

**JOINT STOCK COMPANY
ECO BALTIA**

CONSOLIDATED ANNUAL REPORT FOR THE YEAR 2020

PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EUROPEAN UNION

RIGA, 2021

Signature valid



Digitally signed by SALVIS LAPIŅŠ
Date: 2021.03.31 21:23:18 EEST

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|---|---|
| Name of the Parent Company | Eco Baltia AS |
| Legal status of the Parent Company | Joint stock company |
| Registration number, place and date of registration of the Parent Company | 40103446506 Riga, 11 August 2011 |
| Registered office of the Parent Company | Maskavas iela 240-3, Riga, LV-1063, Latvia |
| Shareholders of the Parent Company from 30.06.2020 | BSGF Salvus UAB, Gyneju g.14, Vilnius, Lithuania (52.81%) European Bank for Reconstruction and Development (30.51%) Enrial Holdings SIA, Baltā iela 5, Bukulti, Garkalnes novads, LV-1024 (15.93%) PENVI INVESTMENT LTD, Spyrou Kyprianou, 82, Euro House, 1 st floor, 4043, Limassol, Kipra (0.75%) |
| Shareholders of the Parent Company until 30.06.2020 | European Bank for Reconstruction and Development (30.50%) Limited partnership Otrais Eko fonds, Dārza iela 2, Riga, LV-1007, Latvia (19.46%) FLORACO INVESTMENT LTD, Spyrou Kyprianou, 82, Euro House, 1 st floor, 4043, Limassol, Kipra (16.68%) BECKINSALE LTD, Spyrou Kyprianou, 82, Euro House, 1 st floor, 4043, Limassol, Kipra (16.68%) PENVI INVESTMENT LTD, Spyrou Kyprianou, 82, Euro House, 1 st floor, 4043, Limassol, Kipra (16.68%) |
| Council Members of the Parent Company | Vytautas Plunksnis – Chairman of the Council from 13.07.2020 Deimante Korsakaite – Deputy Chairperson of the Council from 13.07.2020 Peter Niklas Hjelt - Council Member from 13.07.2020 Jurgita Petrauskiene - Council Member from 13.07.2020 Gints Pucēns - Council Member from 13.07.2020 Viesturs Tamužs – Chairman of the Council until 13.07.2020 Undīne Būde – Deputy Chairperson of the Council until 13.07.2020 Eduards Ekarts - Council Member until 13.07.2020 Uldis Tēraudkalns - Council Member until 13.07.2020 Peter Niklas Hjelt - Council Member until 13.07.2020 |
| Board Members of the Parent Company | Māris Simanovičs - Chairman of the Board from 25.08.2020 Jānis Aizbalts - Board Member from 25.08.2020 Anita Saulīte - Board Member from 25.08.2020 Santa Spūle - Board Member from 25.08.2020 Salvis Lapiņš - Board Member from 25.08.2020 |

Jānis Aizbalts - Board Member from 24.09.2019. until 25.08.2020
Santa Spūle - Board Member from 24.09.2019. until 25.08.2020
Ingus Skadmanis - Board Member from 24.09.2019 until 25.08.2020
Salvis Lapiņš - Board Member from 06.04.2020 until 25.08.2020
Kaspars Fogelmanis - Board Member from 24.09.2019 until 17.08.2020
Jolanta Jēkabsone – Board Member until 06.03.2019

| | |
|---|--|
| Financial year | 1 January - 31 December 2020 |
| Previous financial year | 1 January - 31 December 2019 |
| Consolidated companies/associated company | SIA „Eco Baltia grupa“ - 100% SIA „Nordic Plast“ - 100% SIA „Eko Kurzeme“ - 100% SIA „Eco Baltia vide“ - 100% SIA „MRTL“ - 100% SIA „Eco Teh Baltia“ - 100% SIA „Polimēru parks“ - 100% AS „PET Baltija - 91.03% (94.9% from 21.01.2021) SIA „Vaania - 90% (100% from 14.12.2020) Siguldas P SIA „Jumis“ - concession agreement, 90% (100% from 14.12.2020) AS „Latvijas Zaļais punkts“ - 88.48% SIA „Eko Reverss“ - 88.48% UAB „Eco Baltia Aplinka“ - 100% SIA „CREB Rīga“ - 20% |

Management Report

Management of the JSC (AS) "Eco Baltia" hereby presents a management report regarding the consolidated financial statements of the JSC (AS) "Eco Baltia" group (hereinafter referred to - the Group) for the business year ended on 31 December 2020.

Business profile

The Eco Baltia Group was established in April 2012. In terms of turnover, the JSC (AS) "Eco Baltia" is the largest environmental management group of companies in the Baltic States. The business activity of the JSC (AS) "Eco Baltia" comprises the entire waste management cycle, from waste collection and sorting, to logistics and wholesale of secondary raw materials, and to recycling of secondary raw materials. Companies of the JSC (AS) "Eco Baltia" Group are the leading ones in their fields of operation and significant taxpayers in the respective cities and regions of operation.

The core business activity of the Group companies comprises waste management, recycling and sale of secondary raw materials, and management of the producer responsibility systems, including in the management of waste packaging, electric and electronic equipment (WEEE) and waste of goods harmful to the environment (WGHE).

Development and financial performance of the Company during the reporting year

In 2020, the Group companies continued growth in accordance with the long-term strategy, the goal of which is to develop the leading waste management and recycling company in the Baltic States. Strategic direction of the Group - recycling of secondary raw materials, which kept growing also in 2020.

Effort aimed at improvement efficiency, productivity, competitiveness, customer service and working environment, as well as labour safety was put in all the business segments by actively implementing LEAN, including KAIZEN methods in all the Group companies, which led to significant gain due to the improvements proposed and performed by the employees.

The Group closed the year of 2020 with the historically highest turnover of 74.95 million euro. (In 2019: 70.62 million euro), which represents 6% over the indicator of 2019, despite the unfavourable market situation in 2020, affected by the global pandemic. Increase in turnover was mainly promoted by the waste management companies. The Group's net profit for the year 2020 reached 0.11 million euro, compared to 2.54 million euro in 2019. Sharp decrease in net profit comparing to the last year results is due to recognised impairment of goodwill in recycling segment in 2020 in amount of EUR 2.87 million.

Increase in administrative costs was mainly affected by increase in legal, professional services and other costs, which was related to change of the Company's shareholders in 2020, when, on 30 June, UAB "BSGF Salvus", a subsidiary of the Baltic's largest private investment fund "INVL Baltic Sea Growth Fund", became the largest shareholder (52.81%) of the JSC (AS) "Eco Baltija". Such an internationalisation is especially important in the sector of recycling of secondary raw materials, since it provides opportunities to cooperate with large international companies and to expand cooperation network of "Eco Baltia" across the globe.

Last year, the Group companies invested funds in production lines, technical equipment, machinery and fleet. Investments were made to improve quality of production, products and services, and to improve competitiveness of the companies. However, situation in international markets affected the Group's secondary raw material recycling companies, where the decisive factor was rapid changes in oil prices. Furthermore, the JSC (AS) "PET Baltija" was affected also by the entry into the trade agreement process between the USA and China, reducing price of PET secondary raw materials. Whereas, the LLC (SIA) "Nordic Plast" felt a strong international impact of Covid-19, which resulted in drop of demand for ready products by 60%.

During the reporting year, the Group's secondary raw material recycling companies received support in the amount of 388 thousand euro from the Investment and Development Agency of Latvia for the remuneration of exporting companies for overcoming aftermath of Covid-19 crisis.

The Group's environmental management companies continued to implement their development strategy in 2020 by promoting availability of secondary raw material sorting infrastructure to the Company's customers and increasing its competence in management, sorting and recycling of secondary raw materials.

Last year, companies of waste management sector successfully participated in several public procurements entering into long-term contracts for waste management in new local markets, including the LLC (SIA) "Eco Baltia vide", which has been providing services in Riga Northern District and Vidzeme Suburb since 20 May 2020.

In cooperation with the Eco Baltia Group companies, which include the LLC (SIA) "Eco Baltia vide", work continues on promotion of tyre recycling in the new tyre recycling facility, opened in Tukums in the summer of 2019. Besides, investments were made in the development of sorting system; in 2020, sorting branch was opened at Bauska, with the invested amount reaching 110,000 euro.

Taking into account the Company's focus on sorting and recycling of secondary raw materials, in 2020, 27% of the volume of waste managed by the Company was reused or recycled.

Whereas, in the segment of producer responsibility, maintenance of systems for the management of waste packaging, electric and electronic equipment (WEEE) and waste of goods harmful to the environment (WGHE) was continued during the reporting year in accordance with the requirements of the Ministry of the Environmental Protection and Regional Development of the Republic of Latvia and the State Environmental Service (SES). Operation of the Group company JSC (AS) "Latvijas Zaļais punkts" (LZP) was organised in accordance with the management programmes 2020-2022, approved by the State Environmental Service.

In order to reach the nationwide determined recovery volumes, the JSC (AS) "Latvijas Zaļais punkts" in cooperation with the partners organised sorting campaigns accentuating educational activities, explaining the necessity of sorted collection and responsible saving of natural resources, including by introducing and promoting the trade mark "Zaļi pakots" ("Greenly packaged"). Furthermore, training seminars were organised for both the current and future customers, as well as cooperation was continued with the leading business and professional newspapers, thus strengthening reputation of the JSC (AS) "Latvijas Zaļais punkts" as a sectoral expert.

Active work on research of textile sorting system, introduction thereof and promotion of textile sorting in Latvia is in progress in the Group companies. According to the EU requirements, member states will be obliged to commence textile waste from 2025, whereas, ensuring textile sorting right now, the LLC (SIA) "Eco Baltia vide" together with "Latvijas Zaļais punkts" indicate that such a system may be introduced from 2023. The matter has been actively directed also at nationwide level, thus, it has been outlined in the new National Waste Management Plan 2021-2028.

Future prospects

In 2021, the Group's management plans to continue working on development of the Group's investment projects, which will be bottom line of further more rapid and more sustainable growth of the Group. The Group companies consistently work on improvement of the offered services and products, as well as enhancement of customer service. According to the future prospects, the Group plans to expand operation also at the Baltic level becoming a significant market player in the Baltic scale. Increase in production capacities of food-quality secondary PET raw materials and strengthening of positions in the European market are among the strategic priorities included in the Group schedule.

It is planned in the future to increase the Group profitability by making the current processes more efficient, investing in automation and looking for creative and innovative solutions for the use of the current recycling capacities.

Introduction of LEAN methods will continue in the Group companies providing the necessary training for all the employees to optimize processes, improve productivity and also labour safety.

It is also planned to continue investments in automation of processes and making the processes more effective both by improving productivity, quality of products and added value, as well as the production capacities according to the necessity.

The Group companies operating in the environmental management sector will continue developing availability of their services in the market of Latvia in 2021. Active participation in procurements in Latvia, where the subject of procurement is related to the types of the Group's activity is planned. According to the strategy of development and investment plan of the Group companies, the Group is planning and providing investments in technical equipment to provide quality execution of contract and promote development of other services and demand thereof in the market.

The Group's management will work on introduction of the LEAN systems in the Group companies, as well as on improvement of the information technology systems.

Events after the reporting date

Due to the rapid spread of Covid-19 virus, in February 2021, the government of Latvia has expanded the term of the nationwide emergency situation declared due to Covid-19 until 6 April this year, which means effective precautionary measures to ensure and control social distancing. At the same time, these measures affect economic activity. Since the

recycling companies of Eco Baltia are exporters, the companies could be affected also by measures introduced in other countries.

In order to restrict the possible negative impact on entrepreneurship, both the recycling and waste management companies have introduced strict precautionary measures and rescheduled process in all the places of work, thus restricting risk of the disease spread among the employees to the extent possible. Recycling companies have also determined geographic scale of their customers, receivables are monitored and cash flows are controlled.

On 14 January 2021, the State Environmental Service has entered into a contract with the LLC (SIA) "Depozīta Iepakojuma Operators" (DIO), whose shareholder is also the Group company JSC (AS) "PET Baltija", for introduction of packaging deposit system in Latvia.

