018			**132001**	**64307**		**196308**
31 December 2019			**79159**	**70735**		**149894**

Depreciation of the Company's non-current tangible assets was accounted for in the Income Statement under the Cost of Sales and General and Administrative Expenses.

As of 31 December, the acquisition cost of the non-current tangible assets that are fully depreciated but are still used in the activities of the Company was as follows:

	2019	2018
Other equipment, fittings and tools	24878	26774
Vehicles	31801	31801
Total	**56679**	**58575**

3.3. Financial assets

As of 31 December, the Company did not have any long-term financial assets.

3.4. Inventory

	Raw materials, materials and consumables	Finished goods	Goods for resale	Total
Inventories at cost as at 31 December 2018	319		699764	700083
Less: reversals to net realisable value				
Net realisable value as at 31 December 2018	**319**		**699764**	**700083**
Inventories at cost as at 31 December 2019	234		770472	770706
Less: reversals to net realisable value				
Net realisable value at 31 December 2019	**234**		**770472**	**770706**

At 31 December the Company didn't have pledged inventories.

3.5. Amounts receivable within one year

As of 31 December, amounts receivable within one year comprised the following:

	2019	2018
Trade debtors	1244243	1074237
Other	3151	1146
Less: impairment		
Total	**1247394**	**1075383**

3.6. Cash and cash equivalents

As of 31 December, cash and cash equivalents comprised the following:

	2019	2018
Cash at bank	352063	246699
Petty cash	3241	1474
Total	**355304**	**248173**

3.7. Prepayments and accrued income

As of 31 December, prepaid expenses and accrued income comprised the following:

	2019	2018
Prepaid expenses	13135	12327
Total	**13135**	**12327**

3.8. Equity

a) Authorized capital

As of 31 December 2019 and 2018, the authorized capital of the Company was composed of 11175 ordinary registered shares within a nominal value of EUR 28.96 each. All shares are fully paid.

In 2019 and 2018, the Company did not acquire or transfer own shares.

As of 31 December, Company's shareholders were:

Name of shareholder	2019			2018		
	Number of shares	Percentage of the total number of shares	Percentage of shares with voting rights	Number of shares	Percentage of the total number of shares	Percentage of shares with voting rights
TECE GmbH	11175	100	100	11175	100	100
	11175	**100**	**100**	**11175**	**100**	**100**

b) Legal reserve

Legal reserve is the mandatory reserve laid down in the laws of the Republic of Lithuania. At least 5 per cent of the net distributed profit must be transferred to the legal reserve on an annual basis as long as is necessary for the amount of the legal reserve to comprise 10 per cent of the amount of the authorized capital. It may be used only to cover the future losses.

As of 31 December 2019 and 2018, the Company's legal reserve was fully formed and amounted to EUR 32365 .

Draft distribution of profit

	Amount
Retained result – profit (loss) – at the end of the previous financial year	(1526928)
Net result of the financial year – profit (loss)	150003
Distributed result - profit (loss) – at the end of the financial year	(1376925)
Shareholder contributions to cover losses	
Transfers from reserves	
Distributed profit	
Distribution of profit:	
- to reserves prescribed by the law	
- dividends	
- to other reserves	
- other	
Retained result – profit (loss) – at the end of the financial year	**(1376925)**

3.9. Grants and subsidies

On 31 December the Company did nor have any grants and subsidies.

3.10. Financial debts

As of 31 December, the Company did not have any financial debt.

3.11. Amounts payable to Group companies

As of 31 December, amounts payable to Group companies comprised the following:

	2019	2018
Trade debts TECE GmbH	3217377	3169716
Trade debs Other related parties	5747	
Total	**3223124**	**3169716**

3.12. Other amounts payable and short-term liabilities

As of 31 December 31, other amounts payable and short-term liabilities comprised the following:

	2019	2018
VAT	49145	20597
Packing taxes (environmental tax)	0	2037
Other		
Other amounts payable and short-term liabilities	**49145**	**22634**

3.13. Accrued expenses and deferred income

As of 31 December 31, accrued expenses and deferred income comprised the following:

	2019	2018
Accrued expenses	6322	350
Total	**6322**	**350**

3.14. Sales

Net sales for the year ended 31 December, comprised the following:

	2019	2018
Income from goods sold LT	3812002	3428853
Income from goods sold LV	725239	706539
Income from goods sold EE	1110018	1124080
Discounts and bonus	(57879)	(54332)
Total	**5589380**	**5205140**

3.15. Cost of sales

For the year ended 31 December, cost of sales comprised the following:

	2019	2018
Cost of goods sold LT	2348074	2152137
Cost of goods sold LV	466437	470359
Cost of goods sold EE	715206	757711
Total	**3529717**	**3380207**

3.16. Operating expenses

For the year ended 31 December, operating expenses comprised the following:

	2019	2018
SELLING EXPENSES:		
Wages and related payments	774042	697408
Advertising and marketing	198231	210463
Representation	81143	76182
Cars maintenance and fuel	67060	64560
Business trips	48532	28189
Other	36755	43261
Total	**1205763**	**1120063**
GENERAL AND ADMINISTRATIVE EXPENSES:		
Wages and related payments	182111	204095
Depreciation and amortisation	71850	60423
Rent	176592	160446
Other	276572	237144
Total	**707125**	**662108**
Total operating expenses	**1912888**	**1782171**

3.17. Other operating results

For the year ended 31 December, other operating income (expenses) comprised the following:

	2019	2018
OTHER OPERATING INCOME		
Profit from the sale of non-current assets	8525	3629
Inventory surplus of goods	2944	551
Other income	1171	26
Total	**12640**	**4206**
OTHER OPERATING EXPENSES		
Result of inventory of goods	964	1540
Not worn out fixed assets	121	
Total	**1085**	**1540**
Other operating results, net	**11555**	**2666**

3.18. Transactions with related parties

The following table reflects transactions with related parties over the year ended 31 December 2019:

Related party	Amounts receivable	Amounts payable	Sales of goods and services	Purchases of goods and services
Parent company, TECE GmbH		3217377		3276247
Other related parties	98172	5747	391659	79826
Total	**98172**	**391659**	**391659**	**3356073**

The following table reflects transactions with related entities over the year ended 31 December 2018:

Related party	Amounts receivable	Amounts payable	Sales of goods and services	Purchases of goods and services
Parent company, name TECE GmbH		3154063		3087546
Other related parties		15654	242633	89550
Total		**3169717**	**242633**	**3177096**

Financial transactions with the managers of the Company:

	2019	2018
Amounts paid to the managers of the Company:		
- amounts related to employment	191362	174643
Average number of managers per year	2	2

3.19. Income tax

Income tax expense (income) items:

	2019	2018
Current income tax expense	8327	3447
Previous reporting periods, income tax corrections		
The deferred tax expense (income)		
Income tax expense (income) recorded in the Income Statement	**8327**	**3447**

1.20. Deferred liabilities and commitments not specified in the Balance Sheet, legal proceedings, going concern

In 2019 and 2018, the Company was not engaged in any legal proceeding which could have a significant impact on the annual financial statements.

As at December 31, 2019, the short-term obligations of the Company exceeded short-term assets by EUR 1 124,9 thousand .

As at December 31, 2019 and , the Company did not comply with the requirement of Article 38 of the Law on Companies of the Republic of Lithuania stating that equity must comprise 1/2 of the authorized capital. The continuity of the Company's economic activities and going concern depends on financial support from the shareholder. The Company has received an assurance from its shareholder stating that the latter is able to and shall support the Company financially for at least a year from the day of prepration of financial statements.

The existence of coronavirus (Covid-19) was confirmed in early 2020 and by now it has spread across the world, including Lithuania, causing disruptions to businesses and economic activity. The Company considers this outbreak to be a non-adjusting post balance sheet event. As the situation is uncertain and rapidly evolving, we do not consider it practicable to provide a quantitative estimate of the potential impact of this outbreak on the Company.

The company has been included in the list of victims of COVID-19 published by the State Tax Authority, therefore, as soon as the relevant law will be adopted by the Parliament of the Republic of Lithuania and the procedures of compesantion schemes will be established, the above mentioned support will be claimed.

The management of the company monitors the situation and does not exclude the possibility to reduce the working day of employees or to take other measures to reduce the costs of the company. However, there are currently no presumtioms for such actions.

* * * *

General Manager

Chief Accountant

Sidevahendid

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