This management report was signed for the Group on 31 March 2021 by:

Māris Simanovičs,
Chairman of the Board

Jānis Aizbalts,
Board Member

Anita Saulīte,
Board Member

Santa Spūle,
Board Member

Salvis Lapiņš,
Board Member

Consolidated statement of comprehensive income for 2020

| | Notes | 2020 EUR | 2019 EUR |
|--|-------|-------------------|-------------------|
| Net turnover | 3 | 74 953 473 | 70 622 335 |
| Production cost of goods sold | 4 | (62 231 863) | (57 683 950) |
| Gross profit | | 12 721 610 | 12 938 385 |
| Selling and distribution expenses | 5 | (4 422 487) | (3 060 539) |
| Allowances for impairment of loans and receivables | 20,21 | (26 827) | (168 432) |
| Administrative expenses | 6 | (5 227 748) | (6 463 926) |
| Other operating income | 7 | 1 649 209 | 864 693 |
| Other operating expenses | 8 | (4 028 282) | (601 366) |
| Finance income | 9 | 30 683 | 48 476 |
| Finance costs | 10 | (587 791) | (635 041) |
| Loss by equity method attributable to the associated companies | 11 | - | (1 320) |
| Profit before tax | | 108 367 | 2 920 930 |
| Deferred corporate income tax | 12 | - | (382 950) |
| PROFIT FOR THE REPORTING YEAR | | 108 367 | 2 537 980 |
| Other comprehensive income for the year after tax | | - | - |
| Total comprehensive income for the year after tax | | 108 367 | 2 537 980 |
| Profit and comprehensive income attributable to: | | | |
| Majority interests | | 24 004 | 2 449 621 |
| Non-controlling interests | 27 | 84 363 | 88 359 |

The accompanying notes on pages 13 to 49 form an integral part of these consolidated financial statements.
These consolidated financial statements were signed on behalf of the Group on 31 March 2021 by:

Māris Simanovičs,
Chairman of the Board

Jānis Aizbalts,
Board Member

Anita Saulīte,
Board Member

Santa Spūle,
Board Member

Salvis Lapiņš,
Board Member

Baiba Fišere,
Chief Accounting Officer,
SIA "Eco Baltia grupa"

Consolidated statement of financial position for the year ended at 31 December 2020

| | Notes | 31.12.2020 EUR | 31.12.2019 EUR |
|---|-------|-------------------|-------------------|
| ASSETS | | | |
| Non-current investments | | | |
| Intangible investments | | | |
| Licences, trade marks and other intangible investments | 14 | 355 689 | 220 600 |
| Prepayments for intangible investments | 14 | 5 753 | 5 540 |
| Goodwill | 15 | 32 351 102 | 35 221 102 |
| Total intangible investments | | 32 712 544 | 35 447 242 |
| Property, plant and equipment | | | |
| Land, buildings and constructions | | 2 488 853 | 2 568 019 |
| Right-of-use assets | | 9 718 123 | 9 669 712 |
| Non-current investments in leased property, plant and equipment | | 661 943 | 744 396 |
| Equipment and machinery | | 9 570 199 | 9 746 821 |
| Other property, plant and equipment, and inventories | | 4 144 203 | 3 341 587 |
| Construction in progress | | 318 432 | 491 055 |
| Prepayments for property, plant and equipment | | 633 991 | 327 851 |
| Total property, plant and equipment | 16 | 27 535 744 | 26 889 441 |
| Non-current financial investments | | | |
| Other securities and investments | 17 | 21 300 | 6 300 |
| Prepaid expenses | 23 | 11 435 | 8 264 |
| Other loans | 21 | 7 300 | 132 000 |
| Other non-current receivables | | 30 000 | 34 000 |
| Total non-current financial assets | | 70 035 | 180 564 |
| Total non-current investments | | 60 318 323 | 62 517 247 |
| Current assets | | | |
| Inventories | | | |
| | 19 | 6 528 302 | 6 762 662 |
| Receivables | | | |
| Trade receivables | 20 | 4 418 706 | 4 108 317 |
| Corporate income tax | 12 | 3 047 | 65 388 |
| Other loans | 21 | 150 248 | 8 043 |
| Other receivables | 22 | 637 478 | 340 141 |
| Prepaid expenses | 23 | 232 729 | 177 653 |
| Accrued income | 24 | 2 644 739 | 2 346 845 |
| Total receivables | | 8 086 947 | 7 046 387 |
| Cash and cash equivalents | 25 | 3 782 431 | 2 358 011 |
| Total current assets | | 18 397 680 | 16 167 060 |
| TOTAL ASSETS | | 78 716 003 | 78 684 307 |

The accompanying notes on pages 13 to 49 form an integral part of these consolidated financial statements.

Consolidated statement of financial position for the year ended at 31 December 2020

| | Notes | 31.12.2020 EUR | 31.12.2019 EUR |
|--|-------|-------------------|-------------------|
| LIABILITIES | | | |
| Equity | | | |
| Share capital | 26 | 41 707 900 | 41 707 900 |
| Consolidated reserves | 27 | (996 928) | (996 928) |
| Retained earnings brought forward | | 10 109 861 | 7 660 240 |
| Profit for the reporting year | | 48 543 | 2 449 621 |
| Equity attributable to the shareholders of the Parent Company | | 50 869 376 | 50 820 833 |
| Non-controlling interests | 27 | 1 079 080 | 1 030 256 |
| Total equity | | 51 948 456 | 51 851 089 |
| Liabilities | | | |
| Non-current liabilities | | | |
| Loans from credit institutions | 28 | 2 783 366 | 3 605 885 |
| Obligations under finance leases | 29(a) | 3 242 963 | 2 444 864 |
| Lease liabilities | 29(b) | 1 793 891 | 2 565 287 |
| Deferred income | 34 | 1 658 596 | 1 984 462 |
| Deferred income tax liability | 12 | 978 355 | 978 355 |
| Total non-current liabilities | | 10 457 171 | 11 578 853 |
| Current liabilities | | | |
| Loans from credit institutions | 28 | 1 864 709 | 2 461 818 |
| Obligations under finance leases | 29(a) | 1 937 608 | 1 566 108 |
| Lease liabilities | 29(b) | 954 965 | 1 279 826 |
| Prepayments received from customers | 30 | 364 117 | 195 457 |
| Trade payables | 31 | 6 450 219 | 5 199 298 |
| Corporate income tax | 12 | 25 196 | 54 296 |
| Taxes payable | 32 | 990 887 | 654 057 |
| Other payables | 33 | 757 125 | 812 978 |
| Deferred income | 34 | 324 162 | 322 374 |
| Accrued liabilities | 35 | 2 641 388 | 2 672 929 |
| Derivative financial instruments | 36 | - | 35 224 |
| Total current liabilities | | 16 310 376 | 15 254 365 |
| Total liabilities | | 26 767 547 | 26 833 218 |
| TOTAL EQUITY AND LIABILITIES | | 78 716 003 | 78 684 307 |

The accompanying notes on pages 13 to 49 form an integral part of these consolidated financial statements.
These consolidated financial statements were signed on behalf of the Group on 31 March 2021 by:

Māris Simanovičs,
Chairman of the Board

Jānis Aizbalts,
Board Member

Anita Saulīte,
Board Member

Santa Spūle,
Board Member

Salvis Lapiņš,
Board Member

Baiba Fišere,
Chief Accounting Officer,
SIA "Eco Baltia grupa"

Consolidated statement of changes in equity for the year 2020

| | Share capital | Consolidated reserves | Retained earnings | Equity attributable to the shareholders of the Parent Company | Non-controlling interests | Total equity |
|---------------------------------------|-------------------|-----------------------|-------------------|---|---------------------------|-------------------|
| | EUR | EUR | EUR | EUR | EUR | EUR |
| Balance as at 31 December 2018 | 41 707 900 | (996 928) | 7 660 240 | 48 371 212 | 941 897 | 49 313 109 |
| Profit for the reporting year | - | - | 2 449 621 | 2 449 621 | 88 359 | 2 537 980 |
| Balance as at 31 December 2019 | 41 707 900 | (996 928) | 10 109 861 | 50 820 833 | 1 030 256 | 51 851 089 |
| Profit for the reporting year | - | - | 24 004 | 24 004 | 84 363 | 108 367 |
| Buyout of minority shareholder shares | - | - | 24 539 | 24 539 | (35 539) | (11 000) |
| Balance as at 31 December 2020 | 41 707 900 | (996 928) | 10 158 404 | 50 869 376 | 1 079 080 | 51 948 456 |

The accompanying notes on pages 13 to 49 form an integral part of these consolidated financial statements.
These consolidated financial statements were signed on behalf of the Group on 31 March 2021 by:

Māris Simanovičs,
Chairman of the Board

Jānis Aizbalts,
Board Member

Anita Saulīte,
Board Member

Santa Spūle,
Board Member

Salvis Lapiņš,
Board Member

Baiba Fišere,
Chief Accounting Officer,
SIA "Eco Baltia grupa"

Consolidated statement of cash flows for the year 2020

| | | 2020 | 2019 |
|--|-------|--------------------|--------------------|
| | Notes | EUR | EUR |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit before tax | | 108 367 | 2 920 930 |
| <i>Adjustments for:</i> | | | |
| Depreciation and amortization | 14,16 | 6 521 286 | 5 608 148 |
| Interest payments and similar expense | 10 | 587 791 | 635 041 |
| Interest (income) and similar (income) | 9 | (12 970) | (9 034) |
| (Gain)/loss on disposal of property, plant and equipment | | (253 420) | 107 231 |
| Revaluation of derivative financial instruments | 9 | (17 713) | (39 442) |
| (Income) from external co-financing | | (730 634) | (331 402) |
| Changes in provisions and allowances | | (135 394) | (119 626) |
| Goodwill impairment | 15 | 2 870 000 | 5 489 |
| Impairment of fixed assets | 16 | 281 212 | - |
| Loss from investment in associates | | - | 1 320 |
| Profit before adjustments for the effect of changes in current assets and current liabilities | | 9 218 525 | 8 778 655 |
| <i>Adjustments for:</i> | | | |
| Decrease/(increase) in receivables | | 111 777 | (159 271) |
| Increase in payables | | 1 555 018 | 3 733 747 |
| Decrease/(increase) in inventories | | 234 360 | (2 735 744) |
| CASH FLOWS FROM OPERATING ACTIVITIES | | 11 119 680 | 9 617 387 |
| Interest paid | | (510 220) | (568 664) |
| Interest income | | 336 | 285 |
| Corporate income tax paid | | (163 421) | (74 851) |
| Net cash flows from operating activities | | 10 446 375 | 8 974 157 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchase of property, plant and equipment and intangible investments | | (4 728 499) | (4 035 993) |
| Proceeds from sale of property, plant and equipment | | 150 723 | 54 728 |
| Acquisition of shares in associates and other companies | | (26 000) | - |
| Loans granted | | (11 900) | (139 600) |
| Loans repaid | | - | 1 300 |
| Net cash flows used in the investing activities | | (4 615 676) | (4 119 565) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from borrowings | 28 | 1 124 184 | 43 144 |
| Repayment of borrowings | 28 | (2 542 612) | (2 694 043) |
| Repayment of the lease liabilities* | | (1 447 595) | (1 278 444) |
| Payments of obligations under finance leases** | | (1 952 574) | (1 842 272) |
| EU co-financing | | 412 318 | 6 567 |
| Dividends paid | | - | (44 300) |
| Net cash flows used in the financing activities | | (4 406 279) | (5 809 348) |
| Net cash flow for the reporting year | | 1 424 420 | (954 756) |
| Cash and cash equivalents at the beginning of the year | | 2 358 011 | 3 312 767 |
| Cash and cash equivalents on the reporting date | 25 | 3 782 431 | 2 358 011 |

*The line indicated is in respect of the application of IFRS 16

**The line indicated is in respect of the lease agreements which were previously finance leases in accordance with IAS 17.

The accompanying notes on pages 13 to 49 form an integral part of these consolidated financial statements.

These consolidated financial statements were signed on behalf of the Group on 31 March 2021 by:

| | | |
|--|---------------------------------|--------------------------------|
| Māris Simanovičs, Chairman of the Board | Jānis Aizbalts, Board Member | Anita Saulīte, Board Member |
| Santa Spūle, Board Member | Salvis Lapiņš, Board Member | |
| Baiba Fišere, Chief Accounting Officer, SIA "Eco Baltia grupa" | | |

Notes to the consolidated financial statements for the year 2020

1. General information

The core business activity of AS Eco Baltia and its subsidiaries (hereinafter - the Group) is provision of waste management services. The Group is the largest environmental management group in the Baltics in terms of turnover. The Group consists of the companies that operate in four different waste management segments, providing a wide variety of services ranging from (i) organization of the packaging management system to (ii) waste collection, to (iii) sorting and sale of recyclables, as well as (iv) recycling.

The Group Parent Company is AS Eco Baltia (hereafter - Eco Baltia).

The subsidiaries of the Group are as follows:

- SIA “Nordic Plast” (registered office: Rūpnīcu iela 4, Olaine; LV 2114). The core business activity of SIA “Nordic Plast” is the recycling of secondary raw materials (various polypropylen materials).
- AS “PET Baltija” (registered office: Aviācijas iela 18, Jelgava, LV 3004). The company’s business is the recycling of PET bottles in Latvia.
- SIA “Eco Baltia vide” (registered office: Getliņu iela 5, Stopiņi municipality, Rumbula, LV 2121). The company’s core business activities include environmental management, trucking services, collection and disposal of solid and liquid waste, non-mechanized and mechanized cleaning services.
- SIA “Eko Kurzeme” (registered office: Ezermalas iela 11, Liepāja, LV 3400). Its core business is waste management.
- SIA “Vaania” (registered office: Maskavas iela 240-3, Rīga, LV 1063). The company’s core business is business and management consulting. The company has a right of management of P SIA Jumis on the basis of a concession agreement.
- P SIA “Jumis” (registered office: Blaumaņa iela 10, Sigulda, LV 2150). The core business activity of P SIA “Jumis” is the management of dry municipal waste and packaging waste, the collection of construction waste and bulky waste, sewage disposal, the lease of production premises, etc. The company is managed by SIA “Vaania” on the basis of a concession agreement.
- AS “Latvijas Zaļais punkts” (registered office: Maskavas iela 240-3, Rīga, LV 1063) In accordance with the cooperation agreements entered into with the Ministry of Environmental Protection and Regional Development of the Republic of Latvia, AS “Latvijas Zaļais punkts” is introducing and implementing the producer responsibility systems in the field of packaging waste management, the management of waste electric and electronic equipment (WEEE) and wastes of goods harmful to the environment (WGHE) in Latvia. AS “Latvijas Zaļais punkts” owns 100% shares in SIA “Eko Reverss”.
- SIA “Eko Reverss” (registered office: Maskavas iela 240-3, Rīga, LV 1063). SIA “Eko Reverss” is a company operating the systems for collection of secondary raw materials.
- SIA “MRTL” (registered office: Maskavas iela 240-3, Rīga, LV 1063). The company’s registered business profile was assets management. The company was reorganised by merging it to SIA “Eco Baltia vide” since 01.01.2021.
- SIA “Eco Teh Baltia” (registered office: Maskavas iela 240-3, Rīga, LV 1063) The registered business activity of the company is the sale of waste management machinery and equipment.
- SIA “Eco Baltia grupa” (registered office: Maskavas iela 240-3, Rīga, LV 1063) The company’s core business is business and management consulting.
- SIA “Polimēru parks” (registered office: Maskavas iela 240-3, Rīga, LV 1063) The company’s core business is the recycling of sorted materials.
- UAB “Eco Baltia Aplinka” (registered office: M.Valančiaus g. 1A, Vilņa, LT 03155). The company’s core business activity is planned as waste management.

2. Group's Significant Accounting Policies

2.1. Summary of Group's Significant Accounting Policies

(a) Basis of preparation

These are the Group's seventh consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) as endorsed by the EU.

The accounting policies set out in notes (b) to (u) have been applied in preparing the consolidated financial statements for the year ended 31 December 2020; the presented comparative information covers the year ended 31 December 2019.

The Group has adopted the following amended standards, including any amendments to other standards arising therefrom, for which the initial application date was 1 January 2020. The guidelines that took effect on 1 January 2020 and their impact on the Group's financial statements is described below:

New and amended IFRS Standards that are effective for the current year

The following amendments to the existing standards issued by the International Accounting Standards Board (IASB) and adopted by the EU are effective for the current reporting period:

- Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" - Definition of Material - adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020),
- Amendments to IFRS 3 "Business Combinations" - Definition of a Business - adopted by the EU on 21 April 2020 (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period),
- Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures" - Interest Rate Benchmark Reform - adopted by the EU on 15 January 2020 (effective for annual periods beginning on or after 1 January 2020),
- Amendments to IFRS 16 "Leases" - Covid-19-Related Rent Concessions (adopted by the EU on 9 October 2020 and effective at the latest, as from 1 June 2020 for financial years starting on or after 1 January 2020),
- Amendments to References to the Conceptual Framework in IFRS Standards adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020).

The adoption of these new standards, amendments to the existing standards and interpretation has not led to any material changes in the Group's financial statements.

Standards and amendments to the existing standards issued by IASB and adopted by the EU but not yet effective

At the date of issuance of these financial statements, the following amendments to the existing standards were issued by IASB and adopted by the EU and which are not yet effective:

- Amendments to IFRS 4 Insurance Contracts "Extension of the Temporary Exemption from Applying IFRS 9" adopted by the EU on 16 December 2020 (the expiry date for the temporary exemption from IFRS 9 was extended from 1 January 2021 to annual periods beginning on or after 1 January 2023),
- Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement", IFRS 7 "Financial Instruments: Disclosures", IFRS 4 "Insurance Contracts" and IFRS 16 "Leases" - Interest Rate Benchmark Reform – Phase 2 adopted by the EU on 13 January 2021 (effective for annual periods beginning on or after 1 January 2021).

2.1. Summary of Group's Significant Accounting Policies (continued)***New standards and amendments to the existing standards issued by IASB but not yet adopted by the EU***

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards and amendments to the existing standards, which were not endorsed for use in EU as at date of issuance of financial statements (the effective dates stated below is for IFRS as issued by IASB):

- IFRS 14 "Regulatory Deferral Accounts" (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- IFRS 17 "Insurance Contracts" including amendments to IFRS 17 (effective for annual periods beginning on or after 1 January 2023),
- Amendments to IAS 1 "Presentation of Financial Statements" - Classification of Liabilities as Current or Non-Current (effective for annual periods beginning on or after 1 January 2023),
- Amendments to IAS 1 "Presentation of Financial Statements" - Disclosure of Accounting Policies (effective for annual periods beginning on or after 1 January 2023),
- Amendments to IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" - Definition of Accounting Estimates (effective for annual periods beginning on or after 1 January 2023),
- Amendments to IAS 16 "Property, Plant and Equipment" - Proceeds before Intended Use (effective for annual periods beginning on or after 1 January 2022),
- Amendments to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" - Onerous Contracts – Cost of Fulfilling a Contract (effective for annual periods beginning on or after 1 January 2022);
- Amendments to IFRS 3 "Business Combinations" - Reference to the Conceptual Framework with amendments to IFRS 3 (effective for annual periods beginning on or after 1 January 2022),
- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),
- Amendments to various standards due to "Improvements to IFRSs (cycle 2018 - 2020)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 9, IFRS 16 and IAS 41) primarily with a view to removing inconsistencies and clarifying wording (The amendments to IFRS 1, IFRS 9 and IAS 41 are effective for annual periods beginning on or after 1 January 2022. The amendment to IFRS 16 only regards an illustrative example, so no effective date is stated).

The Group anticipates that the adoption of these new standards and amendments to the existing standards will have no material impact on the financial statements of the Group in the period of initial application.

(a) Principles of consolidation

Amounts presented in these consolidated financial statements have been acquired from the accounting records of the Group's subsidiaries prepared in accordance with the accounting requirements of Latvia, by making according adjustments for the presentation, measurement and presentation thereof according to the requirements of the International Financial Reporting Standards approved by the EU. The consolidated financial statements have been prepared on the historical cost basis except positions which are stated at their fair values. Income statement classified by expense type. Cash flow statement is prepared using the indirect method.

2.1. Summary of Group's Significant Accounting Policies (continued)

In the consolidated financial statements functional and presentation currency of the AS Eco Baltia, as well as all subsidiaries thereof is the monetary unit of the European Union euro (hereinafter referred to as - EUR). All the amounts presented in the consolidated financial statements are presented in EUR, unless specified otherwise.

Account balances on 31 December 2020 reflect financial situation of the Group at the end of the relevant day.

(b) Estimates and assumptions

The preparation of consolidated financial statements in conformity with IFRS as adopted by the EU requires the management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expense, and disclosure of contingencies. The significant areas of estimation used in the preparation of the accompanying consolidated financial statements relate to revenue recognition, useful lives of property, plant and equipment, evaluation of doubtful receivables and obsolete inventories, as well as impairment evaluation. Although these estimates are based on the management's best knowledge of current events and actions, the actual results may ultimately differ from those estimates. Key estimates and assumptions used in the preparation of these consolidated financial statements are described below:

(i) Useful lives of property, plant and equipment

Useful lives of property, plant and equipment are assessed annually and changed, if necessary, to reflect the management's current view in the light of technological changes, the remaining prospective economic useful life of assets and their physical condition. Information on the useful lives of property, plant and equipment has been reflected in Annex (f) to the accounting policy.

(ii) Carrying amounts of a property, plant and equipment

The Group's management reviews the carrying amounts of intangible assets and property, plant and equipment, and assesses whenever indications exist that the assets' (including goodwill) recoverable amounts are lower than their carrying amounts. Taking into consideration the Group's planned level of activities and the possible market value of the assets, the Group's management considers that no significant adjustments to the carrying values of property, plant and equipment are necessary as at 31 December 2020.

(iii) Inventories

The Group estimates the net realizable value to determine an impairment loss incurred on inventories. Typically, the net realizable value is determined for each item separately; if it is not possible, historical experience is used to estimate the possible impairment loss. The Group's management has evaluated the net realizable value of inventories and considers that it is not necessary to make any additional significant allowance as of 31 December 2020.

(iv) Revenue recognition

Principles of revenue recognition have been described in the accounting policies No. (n).

(v) Impairment of financial assets

The Group assess on a forward-looking basis the expected credit losses ("ECL") associated with its debt instruments carried at amortised cost. Principles of impairment calculations are described in the accounting policies No. (h)

(vi) Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions recognized in the consolidated financial statements are the best estimate of the expenditure required to settle the present obligation at the reporting date. Provisions are used only for expenditures for which the provisions were originally recognized and are reversed if an outflow of resources is no longer probable.

Provisions for restructuring costs include employee termination benefits and are recognized in the period when the Group takes on legal or logical obligations to pay out such expenses, i.e., when the Group has developed a detailed formal plan for the restructuring and notified the persons, who will be affected thereby, of commitment to implement this plan. A restructuring provision includes only the direct expenditures arising from the restructuring.

The Group has assessed its present obligations (legal or constructive) arising from past events and has determined that no additional provisions should be recognized as at 31 December 2020.

(vii) Assessment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value (see Note 15).

2.1. Summary of Group's Significant Accounting Policies (continued)

(viii) The calculation of deferred tax liabilities

In 2019 the provisions recognised for the deferred corporate income tax in the amount of EUR 382 950 in accordance with IAS 12 Income taxes, applying the rate of 20% laid down in the tax regulations of the Republic of Latvia in respect of the profit generated by subsidiaries. Considering existing dividend policy introduced by the shareholders in 2020 it is estimated that future possible dividend payouts (subject to shareholders approval) in the foreseeable future will be fully covered by already recognised liabilities and the Group will be able to use accumulated retained earnings before year 2018 which could be paid out without incurring corporate income tax payment obligations. No deferred corporate income tax increase recognised in 2020.

(ix) Uncertain tax position

With adoption of IFRIC 23 the Group has evaluated its tax position and believes that no provisions are necessary for uncertain tax positions as at 31 December 2020.

(c) Consolidation

(i) Subsidiaries

The consolidated financial statements include subsidiaries that are controlled by the Group Parent Company.

Control is achieved when the Company:

- has the power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affects its returns.

The Group Parent Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above. When the Group Parent Company has less than a majority of the voting rights of an investee, it considers that it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, the results of subsidiaries acquired or disposed of during the year are included in profit or loss from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Periods for the preparation of financial statements of the Group Parent Company and subsidiaries are equal. Consolidated financial statements are prepared using uniform accounting policies.

The cost method is used to account for the acquisition of subsidiaries, other than those acquired from parties under common control. Identifiable assets acquired and liabilities and contingent liabilities assumed are measured at their fair values on the acquisition date.

Financial statements of the Group Parent Company and subsidiaries thereof have been consolidated in the Group's financial statement by consolidating the respective assets, liabilities, revenue and expense items.

Non-controlling shareholding in the performance indicators of the subsidiaries and equity has been reflected separately in the accordingly consolidated income statement, change of equity statement and financial condition statement.

(ii) Elimination of mutual transactions

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as at 31 December 2020. During the consolidation process, all mutual transactions between the Group's companies, balances, unrealised profit and losses from mutual transactions between the Group's companies have been fully excluded.

(d) Foreign currency translation

All transactions in foreign currencies are converted into EUR according to the currency exchange rate set by the European Central Bank on the day of the transaction. On the balance sheet date, monetary assets and liabilities in foreign currency are revalued according to the currency exchange rate set by the European Central Bank.

Currency exchange rates set by the European Central Bank:

| | 31.12.2020 | 31.12.2019 |
|---------------|------------|------------|
| 1 EUR / 1 USD | 1.2281 | 1.1189 |

2.1. Summary of Group's Significant Accounting Policies (continued)

(e) *Intangible investments*

(i) *Goodwill*

The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred. Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. Goodwill is disclosed in intangible assets section.

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any. Impairment test is performed annually or more frequently if events or changes in circumstances indicate that it might be impaired. Loss from goodwill impairment is recognized in consolidated statement of comprehensive income.

Any negative amount of goodwill is recognized in profit or loss, after the management reassesses whether it has identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews appropriateness of their measurement.

Goodwill is not amortized; instead, it is tested for impairment at the end of each financial period. Following initial recognition, goodwill is measured at purchase cost less any accumulated impairment losses. An impairment loss in respect of goodwill is not reversed. See details in Note 15.

(ii) *Other intangible investments*

Other intangible investments mainly comprise costs of software and licences. Where computer software is an integral part of the related hardware that cannot operate without that specific software, it is treated as property, plant and equipment.

Other intangible assets are stated at acquisition cost less accumulated amortisation and any accumulated impairment losses. Where an indication of impairment exists, the carrying amount of any intangible asset is assessed and, where the carrying amount of the intangible investment is greater than its estimated recoverable amount, which is the highest of the net sales value and use value of the intangible investment, the carrying amounts thereof are reduced immediately to the recoverable value by including the difference in profit or losses. Review for indications of impairment is carried out at each reporting date.

Recoverable value of intangible assets, which are not yet ready to be used, is determined annually, irrespective of whether there is any indication that it may be impaired. For the purposes of assessing impairment, intangible investments are grouped at the lowest level, for which there are separately identifiable cash flows.

Intangible assets are amortized using the straight-line method over their useful lives. Useful life of other intangible investments is as follows:

| | Useful lives, years |
|-----------------------|---------------------|
| Software and licences | 2-10 |

(f) *Property, plant and equipment*

Property, plant and equipment are stated at their initial value less accumulated depreciation and any accumulated impairment. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset:

| | Useful life, years |
|-------------------------------------|--------------------|
| Buildings and structures | 20-50 |
| Equipment and machinery | 5-15 |
| Other property, plant and equipment | 2-12 |

Land is not depreciated, as its useful life is assumed to be infinite.

The useful life and residual value of an asset is reviewed at least at each financial year-end. The effect from a change in the estimated useful life of an asset is recognized in profit or loss in the current period and future periods.

2.1. Summary of Group's Significant Accounting Policies (continued)

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to the recoverable amount, which is the higher of an asset's net selling price and value in use, recognizing the difference in profit or loss. Review for impairment is carried out at each reporting date. For the purposes of assessing impairment, assets are grouped at the lowest level, for which there are separately identifiable cash inflows.

Any profit or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the profit or loss statement in the year the item is derecognised.

Investments in leased assets are capitalised and amortised within the shortest period between the lease period or useful life of the completed improvements.

Purchase costs of property, plant and equipment includes expenditure that is directly attributable to the acquisition of the items. Interest costs on borrowings to finance the construction of property, plant and equipment and other operating costs directly attributable to the construction of property, plant and equipment (costs of own labour, materials and other costs) are capitalized as part of the cost of the asset during the period that is required to complete and prepare the property for its intended use.

2.1. Summary of Group's Significant Accounting Policies (continued)

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred

(g) Financial instruments

Financial assets and financial liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

(h) Financial assets

Group's assets include trade receivables and cash and cash equivalents. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

(i) Classification of financial assets

Debt instruments that meet the following conditions are measured subsequently at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

Purchase or selling of financial assets, the assets of which in accordance with the regulations or market conventions should be transferred in due course (regular transactions) are recognised on the date of transaction, i.e., on the date, when the Group undertakes to purchase or sell the asset.

2.1. Summary of Group's Significant Accounting Policies (continued)

(ii) Subsequent measurement

After the initial measurement, financial assets, except for the assets recognized at fair value, are measured at the amortised cost by applying effective interest rate method less impairment. Amortised cost is calculated taking into account the purchase discount or bonus, as well as fees or costs, which form integral part of the effective interest rate.

(iii) Derecognition

A financial asset is derecognized if:

- the contractual rights to the cash flows from the financial asset expire;
- the Group retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay cash flows without material delay to a third party based on and earlier arrangement without any profit arising
- the Group transfers the contractual rights to receive the cash flows of the and either (a) it transfers substantially all the risks and rewards of ownership of the financial asset to a third party, or (b) it neither transfers no retains substantially all the risks and rewards of ownership of these assets but has transferred control over the item of financial asset.

If the Group transfers the contractual rights to receive cash flows from the respective financial assets but does not transfer nor retains the risks and rewards, nor transfers control over the respective financial asset, the asset continues to be recognized to the extent of the Group's continuing involvement. When the Group's continuing involvement takes the form of guaranteeing the transferred asset, the extent of the Group's continued involvement is the lower of the amount of the asset and the maximum amount of the consideration received that the Group may be required to repay.

(iv) Impairment of financial assets

The Group assess on a forward-looking basis the expected credit losses ("ECL") associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. The measurement of ECL reflects:

- an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes,
- time value of money and
- all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

For trade receivables and accrued income without a significant financing component, the Group applies a simplified approach permitted by IFRS 9 and measures the allowance for impairment losses at expected lifetime credit losses from initial recognition of the receivables.

The Group determines the expected credit losses on these items by using a provision matrix, estimated based on historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions. Accordingly, the credit risk profile of these assets is presented based on their past due status in terms of the provision matrix.

As individual assessment is not possible due to the large number of individual balances, only the significant debtors are assessed individually. Receivables that are not individually assessed for impairment are classified into groups of receivables based on days overdue and are collectively assessed for impairment.

(i) Financial liabilities

(i) Initial recognition and measurement

The Group's financial liabilities consist of accounts payable to suppliers and contractors, loans with interest rate and other liabilities.

Financial liabilities have been presented as financial liabilities assessed in amortised cost within the framework of IFRS. Group determines classification of financial liabilities at the moment of initial recognition thereof. All the financial liabilities are initially presented in the fair value, plus directly attributable transaction costs.

2.1. Summary of Group's Significant Accounting Policies (continued)

(ii) *Later measurement*

After the initial recognition, accounts payable to suppliers and contractors, loans with interest rate and other liabilities are assessed accordingly in the amortised cost by applying effective interest rate method. Profit or losses are recognised in the profit or loss statement at the moment, when financial liabilities are derecognised, as well as by applying effective interest rate amortisation process.

Amortised cost is calculated taking into account the purchase discount or bonus, as well as fees or costs, which form integral part of the effective interest rate. Effective interest rate amortisation has been included in the profit or loss item "financing costs".

(iii) *Derecognition*

A financial liability is derecognized, if the obligation specified in the contract is discharged or cancelled or expired.

Where there has been an exchange between an existing borrower and lender of debt instruments with substantially different terms, or there has been a substantial modification of the terms of an existing financial liability, this transaction is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The difference between the respective carrying amounts is recognized in consolidated statement of comprehensive income.

(iv) *Mutual offsetting of financial instruments*

Financial assets and liabilities are offset and net amount is presented in the statement on financial position only in case of valid legal rights to perform mutual offsetting and recognise the amounts, and there is intent to perform net settlements or sell the asset and settle the liabilities at the same time.

(j) *Leases*

The Group has applied IFRS 16 using the cumulative catch-up approach and therefore comparative information has not been restated and is presented under IAS 17. The details of accounting policies under both IAS 17 and IFRS 16 are presented separately below.

Policies applicable from 1 January 2019

The Group as a lessee

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the lessee uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

2.1. Summary of Group's Significant Accounting Policies (continued)

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the consolidated statement of financial position.

The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy (not part of this Appendix).

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in 'Other expenses' in profit or loss (see Note 31).

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group has not used this practical expedient. For a contracts that contain a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group as lessor

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

When the Group is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

2.1. Summary of Group's Significant Accounting Policies (continued)

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

When a contract includes lease and non-lease components, the Group applies IFRS 15 to allocate the consideration under the contract to each component.

Policies applicable prior to 1 January 2019.

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as a lessee

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Rentals payable under operating leases were charged to income on a straight-line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed. Contingent rentals arising under operating leases were recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The Group as a lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

(k) Inventories

Inventories are stated at the lower of cost and net realizable value. Costs incurred in bringing the inventories to their present location and condition is measured for as follows:

- consumables and finished goods are measured at cost of purchase applying "first in first out" (FIFO) method;
- net realizable value is the estimated selling price in the ordinary course of business, less all estimated costs of completion and costs necessary to make the sale. Net realizable value is stated as cost less provisions.

(l) Contingencies

Contingent liabilities are not recognized in the consolidated financial statements.

Contingent liabilities are disclosed in Note 41. Contingent liabilities are not recognised as liabilities unless the possibility of an outflow of resources is sufficiently reasoned. A contingent asset is not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits related to the transaction will reach the Group, is sufficiently probable.

(m) Employees' benefits

Short-term employee benefits are recognized as a current expense in the period when employees render services. These include salaries and wages, social security contributions, bonuses and other benefits.

2.1. Summary of Group's Significant Accounting Policies (continued)**(n) Corporate income tax and deferred corporate income tax**

The corporate income tax consists of the income tax calculated for the reporting year and deferred income tax.

Current tax

Based on the new Corporate Income tax law of the Republic of Latvia announced in 2017, starting from 1 January 2018 corporate income tax is applicable to distributed profits and several expenses that would be treated as profit distribution. In case of reinvestment of profit, corporate income tax shall not be applied. The applicable corporate income tax rate has increased from the 15% to 20%, or 20/80 of net expense. Corporate income tax on dividends is recognized in the statement of profit or loss as expense in the reporting period when respective dividends are declared, while, as regards other deemed profit items, at the time when expense is incurred in the reporting year.

Deferred tax

In accordance with International Accounting Standard No 12 "Income Taxes" requirements, in cases where income tax is payable at a higher or lower rate, depending on whether the profit is distributed, the current and deferred tax assets and liabilities are measured at the tax rate applicable to undistributed profits. In Latvia the applicable rate for undistributed profits is 0%.

As a Parent controls the dividend policy of its subsidiaries, it is able to control the timing of the reversal of temporary differences associated with these investments including the temporary differences arising from undistributed profits. Therefore, in the consolidated financial statements the Group could recognize deferred tax assets and liabilities in the respect of its investments in subsidiaries using tax rate applicable to distributed profits. In cases the parent has determined that subsidiary's profits will not be distributed in the foreseeable future the parent does not recognize a deferred tax assets and liabilities.

(o) Revenue recognition

Revenues are recognised according 15 IFRS, adopted by the Group in 2018, and relates to the revenue recognition and determine principles of reporting useful information to the users of financial system on the nature, amount, time and uncertainty of revenue and cash flow, which originates from a contract with customer. In order to determine, when and in what amount revenue should be recognised, the companies apply five-step model. Model provides for that revenue is recognised when the Group transfers control over the goods or services to a customer and in the amount that the Group expects to receive in exchange of the goods or services. Depending on compliance with particular criteria, revenue is recognized:

- Over time by reflecting the Company's performance indicators; or
- Upon the transfer of the control over the goods or services to the customer.

15 IFRS stipulates principles the Group should comply with to present qualitative and quantitative information, which would provide the users of the financial statements with useful information on the nature, amount, time and uncertainty of revenue and cash flow, which originates from a contract with customer.

15 IFRS provides for that the asset should be recognised as additional costs, which have arisen by acquiring the following contracts with customers and in relation to which recovery of such costs is foreseeable. The currently applied practice of the Group means that there are no contractual costs to be capitalised.

Revenue gained from contracts with customers is recognised on the basis of compliance with the liabilities of customers. Revenue reflect transfer of goods or services to the customers at the amount, which reflects remuneration, which the Group expects to receive in exchange of such goods or services. On the basis of this recognition model, sale is recognised, when services are provided to a customer and if customer has accepted them even if no invoice has been issued therefor, and if there is a possibility that the economic benefits related to the transaction will be directed in the Group. Accounting policies of the main types of income of the Group are described below.

2.1. Summary of Group's Significant Accounting Policies (continued)

| Type of revenue | Nature of contracts and period of implementation of duties | Revenue recognition |
|------------------------------|---|--|
| Provision of services | <p>Key types of the services provided by the Group are: household waste management and waste sorting, construction debris and bulky waste management, clean-up of premises and territories, packaging waste management, environmentally hazardous waste management, seasonal environmental services, organisation of packaging management system etc. services.</p> <p>Using the Executor's waste bins, the Client accumulates dry household waste, as well as removal of sorted recyclable materials.</p> <p>The Executor undertakes to provide regular waste removal according to the schedule agreed in the Contract.</p> <p>The Client undertakes to provide removal of household waste, construction debris, sorted waste, as well as delivery of the necessary waste bins to the construction object.</p> | <p>Revenue generated from the services is recognised during the period of provision of these services according to the requirements and conditions of the contract.</p> <p>Services included in the contract may be separated, and they are priced separately. Revenue from these services is recognised separately - in the period of provision of the service.</p> |
| Sale of goods | <p>The Seller undertakes to sell, but the Purchaser undertakes to purchase and pay for the produced goods in accordance with the order. Risk of destruction, damage or other kind of loss of the Products transfers to the Purchaser at the moment of receipt of Products and mutual signing of the Contract for the International Carriage of Goods by Road (CMR). Property right to the Products transfer from the Seller to the Purchaser at the moment, when full payment is made.</p> | <p>Revenue from the selling of goods are recognised at the moment of transfer of control over the goods concerned, which is usually the moment, when the Group has sold or supplied goods to the client, the client has accepted the goods, and recovery of debt of the relevant debtor is justified.</p> |
| Interest income | - | <p>Interest income or costs of all financial instruments, which have been accounted in the depreciated purchase value, are accounted by applying the actual interest rate, namely, the rate, which actually discounts the estimated future cash revenue throughout the period of the useful utilisation of the financial instrument or - depending on circumstances - within shorter period of time to the accounting value of the respective financial asset or financial condition of liabilities. Interest income from time deposits and cash balances are classified as financial revenue.</p> |
| Other income | - | <p>Other revenue from provision of services is recognised during the period of provision thereof. Other revenue from selling of materials is recognised, when the purchaser has accepted them.</p> |

(p) Dividends

Dividends are recognised in the consolidated financial statements of the Group in the period in which they are approved by the Group's shareholders and the shareholder's right to receive payment has been established.

(q) Subsequent events

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

2.1. Summary of Group's Significant Accounting Policies (continued)**(r) Determination of fair value**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits from the asset's highest and best use or by selling it to another market participant that would utilise the asset in its highest and best use. The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Information to be included in the Annex of certain Group's accounting policy and consolidated financial statements require determination of fair value of financial and non-financial assets and liabilities

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

- Level 1 - Quoted (unadjusted) market prices in active markets for respective assets or liabilities;
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

When applicable, further information about the assumptions made in determining fair values is disclosed in the consolidated financial statements specific to that asset or liability.

The carrying value of the Group's current financial assets and liabilities is assumed to approximate to their fair value. Fair value of the remaining financial instruments is estimated by discounting the expected future cash flows to net present values using appropriate market interest rates available at the end of the reporting period. The Group's interest-bearing liabilities are subject to the market rates, therefore, carrying amounts are considered as the fair value thereof.

(s) Government grants

Grants are recognised at the moment, when the Group has sufficient assurance that the Group will be able to comply with the conditions related to them and the grants will be received.

Grants are disclosed in the profit or loss in the period, when the Group recognises in expenses the costs, which are compensated from the received grants. Thus, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire long-term assets are recognized as deferred income in the consolidated statement of financial position and recognised in profit or loss on a systematic and rational basis over the useful lives of the related assets.

(t) Factoring

Factoring is the crediting of current assets against receivables. Proceeds received in accordance with factoring agreements are recognized as prepayments from customers when the Group or Parent Company remains exposed to credit risk associated with the respective receivable. The Group derecognises financial asset if it transfers substantially all of the risks and rewards of ownership, the balance of the related debtor is reduced accordingly.

(u) Current versus non-current classification

The Group presents assets and liabilities in the statement of financial position based on current / non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting period, or

2.1. Summary of Group's Significant Accounting Policies (continued)

- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.
 - All other assets are classified as non-current.
- A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.
- The Group classifies all other liabilities as non-current.

2.2. Changes in Accounting Policies

Impact of initial application of IFRS 16 Leases

In 2019 the Group has applied IFRS 16 Leases (as issued by the IASB in January 2016) that is effective for annual periods that begin on or after 1 January 2019.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets when such recognition exemptions are adopted. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new requirements are described in Note 2.1. The impact of the adoption of IFRS 16 on the Group's consolidated financial statements is described below.

The date of initial application of IFRS 16 for the Group is 1 January 2019.

The Group has applied IFRS 16 using the cumulative catch-up approach which:

- requires the Group to recognise the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings at the date of initial application.
- does not permit restatement of comparatives, which continue to be presented under IAS 17 and IFRIC 4.

(a) Impact of the new definition of a lease

The Group has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those leases entered or changed before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in IAS 17 and IFRIC 4.

The Group applies the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or changed on or after 1 January 2019 (whether it is a lessor or a lessee in the lease contract). In preparation for the first-time application of IFRS 16, the Group has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not significantly change the scope of contracts that meet the definition of a lease for the Group.

(b) Impact on Lessee Accounting

(i) Former operating leases

IFRS 16 changes how the Group accounts for leases previously classified as operating leases under IAS 17, which were off balance sheet.

Applying IFRS 16, for all leases (except as noted below), the Group:

- (a) recognises right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments, with the right-of-use asset adjusted by the amount of any prepaid or accrued lease payments in accordance with IFRS 16:C8(b)(ii);
- (b) recognises depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss;
- (c) separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within financing activities) in the consolidated statement of cash flows.

2.2. Changes in Accounting Policies (continued)

Lease incentives (e.g. rent free period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive, amortised as a reduction of rental expenses on a straight line basis.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (which includes tablets and personal computers, small items of office furniture and telephones), the Group has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within 'other expenses' in profit or loss.

The Group has used the following practical expedients when applying the cumulative catch-up approach to leases previously classified as operating leases applying IAS 17.

- The Group has applied a single discount rate to a portfolio of leases with reasonably similar characteristics.
- The Group has adjusted the right-of-use asset at the date of initial application by the amount of provision for onerous leases recognised under IAS 37 in the statement of financial position immediately before the date of initial application as an alternative to performing an impairment review.
- The Group has elected not to recognise right-of-use assets and lease liabilities to leases for which the lease term ends within 12 months of the date of initial application.
- The Group has excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application.
- The Group has used hindsight when determining the lease term when the contract contains options to extend or terminate the lease.

(ii) Former finance leases

For leases that were classified as finance leases applying IAS 17, the carrying amount of the leased assets and obligations under finance leases measured applying IAS 17 immediately before the date of initial application is reclassified to right-of-use assets and lease liabilities respectively without any adjustments, except in cases where the Group has elected to apply the low-value lease recognition exemption.

The right-of-use asset and the lease liability are accounted for applying IFRS 16 from 1 January 2019.

(c) Impact on Lessor Accounting

IFRS 16 does not change substantially how a lessor accounts for leases. Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently.

However, IFRS 16 has changed and expanded the disclosures required, in particular regarding how a lessor manages the risks arising from its residual interest in leased assets.

Under IFRS 16, an intermediate lessor accounts for the head lease and the sublease as two separate contracts. The intermediate lessor is required to classify the sublease as a finance or operating lease by reference to the right-of-use asset arising from the head lease (and not by reference to the underlying asset as was the case under IAS 17).

Because of this change, the Group has reclassified certain of its operating sublease agreements as finance leases and accounted for them as new finance leases entered into at the date of initial application. As required by IFRS 9, an allowance for expected credit losses has been recognised on the finance lease receivables.

(d) Financial impact of initial application of IFRS 16

The weighted average lessees incremental borrowing rate applied to lease liabilities recognised in the statement of financial position on 1 January 2019 is 2%.

The following table shows the operating lease commitments disclosed applying IAS 17 at 31 December 2018, discounted using the incremental borrowing rate at the date of initial application and the lease liabilities recognised in the statement of financial position at the date of initial application.

| | EUR |
|---|-----------|
| Operating lease commitments at 31 December 2018 | 4 843 683 |
| Short-term leases and leases of low-value assets | (646) |
| Effect of discounting the above amounts | (334 702) |
| Finance lease liabilities recognised under IAS 17 at 31 December 2018 | 4 508 335 |
| Lease liabilities recognised at 1 January 2019 | 4 508 335 |

3. Net turnover

| | <u>2020</u> | <u>2019</u> |
|---|--------------------------|--------------------------|
| Income from processing of recyclable raw materials | 40 598 440 | 42 273 464 |
| Income from waste management | 21 799 168 | 17 511 304 |
| Income from organisation of packaging management system | 9 354 673 | 8 675 948 |
| Income from sorting and sale of recyclables | 2 875 481 | 1 626 335 |
| Other income | 325 711 | 535 284 |
| Total | <u>74 953 473</u> | <u>70 622 335</u> |

Income by geographical markets are distributed as follows:

| | <u>2020</u> | <u>2019</u> |
|---|--------------------------|--------------------------|
| Other Member States of the European Union | 39 214 774 | 42 016 232 |
| Republic of Latvia | 32 732 580 | 26 877 782 |
| Outside the Member States of the European Union | 3 006 119 | 1 728 321 |
| Total | <u>74 953 473</u> | <u>70 622 335</u> |

4. Cost of sales

| | <u>2020</u> | <u>2019</u> |
|--|--------------------------|--------------------------|
| Raw materials and other material costs | 25 025 491 | 26 178 107 |
| Remuneration for work* | 9 452 301 | 7 819 396 |
| Waste utilization costs | 8 112 429 | 6 495 427 |
| Depreciation of property, plant and equipment and intangible investments | 6 112 556 | 5 359 367 |
| Costs of outsourced services | 3 784 162 | 2 852 938 |
| Cost of production energy and other resources | 3 578 540 | 3 540 559 |
| Transport costs | 2 600 122 | 2 676 405 |
| State mandatory social insurance contributions* | 2 267 720 | 1 876 543 |
| Professional services costs | 485 010 | 209 963 |
| Lease of industrial premises and related costs | 299 995 | 127 769 |
| Insurance costs | 25 016 | 51 865 |
| Other production costs | 488 521 | 495 611 |
| Total | <u>62 231 863</u> | <u>57 683 950</u> |

*See Note 13

5. Selling and distribution expenses

| | <u>2020</u> | <u>2019</u> |
|--|-------------------------|-------------------------|
| Transport costs | 2 709 019 | 2 059 667 |
| Remuneration for work* | 786 213 | 213 718 |
| Advertising, marketing and public relations costs | 303 417 | 369 823 |
| State mandatory social insurance contributions* | 189 400 | 51 485 |
| Intermediary services costs | 114 599 | 116 146 |
| Factoring commission expenses | 93 735 | 91 137 |
| Postal services expenses | 22 935 | 16 337 |
| Depreciation of property, plant and equipment and intangible investments | 12 126 | - |
| Write-off of bad debts | 3 397 | 52 293 |
| Other sales costs | 187 646 | 89 933 |
| Total | <u>4 422 487</u> | <u>3 060 539</u> |

*See Note 13

6. Administrative expenses

| | <u>2020</u> | <u>2019</u> |
|--|-------------|-------------|
| Remuneration for work* | 2 594 867 | 3 023 016 |
| State mandatory social insurance contributions* | 615 549 | 720 711 |
| Professional services costs | 560 067 | 726 168 |
| Depreciation of property, plant and equipment and intangible investments | 378 517 | 242 752 |
| Communications services expenses | 146 167 | 116 924 |
| Costs of legal services | 145 680 | 374 485 |
| Annual report audit costs | 123 308 | 135 165 |
| Lease of premises and office maintenance expenses | 118 389 | 148 290 |
| Transport costs | 112 815 | 207 929 |
| Insurance costs | 103 946 | 52 610 |
| Employee training costs | 47 862 | 77 203 |

6. Administrative expenses (continued)

| | | |
|---------------------------------------|------------------|-----------------|
| Representation costs | 32 059 | 102 662 |
| Monitoring fee of financial resources | 30 873 | 49 269 |
| Bank commission fee | 26 256 | 28 229 |
| Business trip expenses | 14 762 | 98 070 |
| Other administrative expenses | 176 631 | 360 44 |
| Total | 5 227 748 | 6 463 92 |

*See Note 13

7. Other operating income

| | 2020 | 2019 |
|---|------------------|----------------|
| Revenue from external co-financing* | 730 634 | 334 198 |
| Net profit from selling property, plant and equipment | 253 420 | - |
| Revenue from lease of real estate | 55 297 | 44 080 |
| Other revenue** | 609 858 | 486 415 |
| Total | 1 649 209 | 864 693 |

*The Group's secondary raw material recycling companies received support in the amount of EUR 388 thousand from the Investment and Development Agency of Latvia for the remuneration of exporting companies for overcoming aftermath of Covid-19 crisis.

**Increase in Other revenue in 2020 mainly relates to mandatory procurement component (obligātā iepirkumu komponente - OIK in latvian) repayment in amount of EUR 53 thousand and insurance compensation in amount of EUR 411 thousand.

8. Other operating expenses

| | 2020 | 2019 |
|--|------------------|----------------|
| Impairment/write off of goodwill (See Note 15) | 2 870 000 | 5 489 |
| Non-business expenses | 501 211 | 234 740 |
| Impairment of fixed assets | 281 212 | - |
| Fines | 51 479 | 28 735 |
| Real estate tax | 18 555 | 19 648 |
| Depreciation of property, plant and equipment and intangible investments | 18 087 | 6 029 |
| Net losses from fluctuations of foreign currency rates | 10 077 | 10 137 |
| Donations | 300 | 3 500 |
| Net losses from selling property, plant and equipment | - | 107 231 |
| Other costs | 277 361 | 185 857 |
| Total | 4 028 282 | 601 366 |

9. Finance income

| | 2020 | 2019 |
|---|---------------|---------------|
| Profit from changes in fair value of the derivative financial instruments | 17 713 | 39 442 |
| Interest income for loans | 12 970 | 9 034 |
| Total | 30 683 | 48 476 |

10. Finance costs

| | 2020 | 2019 |
|--|----------------|----------------|
| Interest payments for loans from credit institutions | 313 733 | 375 164 |
| Interest on obligations under finance leases* | 132 869 | 113 941 |
| Interest on lease liabilities** | 77 003 | 72 426 |
| Commissions for entry into contracts | 64 186 | 73 510 |
| Total | 587 791 | 635 041 |

*The line indicated is in respect of the finance leases as per previous standard - IAS 17.

**The line indicated is in respect of the application of IFRS 16.

11. Loss by equity method attributable to the associated companies

| | 2020 | 2019 |
|---|-------------|--------------|
| Expenses from participation in the capital of associated companies* | - | 1 320 |
| Total | - | 1 320 |

*See Note 18

12. Deferred corporate income tax

| | 2020 | 2019 |
|----------------------|----------|----------------|
| Deferred tax expense | - | 382 950 |
| Total | - | 382 950 |

Changes of deferred tax:

| | 31.12.2020 | 31.12.2019 |
|---|------------|------------------|
| Deferred corporate income tax liabilities: | | |
| Distributable profit of subsidiaries for dividends* | - | (382 950) |
| Deferred corporate income tax liabilities | - | (382 950) |

*In 2019 the provisions recognised for the deferred corporate income tax in the amount of EUR 382 950 in accordance with IAS 12 Income taxes, applying the rate of 20% laid down in the tax regulations of the Republic of Latvia in respect of the profit generated by subsidiaries. Considering existing dividend policy introduced by the shareholders in 2020 it is estimated that future possible dividend payouts (subject to shareholders approval) in the foreseeable future will be fully covered by already recognised liabilities and the Group will be able to use accumulated retained earnings before year 2018 which could be paid out without incurring corporate income tax payment obligations. No deferred corporate income tax increase recognised in 2020.

Comparison of the actual corporate income tax with the theoretically calculated one:

| | 31.12.2020 | 31.12.2019 |
|--|------------|----------------|
| Profit before tax | 108 367 | 2 920 930 |
| Theoretically calculated corporate income tax applying 20% rate | 21 673 | 584 186 |
| Impact of the share of profit, which is not to be appropriated in the foreseeable future | 977 659 | (62 979) |
| Impact caused by the losses by group companies | (999 332) | (138 257) |
| Corporate income tax expense | - | 382 950 |

Corporate income tax is reflected in the following items of consolidated financial statements:

| | | |
|--------------------------|--------------------|--------------------|
| Assets: | 2020 | 2019 |
| Corporate income tax | 3 047 | 65 388 |
| Total | 3 047 | 65 388 |
| Liabilities: | | |
| Corporate income tax | (25 196) | (54 296) |
| Deferred tax liabilities | (978 355) | (978 355) |
| Total | (1 003 551) | (1 032 651) |

13. Remuneration for work and number of employees

| | 2020 | 2019 |
|--|-------------------|-------------------|
| Remuneration for work* | 12 833 381 | 11 056 130 |
| State mandatory social insurance contributions | 3 072 669 | 2 648 739 |
| Total | 15 906 050 | 13 704 869 |

*Remuneration for work costs have grown by 16% in 2020, which is mainly related to increase in the number of employees due to additional production capacities, as well as increase of the average wage.

Including remuneration for work paid to the top management, board and council officials:

| | 2020 | 2019 |
|--|----------------|----------------|
| Remuneration for work | 615 959 | 363 948 |
| State mandatory social insurance contributions | 150 415 | 87 199 |
| Total | 766 374 | 451 147 |
| Average number of employees in the reporting year | 863 | 831 |

14. Intangible investments

| | Licences, trade marks and other intangible investments | Prepayments for intangible investments | Licences, trade marks and other intangible investments total |
|-----------------------------------|--|--|--|
| Acquisition value | | | |
| 31.12.2018 | 519 551 | 70 488 | 590 039 |
| Acquired | 206 757 | - | 206 757 |
| Liquidation | (3 153) | (64 948) | (68 101) |
| 31.12.2019 | 723 155 | 5 540 | 728 695 |
| Acquired | 283 982 | 213 | 284 195 |
| Liquidation | (67 872) | - | (67 872) |
| 31.12.2020 | 939 265 | 5 753 | 945 018 |
| Accumulated depreciation | | | |
| 31.12.2018 | 457 139 | - | 457 139 |
| Calculated | 48 569 | - | 48 569 |
| Amortisation of liquidated assets | (3 153) | - | (3 153) |
| 31.12.2019 | 502 555 | - | 502 555 |
| Calculated | 133 608 | - | 133 608 |
| Amortisation of liquidated assets | (52 587) | - | (52 587) |
| 31.12.2020 | 583 576 | - | 583 576 |
| Balance sheet value | | | |
| 31.12.2019 | 220 600 | 5 540 | 226 140 |
| 31.12.2020 | 355 689 | 5 753 | 361 442 |

15. Goodwill

| | 2020 | 2019 |
|---|-------------------|-------------------|
| Balance at the beginning of the reporting year | 35 221 102 | 35 226 591 |
| Impairment/write off of goodwill | (2 870 000) | (5 489) |
| Balance on the reporting date | 32 351 102 | 35 221 102 |
| including | | |
| <i>Recycling of raw materials</i> | <i>16 737 084</i> | <i>19 607 084</i> |
| <i>Waste management</i> | <i>12 745 980</i> | <i>12 745 980</i> |
| <i>Organisation of packaging management system</i> | <i>2 868 038</i> | <i>2 868 038</i> |

Goodwill of the Group is determined as difference between the acquisition value of the companies purchased during the previous reporting periods and value of net assets, value of participation of minority shareholders and the minority shareholding before the purchase. At the end of each financial period, possible impairment in the asset value is assessed, and the Group determines the recoverable amount of the relevant cash-generating unit (CGU) to which goodwill has been allocated. The Group considers as CGU the subsidiaries to which goodwill has been allocated. Goodwill is accounted by the acquisition costs thereof minus the accumulated losses due to impairment in value.

Goodwill generated by the purchased companies is reflected by segments of the economic activity - Recycling (SIA "Nordic Plast" and AS "PET Baltija"), Waste management (SIA "Eko Kurzeme", SIA "Eco Baltia Vide", Siguldas P SIA "Jumis", Organisation of packaging management system (AS "Latvijas Zaļais punkts").

Assessment of recoverable value

The Group management verified recoverability of intangible values, as well as value of property, plant and equipment and intangible investments. Recoverable value was determined by applying the income approach, which is based on the assumption that the company's current value is closely related to the future income to be generated by the Group's companies.

15. Goodwill (continued)

Calculation of value is based on several assumptions:

- Cash flow forecast is prepared on the basis of the management forecasts for a period not exceeding five years, with a terminal value estimate at the end of 2025.
- Income and expenses are forecast on the basis of actual performance indicators for the last three years, taking into account changes in the service contract pipeline, operational volume, prices, and planned development trends in the relevant sectors.
- In order to calculate current value of the company, the Group's management applied discount rate of 9.6% to all companies (weighed average cost of capital).
- Terminal value is estimated based on the multiples approach and Gordon growth model in perpetuity. For the waste management entities, only the former is used (assuming EV/EBITDA of 5.5x), while for NPL and PTB, both methods used with 75%/25% respective weights (assuming EV/EBITDA of 5.0x for the multiples approach, and 2% perpetual growth rate of cash flows for the Gordon growth model, corresponding to the average non-current growth rates in the economy).

For 2020, impairment in the amount of EUR 2.87 million has been recognised for one of the Group's subsidiary in recycling segment.

Results of sensitivity analysis:

An increase in discount rate by 1% or decrease in terminal equity value/EBITDA 8%, or deviation from the baseline in operating expenses (energy, personnel, waste disposal), accordingly by 11%, 2% and 3% will result in an impairment of SIA "Eko Kurzeme" (company in waste management segment) goodwill.

An increase in discount rate by 2% or decrease in terminal equity value/EBITDA 52%, or deviation from the baseline in operating expenses (energy and personnel), accordingly by 33%, and 16% will result in an impairment of SIA "Nordic Plast" (company in recycling in raw materials segment) goodwill

16. Property, plant and equipment

| | Land, buildings and constructions | Non-current investments in leased property, plant and equipment | Equipment and machinery | Other property, plant and equipment, and inventory | Construction in progress | Payments on account for property, plant and equipment | Total |
|---|---|--|-------------------------------|---|-----------------------------|---|-------------------|
| Acquisition value | | | | | | | |
| 31.12.2018 | 2 916 648 | 2 425 633 | 22 802 602 | 15 251 399 | 977 066 | 244 348 | 44 617 696 |
| Acquired | 70 434 | 166 548 | 935 197 | 2 356 137 | 179 029 | 304 954 | 4 012 299 |
| Reclassified | - | 7 736 | 641 660 | 237 095 | (665 040) | (221 451) | - |
| Excluded | - | (42 779) | (100 781) | (1 087 755) | - | - | (1 231 315) |
| Adjustment for change in accounting policy, see note 2.2.* | - | - | (2 910 120) | (4 384 204) | - | - | (7 294 324) |
| 31.12.2019 | 2 987 082 | 2 557 138 | 21 368 558 | 12 372 672 | 491 055 | 327 851 | 40 104 356 |
| Acquired | 69 607 | 329 569 | 2 412 494 | 2 154 762 | 93 312 | 394 260 | 5 454 004 |
| Reclassified | - | 5 751 | 28 871 | 57 246 | (265 935) | (88 120) | (262 187) |
| Excluded | - | (107 510) | (912 053) | (1 393 634) | - | - | (2 413 197) |
| Impairment | (75 000) | - | (206 212) | - | - | - | (281 212) |
| Adjustment for change in accounting policy, see note 2.2.* | - | - | (84 260) | - | - | - | (84 260) |
| 31.12.2020 | 2 981 689 | 2 784 948 | 22 607 398 | 13 191 046 | 318 432 | 633 991 | 42 517 504 |
| Accrued depreciation | | | | | | | |
| 31.12.2018 | 353 009 | 1 520 613 | 10 725 747 | 10 299 354 | - | - | 22 898 723 |
| Calculated | 66 054 | 334 908 | 1 600 686 | 1 003 905 | - | - | 3 005 553 |
| Excluded | - | (42 779) | (37 756) | (992 967) | - | - | (1 073 502) |
| Adjustment for change in accounting policy, see note 2.2.* | - | - | (666 940) | (1 279 207) | - | - | (1 946 147) |
| 31.12.2019 | 419 063 | 1 812 742 | 11 621 737 | 9 031 085 | - | - | 22 884 627 |
| Calculated | 73 773 | 399 223 | 1 521 500 | 1 285 193 | - | - | 3 279 689 |
| Excluded | - | (88 960) | (86 249) | (1 269 435) | - | - | (1 444 644) |
| Adjustment for change in accounting policy, see note 2.2.* | - | - | (19 789) | - | - | - | (19 789) |
| 31.12.2020 | 492 836 | 2 123 005 | 13 037 199 | 9 046 843 | - | - | 24 699 883 |
| Balance sheet value | | | | | | | |
| 31.12.2019 | 2 568 019 | 744 396 | 9 746 821 | 3 341 587 | 491 055 | 327 851 | 17 219 729 |
| 31.12.2020 | 2 488 853 | 661 943 | 9 570 199 | 4 144 203 | 318 432 | 633 991 | 17 817 621 |

* As at 31 December 2018, equipment and machinery and other inventory included the following amounts where the Group was a lessee under finance leases. From 2019 leased assets are presented as a separate line item in the balance sheet, see "Right-of-use assets". Refer to note 2.2. for details about the changes in accounting policy.

16. Property, plant and equipment (continued)

Right-of-use assets*

| | Land, buildings and constructions | Equipment and machinery | Other property, plant and equipment, and inventory | Total |
|---|-----------------------------------|-------------------------|--|-------------------|
| Cost | | | | |
| 01.01.2019 | 4 321 352 | - | 186 983 | 4 508 335 |
| Adjustment for change in accounting policy, see note 2.2. | - | 2 910 120 | 4 384 204 | 7 294 324 |
| Additions | 542 796 | 21 434 | 1 814 262 | 2 378 492 |
| Excluded | - | - | (51 998) | (51 998) |
| 31.12.2019 | 4 864 148 | 2 931 554 | 6 333 451 | 14 129 153 |
| Adjustment for change in accounting policy, see note 2.2. | - | 84 260 | - | 84 260 |
| Charge for the year | 274 334 | 1 371 911 | 3 328 069 | 4 974 314 |
| Excluded | - | (2 426 674) | (1 147 574) | (3 574 248) |
| 31.12.2020 | 5 138 482 | 1 961 051 | 8 513 946 | 15 613 479 |
| Accumulated depreciation | | | | |
| 01.01.2019 | - | - | - | - |
| Adjustment for change in accounting policy, see note 2.2. | - | 666 940 | 1 279 207 | 1 946 147 |
| Charge for the year | 1 192 052 | 367 915 | 994 059 | 2 554 026 |
| Excluded | - | - | (40 732) | (40 732) |
| 31.12.2019 | 1 192 052 | 1 034 855 | 2 232 534 | 4 459 441 |
| Adjustment for change in accounting policy, see note 2.2. | - | 19 789 | - | 19 789 |
| Charge for the year | 1 345 876 | 559 757 | 1 202 356 | 3 107 989 |
| Excluded | - | (1 084 821) | (607 042) | (1 691 863) |
| 31.12.2020 | 2 537 928 | 529 580 | 2 827 848 | 5 895 356 |
| Balance sheet value | | | | |
| 31.12.2019 | 3 672 096 | 1 896 699 | 4 100 917 | 9 669 712 |
| 31.12.2020 | 2 600 554 | 1 431 471 | 5 686 098 | 9 718 123 |

*In 2019, the Group only recognised lease assets and lease liabilities in relation to leases that were classified as 'obligation under finance leases' under IAS 17 Leases. The assets were presented in property, plant and equipment and the liabilities as part of the Group's borrowings. For adjustments recognised on adoption of IFRS 16 on 1 January 2019, please refer to note 2.2.

The Group leases several assets including manufacturing technique, machines, equipment. The average lease term is 5 years (2019: 5 years).

The Group has options to purchase certain manufacturing equipment for a nominal amount at the end of the lease term. The Group's obligations are secured by the lessors' title to the leased assets for such leases.

The maturity analysis of lease liabilities is presented in note 29.

Amounts recognized in Statement of comprehensive income

| | 31.12.2020 | 31.12.2019 |
|--|------------------|------------------|
| Depreciation expense on right-of-use assets | 3 139 769 | 2 554 026 |
| Interest expense on lease liabilities | 77 003 | 72 426 |
| Expense relating to short-term leases | 30 744 | 32 406 |
| Expense relating to leases of low value assets | 4 155 | 5 664 |
| Total | 3 251 671 | 2 664 522 |

Depreciation of property, plant and equipment and amortisation of intangible investments

Total depreciation of property, plant and equipment and amortisation of intangible investments calculated within the Group have been included in the following items of profit or loss calculation:

16. Property, plant and equipment (continued)

| | 2020 | 2019 |
|--|------------------|------------------|
| Production cost of goods sold (Note 4) | 6 112 556 | 5 359 367 |
| Administrative expenses (Note 6) | 378 517 | 242 752 |
| Other operating expenses (Note 8) | 18 087 | 6 029 |
| Selling and distribution expenses (Note 5) | 12 126 | - |
| Total | 6 521 286 | 5 608 148 |

Pledged property, plant and equipment

See Note 28

Fully depreciated property, plant and equipment

On 31 December 2020, composition of the Group's property, plant and equipment included assets of the purchase value of EUR 9 319 596 (on 31.12.2019: EUR 8 877 471), which were fully written off in depreciation costs and which are still in active use in the economic activity

17. Other securities and investments

| | 31.12.2020 | 31.12.2019 |
|--|---------------|--------------|
| Investment in "Deposit packaging operator" (13.33%)* | 15 000 | - |
| Investment in "Pro Europe s.p.r.l."** | 6 200 | 6 200 |
| Investment in "CREB" General partnership*** | 100 | 100 |
| Total | 21 300 | 6 300 |

*In August 2020 Group's company JSC (AS) "PET Baltija" became a 13.33% shareholder in "Depozīta Iepakojuma Operators" (DIO). On 14 January 2021, the State Environmental Service has entered into a contract with the DIO for introduction of packaging deposit system in Latvia.

**In 2005, 5% of the acquired capital shares in "Pro Europe s.p.r.l." were registered in the name of the Group company AS "Latvijas Zaļais punkts". Equity of "Pro Europe s.p.r.l." based on latest available data is EUR 157 717, which includes organisations of the movement "Zaļais punkts" ["Green Dot"] of other countries.

** In 2018, the Group's subsidiary SIA "Eco Baltia vide" made a EUR 100 investment in the CREB General Partnership. In February 2021 company is liquidated.

18. Investment in associates

| Public | % | Initial investment | Write off | 31.12.2019 | 31.12.2020 |
|--|----|--------------------|----------------|------------|------------|
| SIA "CREB Rīga", Vietalvas Street 5A, Rīga | 20 | 2 000 | (2 000) | - | - |
| Total | | 2 000 | (2 000) | - | - |

In 2018, "Eco Baltia vide", the Group subsidiary invested EUR 2 000 in the associate SIA "CREB Rīga". Equity of the SIA "CREB Rīga" is EUR 10 000. Equity consists of 10 000 shares, par value of each share is EUR 1. In 2020 the associated company suffered loss in amount of EUR 3 430 (2019: EUR 11 103), therefore Group wrote down all investment in 2019.

19. Inventories

| | 31.12.2020 | 31.12.2019 |
|--|------------------|------------------|
| Raw materials, basic materials and consumables | 4 922 822 | 4 618 912 |
| Finished products and goods for sale | 1 552 754 | 2 064 237 |
| Advance payments for goods | 48 145 | 79 513 |
| Other inventories | 4 581 | - |
| Total | 6 528 302 | 6 762 662 |

All inventories are pledged and used as security of the Group's liabilities (see Note 28).

20. Trade receivables

| | 31.12.2020 | 31.12.2019 |
|---------------------------------------|------------------|------------------|
| Carrying amounts of trade receivables | 5 022 595 | 4 744 480 |
| Allowances for doubtful receivables | (603 889) | (636 163) |
| Total | 4 418 706 | 4 108 317 |

Trade receivables are not secured by pledges or other credit enhancements, which reduce credit risk.

Changes in allowance for doubtful and bad trade receivables:

20. Trade receivables (continued)

| | 2020 | 2019 |
|--|----------|-----------|
| At the beginning of the reporting year | 636 163 | 863 837 |
| Increase of allowances | 46 353 | 162 484 |
| Decrease of allowances | (26 552) | (1 058) |
| Irrecoverable debtor's debts written-off during the year | (52 075) | (389 100) |
| On the reporting date | 603 889 | 636 163 |

Bad debt expense during the reporting period has been accounted in the profit and loss in separate row "Allowances for impairment of loans and receivables".

Analysis of trade receivables on 31 December 2020 and on 31 December 2019:

| | 31.12.2020 | 31.12.2019 |
|-------------------------------|------------------|------------------|
| Repayment term is not expired | 4 071 855 | 3 128 761 |
| Delay up to 30 days | 252 949 | 799 048 |
| Delay of 31-90 days | 89 253 | 174 556 |
| Delay of 91-180 days | 22 874 | 52 060 |
| Delay of 181-365 days | 42 336 | 52 678 |
| Delay exceeding 365 days | 543 328 | 537 377 |
| Total | 5 022 595 | 4 744 480 |

| Impairment allowances – collective | 31.12.2020 | 31.12.2019 |
|------------------------------------|----------------|----------------|
| Repayment term is not expired | 26 847 | 31 917 |
| Delay up to 30 days | 9 580 | 23 430 |
| Delay of 31-90 days | 10 513 | 14 348 |
| Delay of 91-180 days | 5 239 | 9 079 |
| Delay of 181-365 days | 26 511 | 21 634 |
| Delay exceeding 365 days | 252 824 | 280 259 |
| Total | 331 514 | 380 667 |

| Impairment allowances – on individual basis | 31.12.2020 | 31.12.2019 |
|---|----------------|----------------|
| Repayment term is not expired | - | - |
| Delay up to 30 days | - | - |
| Delay of 31-90 days | - | - |
| Delay of 91-180 days | - | - |
| Delay of 181-365 days | - | 12 137 |
| Delay exceeding 365 days | 272 375 | 243 359 |
| Total | 272 375 | 255 496 |

| Impairment allowances – total | 31.12.2020 | 31.12.2019 |
|---|----------------|----------------|
| Repayment term is not expired | 26 847 | 31 917 |
| Delay up to 30 days | 9 580 | 23 430 |
| Delay of 31-90 days | 10 513 | 14 348 |
| Delay of 91-180 days | 5 239 | 9 079 |
| Delay of 181-365 days | 26 511 | 33 771 |
| Delay exceeding 365 days | 525 199 | 523 618 |
| Total | 603 889 | 636 163 |
| Impairment allowances – on individual basis | 272 375 | 255 496 |
| Impairment allowances – collective | 331 514 | 380 667 |

Average repayment term of receivables is 40 days.

21. Other loans

| Non-current loans | Currency | Repayment term: | 31.12.2020 | 31.12.2019 |
|---|----------|-----------------|----------------|----------------|
| Loan with the term over than one year | EUR | 31.12.2022. | 7 300 | 132 000 |
| Total non-current loans | | | 7 300 | 132 000 |
| Current loans | | | | |
| Loan with the term of up to one year | EUR | 31.03.2020. | 190 101 | 190 101 |
| Loan with the term of up to one year | EUR | 11.07.2021. | 142 900 | 6 300 |
| Total current loans | | | 333 001 | 196 401 |
| Allowances for doubtful loans and receivables | EUR | | (190 101) | (190 101) |
| Total current loans | | | 142 900 | 6 300 |
| Accrued interest | EUR | | 71 277 | 58 646 |
| Allowances for doubtful loans and receivables | EUR | | (63 929) | (56 903) |
| Total accrued interest | | | 7 348 | 1 743 |
| Total other loans | | | 157 548 | 140 043 |

Changes in allowance for doubtful loans and receivables:

| | 2020 | 2019 |
|---|----------------|----------------|
| At the beginning of the reporting year | 247 004 | 239 998 |
| Increase of allowance | 7 026 | 7 006 |
| On the reporting date | 254 030 | 247 004 |

Bad debt expense during the reporting period has been accounted in the profit and loss in separate row "Allowances for impairment of loans and receivables".

Security

Loans granted were not secured in as of 31.12.2020 (31.12.2019).

Loan interest rates

On 31 December 2020, loan interest rates were in range of 4% to 6% (on 31.12.2019: from 3.5% to 6%)

22. Other receivables

| | 31.12.2020 | 31.12.2019 |
|--------------------------------|----------------|----------------|
| Value-added tax overpayment | 324 064 | 177 181 |
| Advance payments for suppliers | 180 141 | 52 214 |
| Current guarantee deposits | 80 107 | 81 688 |
| Security | 33 247 | 15 461 |
| Settlement person debts | 9 | 470 |
| Other debtors | 19 910 | 13 127 |
| Total | 637 478 | 340 141 |

23. Prepaid expenses

| Non-current part: | 31.12.2020 | 31.12.2019 |
|-----------------------------|----------------|----------------|
| Other | 11 435 | 8 264 |
| Total | 11 435 | 8 264 |
| Current part: | | |
| Insurance | 76 215 | 55 276 |
| Subscription fee | 12 438 | 22 018 |
| Other | 144 076 | 100 359 |
| Total | 232 729 | 177 653 |
| Total deferred costs | 244 164 | 185 917 |

24. Accrued income

| | <u>31.12.2020</u> | <u>31.12.2019</u> |
|-------------------------------------|-------------------------|-------------------------|
| Contractual assets - accrued income | 2 644 739 | 2 346 845 |
| Total | <u>2 644 739</u> | <u>2 346 845</u> |

Contractual assets mainly include rights to receive remuneration for the provided organisation of packaging management system services, for which invoices have not yet been issued. These rights are recognised in the composition of the current assets by coordinating exact volume of the service with customers and issuing respective invoices.

25. Cash and cash equivalents

| | <u>31.12.2020</u> | <u>31.12.2019</u> |
|---------------------|-------------------------|-------------------------|
| Cash at bank | 3 779 727 | 2 356 346 |
| Cash in hand | 2 696 | 1 615 |
| Cash to be received | 8 | 50 |
| Total | <u>3 782 431</u> | <u>2 358 011</u> |

Cash and cash equivalents by currency profile:

| | <u>31.12.2020</u> | <u>31.12.2019</u> |
|--------------|-------------------------|-------------------------|
| EUR | 3 782 431 | 2 358 011 |
| Total | <u>3 782 431</u> | <u>2 358 011</u> |

Separate Group's companies use Group account services with the AS Luminor Bank Latvian Branch resulting in reduction of use of the granted credit lines by the funds in the Group's accounts, see Note 28 "Loans from credit institutions". Cash in current accounts of the banks is mostly kept in the bank, which has received Baa1 in February 2021 with changing outlook from stable to positive from the international rating agency Moody's (including non-current and current foreign and local currency deposit ratings), thus demonstrating that majority of the Group's funds are held with a bank, which has received good credit rating, and it is expected that the credit institution will be able to comply with all of its financial liabilities on timely basis. Information has been provided in accordance with Moody's rating information, which was publicly available in 2021 and up to the date of signing of these financial statements.

26. Share capital

On 31 December 2020, the paid-in share capital of the Group was EUR 41 707 900 (31.12.2019: EUR 41 707 900), which consists of 417 079 000 shares (31.12.2019: 417 079 000 shares). Par value of each share: EUR 0.10 (31.12.2019: EUR 0.10).

On 30 June 2020 there was a change in Company's shareholder structure where UAB "BSGF Salvus", a subsidiary of the Baltic's largest private investment fund "INVL Baltic Sea Growth Fund", became the largest shareholder (52.81%) of the JSC (AS) "Eco Baltia".

All the shares have equal voting and dividend rights.

| | <u>31.12.2020</u> | <u>31.12.2019</u> |
|-------------------------|-------------------|-------------------|
| Share capital, EUR | 41 707 900 | 41 707 900 |
| Number of shares | 417 079 000 | 417 079 000 |
| Par value of each share | <u>0.10</u> | <u>0.10</u> |

27. Consolidated reserves and non-controlling interests

Consolidated reserves represent negative goodwill, net amount EUR 996 928, where EUR 311 179 resulting from the acquisition of 13.35% shares in the subsidiary AS "Latvijas Zālais punkts" in April 2012. Consolidated reserves also include the result of the acquisition of 52.52% shares in the Group's subsidiary SIA "Eko PET" in February 2013, which resulted in recognition of negative adjustment in the equity of EUR (1 308 107).

The aforementioned transactions involved entities under common control, therefore, the net result of the transactions was reflected in the Group's equity.

Non-controlling interests (NI) on 31 December 2020 and 31 December 2019 was calculated on the basis of the amount of legal shareholding.

On 31 December 2020 and 31 December 2019, non-controlling interests was made by:

- 10% of non-controlling interests in the share capital of the P SIA "Jumis";
- 11.52% of non-controlling interests in the share capital of the AS "Latvijas Zālais punkts";
- 8.97% of non-controlling interests in the share capital of the AS "PET Baltija" (From 21.01.2021 - 5.1%);
- 11.52% of non-controlling interests in the share capital of the SIA "Eko Reverss";
- 10% of non-controlling interests in the share capital of the SIA "Vaania" until 14.12.2020.

27. Consolidated reserves and non-controlling interests (continued)

See below for summary of financial information on each of the Group's subsidiaries, in which there is non-controlling interests..

| 31 December 2020 Percentage NS | PSIA "Jumis" 10% till Dec 2020 | AS "Latvijas Zaļais punkts" 11.52% | AS "PET Baltija" 8.97% | SIA "Eko Reverss" 11.52% | SIA "Vaania" 10% till Dec 2020 | Consoli- dation adjust- ments | Total |
|---|---|--|---------------------------|--------------------------------|--------------------------------------|--|---------------|
| Non-current assets | - | 4 619 515 | 8 787 952 | 3 699 528 | - | - | |
| Current assets | - | 4 191 020 | 7 849 102 | 1 008 227 | - | - | |
| Non-current liabilities | - | (2 714 107) | (3 902 569) | (368 954) | - | - | |
| Current liabilities | - | (1 388 686) | (9 333 834) | (125 477) | - | - | |
| Net assets | - | 4 707 742 | 3 400 651 | 4 213 324 | - | - | |
| Net assets are attributable to NI | - | 542 332 | 305 038 | 485 375 | - | (253 665) | 1 079 080 |
| Revenue | 1 090 460 | 9 370 297 | 35 717 740 | 154 213 | 18 939 | - | |
| Profit for the financial year | 135 548 | 1 275 929 | (923 116) | 52 771 | 4 546 | - | |
| Other comprehensive income | - | - | - | - | - | - | |
| Total income | 135 548 | 1 275 929 | (923 116) | 52 771 | 4 546 | - | |
| Profit is attributable to NI | 13 555 | 146 987 | (82 804) | 6 079 | 455 | 91 | 84 363 |
| Other combined income is attributable to NI | - | - | - | - | - | - | |
| Cash flow from operational activity | 267 400 | 191 537 | 2 569 526 | 56 668 | 67 | - | |
| Cash flow from investing activities | (87 299) | (129 544) | (824 803) | 75 265 | - | - | |
| Cash flow from financing activities | (36 578) | (30 941) | (2 167 149) | (129 528) | - | - | |
| including dividends paid by NI | - | - | - | - | - | - | |
| Cash increase/(decrease), net | 143 523 | 31 052 | (422 426) | 2 405 | 67 | - | |

See below for summary of financial information on each of the Group's subsidiaries, in which there is non-controlling shareholding for the previous reporting year.

| 31 December 2019 Percentage NS | PSIA "Jumis" 10% | AS "Latvijas Zaļais punkts" 11.52% | AS "PET Baltija" 8.97% | SIA "Eko Reverss" 11.52% | SIA "Vaania" 10% | Consoli- dation adjust- ments | Total |
|---|------------------------|--|---------------------------|--------------------------------|---------------------|--|---------------|
| Non-current assets | 320 934 | 4 454 214 | 8 340 019 | 3 832 075 | 28 457 | - | |
| Current assets | 162 449 | 3 891 598 | 9 295 125 | 991 829 | 4 631 | - | |
| Non-current liabilities | (139 248) | (2 700 225) | (3 435 088) | (487 817) | - | - | |
| Current liabilities | (153 670) | (2 213 503) | (9 902 814) | (175 534) | (4 193) | - | |
| Net assets | 190 465 | 3 432 084 | 4 297 242 | 4 160 553 | 28 895 | - | |
| Net assets are attributable to NI | 19 047 | 395 376 | 385 463 | 479 296 | 2 890 | (251 816) | 1 030 256 |
| Revenue | 1 018 304 | 8 711 340 | 37 221 701 | 155 393 | 17 542 | - | |
| Profit for the financial year | 83 306 | 843 010 | 153 973 | (37 355) | (10 869) | - | |
| Other comprehensive income | - | - | - | - | - | - | |
| Total income | 83 306 | 843 010 | 153 973 | (37 355) | (10 869) | - | |
| Profit is attributable to NI | 8 331 | 97 115 | 13 811 | (4 303) | (1 087) | (25 508) | 88 359 |
| Other combined income is attributable to NI | - | - | - | - | - | - | |
| Cash flow from operational activity | 141 042 | 844 547 | 173 058 | 116 948 | (8 301) | - | |
| Cash flow from investing activities | (90 884) | (15 668) | (878 736) | 14 538 | - | - | |
| Cash flow from financing activities | (54 221) | (11 947) | 1 133 812 | (131 552) | - | - | |
| including dividends paid by NI | - | - | 44 300 | - | - | - | |
| Cash increase/(decrease), net | (4 063) | 816 932 | 428 134 | (66) | (8 301) | - | |

28. Loans from credit institutions

| | Currency | 31.12.2020 | 31.12.2019 |
|---|----------|------------------|------------------|
| Non-current loans | | | |
| Luminor Bank AS Latvian Branch (non-current part, repayable within 2-5 years) | EUR | 2 783 366 | 3 605 885 |
| Total | | 2 783 366 | 3 605 885 |
| Non-current loan current part | | | |
| Luminor Bank AS Latvian Branch | EUR | 1 863 494 | 2 459 405 |
| Total | | 1 863 494 | 2 459 405 |
| Loan interest | | | |
| Luminor Bank AS Latvian Branch | EUR | 1 215 | 2 413 |
| Total | | 1 215 | 2 413 |
| Total current loans | | 1 864 709 | 2 461 818 |
| Total loans from credit institutions | | 4 648 075 | 6 067 703 |

Loans interest rates

Within the Group of Eco Baltia, bank loans have been granted to 5 companies by the end of the year - SIA "Eco Baltia grupa", SIA "Eco Baltia vide", SIA "Eko Kurzeme", SIA "Nordic Plast", AS "PET Baltija".

| Company | Currency | Total amount | Repayment term | Interest rate | 31.12.2020 | 31.12.2019 |
|------------------------|----------|--------------|----------------|----------------------------|------------------|------------------|
| SIA "Eco Baltia grupa" | EUR | 14 000 000 | 17.09.2020 | 3 months EURIBOR +4.5% | - | 899 273 |
| SIA "Eco Baltia grupa" | EUR | 7 457 160 | 29.01.2023 | 1 months EURIBOR +3.15% | 2 411 794 | 1 954 713 |
| SIA "Eco Baltia vide" | EUR | 1 456 364 | 30.05.2022 | 1 months EURIBOR +2.5% | 194 674 | 332 090 |
| SIA "Eko Kurzeme" | EUR | 1 155 000 | 29.04.2022 | 1 months EURIBOR +2.5% | 94 795 | 165 892 |
| SIA "Eko Kurzeme" | EUR | 1 152 990 | 30.05.2022 | 3 months EURIBOR +3% | 209 378 | 357 175 |
| AS "PET Baltija" | EUR | 3 528 000 | 30.12.2022 | 1 months EURIBOR +3% | 204 016 | 301 943 |
| AS "PET Baltija" | EUR | 1 470 509 | 31.10.2022 | 3 months EURIBOR +3.15% | 722 126 | 909 892 |
| AS "PET Baltija" | EUR | 1 883 600 | 30.06.2023 | 1 months EURIBOR +3.15% | 568 499 | 764 112 |
| AS "PET Baltija" | EUR | 1 100 000 | 07.02.2020 | 3 months EURIBOR +2.8%, 3% | - | 17 834 |
| SIA "Nordic Plast" | EUR | 1 509 234 | 29.12.2022 | 3 months EURIBOR +3.0% | 241 578 | 362 366 |
| Total | | | | | 4 646 860 | 6 065 290 |

Credit line

On 31 December 2020, the Group's companies had credit line in the amount of EUR 5 856 000 (on 31.12.2019: EUR 5 856 000). All conditions set for the receipt of these credit resources were complied with. Available as at 31.12.2020: EUR 6 309 105 (2019: EUR 6 144 431).

Factoring

In 30.04.2013 the Group has entered into factoring agreements with Luminor Līzings SIA. The management of the Group believes that according to factoring arrangement the Group substantially transfers risks and rewards related to the factored receivables, therefore, it partially derecognises receivables at the moment cash is received from the factor. Amount of the receivables subject to the factoring arrangement amounts to EUR 2 173 828 (31.12.2019: EUR 1 986 826). The maturity of the factoring contracts is 31.05.2021.

Pledges

The Group's companies have received loans from Luminor Bank AS Latvian Branch (former Nordea Bank AB Latvian Branch). Obligations arising from the loan contracts of Luminor Bank are mutually subordinated between all the Group's companies. Pledged assets, capital shares or shares, real estate of the Group's companies for the benefit of Luminor Bank AS Latvian Branch and mutual guarantees, cession contracts for transfer of claims against debtors to the bank for the repayment of the outstanding amounts and secured by assets and capital shares or commercial pledge of shares for the benefit of Nordea Bank AB serve as security of the granted financing. Subject of contract of the pledge of assets is the entire property of the Group's companies as the aggregation of property at the moment of pledging, as well as the future parts of this aggregation of property.

Additionally, the Group's companies use the leasing services provided by Luminor Līzings SIA, as well as issuing of guarantees and letters of credit.

28. Loans from credit institutions (continued)**Covenants**

See Note 39.

Loans movement**Changes arising from the obligations of financing activity**

Changes in the obligations arising from financing activity may be reflected as follows:

| In 2020 | Total liabilities of loans from credit institutions arising from financing activity |
|--|---|
| Liabilities from financing activity on 01.01.2020 | 6 067 703 |
| Received loans | 1 124 184 |
| Repaid loans | (2 542 612) |
| Calculated interest | 238 531 |
| Repaid interest | (239 731) |
| Liabilities from financing activity on 31.12.2020 | 4 648 075 |
| In 2019 | Total liabilities of loans from credit institutions arising from financing activity |
| Liabilities from financing activity on 01.01.2019 | 8 720 613 |
| Received loans | 43 144 |
| Repaid loans | (2 694 043) |
| Calculated interest | 291 941 |
| Repaid interest | (293 952) |
| Liabilities from financing activity on 31.12.2019 | 6 067 703 |

29. (a) Obligation under finance leases

Obligations under finance leases applies to the vehicles, special machinery, containers, production equipment, ventilation systems and other property, plants and equipment purchased by the Group with the initial lease period of 5-7 years. The Group's companies have possibility to purchase the aforementioned assets at the par value thereof at the end of the financial lease term. On 31 December 2020, effective interest rate applied to financial lease agreement was 3 month EURIBOR and added rate between 2.80% and 3.7% (31.12.2019: 3 month EURIBOR + 2,85% to 3.7%).

Maturity terms of financial leasing liabilities are during the period from 2021 to 2025.

Minimum future lease payments within the framework of the financial lease together with the current value of net minimum lease payments have been reflected as follows:

| | 31.12.2020 | | 31.12.2019 | |
|--|------------------|---------------------------|------------------|---------------------------|
| | Minimum payments | Current value of payments | Minimum payments | Current value of payments |
| Within a year | 2 067 781 | 1 937 608 | 1 673 247 | 1 566 108 |
| In a year, but not longer than five years | 3 403 380 | 3 242 963 | 2 553 397 | 2 444 864 |
| Total minimum lease payments | 5 471 161 | 5 180 571 | 4 226 644 | 4 010 972 |
| Financial costs | (290 590) | | (215 672) | |
| Current value of minimum lease payments | 5 180 571 | 5 180 571 | 4 010 972 | 4 010 972 |

The Group does not face a significant liquidity risk with regard to its lease liabilities. Lease liabilities are monitored within the Group's Treasury function.

29. (b) Lease liabilities

| | 31.12.2020 | | 31.12.2019 |
|-------------------|-------------------|----------|-------------------|
| Maturity analysis | | | |
| Year 1 | 954 965 | — | 1 279 826 |
| Year 2 -5 | 1 793 891 | — | 2 565 287 |
| Total | 2 748 856 | = | 3 845 113 |

30. Prepayments received from customers

| | 31.12.2020 | | 31.12.2019 |
|---|-------------------|----------|-------------------|
| Prepayments received for services and goods | 364 117 | — | 195 457 |
| Total | 364 117 | = | 195 457 |

31. Trade payables

| | 31.12.2020 | | 31.12.2019 |
|----------------|-------------------|----------|-------------------|
| Trade payables | 6 450 219 | — | 5 199 298 |
| Total | 6 450 219 | = | 5 199 298 |

Average repayment term of accounts payable is 45 days for foreign companies and 30 days for other suppliers.

32. Taxes payable

| | 31.12.2020 | | 31.12.2019 |
|--|-------------------|----------|-------------------|
| State mandatory social insurance contributions | 686 846 | — | 472 170 |
| Personal income tax | 196 700 | — | 146 425 |
| Value added tax | 99 400 | — | 30 156 |
| Natural resource tax | 6 692 | — | 3 208 |
| Light-duty vehicle tax | 944 | — | 1 507 |
| State business risk duty | 305 | — | 330 |
| Real estate tax | — | — | 261 |
| Total | 990 887 | = | 654 057 |

33. Other payables

| | 31.12.2020 | | 31.12.2019 |
|--------------------------------|-------------------|----------|-------------------|
| Remuneration for work | 671 032 | — | 580 926 |
| Accruals for employees bonuses | 82 502 | — | 191 371 |
| Other | 3 591 | — | 40 681 |
| Total | 757 125 | = | 812 978 |

34. Deferred income

| | 31.12.2020 | | 31.12.2019 |
|--|-------------------|----------|-------------------|
| Non-current deferred income | | | |
| Investment project financing from the Investment and Development Agency of Latvia and other bodies | 1 658 596 | — | 1 984 462 |
| Total | 1 658 596 | | 1 984 462 |
| Current deferred income | | | |
| Investment project financing from the Investment and Development Agency of Latvia and other bodies | 324 162 | — | 322 374 |
| Total | 324 162 | — | 322 374 |
| Total deferred income | 1 982 758 | = | 2 306 836 |

35. Accrued liabilities

| | 31.12.2020 | | 31.12.2019 |
|---|-------------------|----------|-------------------|
| Accrued liabilities for services and goods received * | 1 947 651 | — | 2 037 376 |
| Accrued liabilities for vacation pay reserve | 693 737 | — | 635 553 |
| Total | 2 641 388 | = | 2 672 929 |

* Accrued liabilities includes purchased goods in transit in accordance to INCOTERM terms and conditions in amount of EUR 1 110 045.

36. Derivative financial instruments*

| Liabilities at fair value | 31.12.2020 | 31.12.2019 |
|---------------------------|------------|---------------|
| Interest rate swaps | - | 34 231 |
| Accrued interest | - | 993 |
| Total | - | 35 224 |

*The interest rate swap agreements were terminated on 20 November 2020.

Derivative financial instruments were presented at fair value in the consolidated financial statements on 31.12.2019.

Interest rate swaps

| Company | Currency | Principal as at 31.12.2020 | Principal as at 31.12.2019 | Maturity | Interest rate | 31.12.2020 | 31.12.2019 |
|------------------------|----------|----------------------------|----------------------------|------------|---------------|------------|---------------|
| SIA "Eco Baltia grupa" | EUR | - | 905 846 | 15.09.2020 | 1.5% | - | 7 827 |
| SIA "Eco Baltia grupa" | EUR | - | 918 405 | 30.05.2022 | 0.30% | - | 8 370 |
| SIA "Nordic Plast" | EUR | - | 362 366 | 29.12.2022 | 0.38% | - | 4 168 |
| SIA "Eco Baltia vide" | EUR | - | 332 090 | 30.05.2022 | 0.35% | - | 3 238 |
| SIA "Eko Kurzeme" | EUR | - | 165 891 | 29.04.2022 | 0.35% | - | 1 567 |
| SIA "Eko Kurzeme" | EUR | - | 357 176 | 30.05.2022 | 0.22% | - | 2 673 |
| AS "PET Baltija" | EUR | - | 112 272 | 30.06.2022 | 0.38% | - | 1 101 |
| AS "PET Baltija" | EUR | - | 301 943 | 15.12.2022 | 0.24% | - | 3 117 |
| AS "PET Baltija" | EUR | - | 235 716 | 30.05.2022 | 0.30% | - | 2 148 |
| AS "PET Baltija" | EUR | - | 17 834 | 07.02.2020 | 0.60% | - | 22 |
| Total | | | | | | - | 34 231 |

37. Transactions with related parties

In accordance with the definition included in IAS 24 "Related Party Disclosures" related parties are both legal entities and natural persons related to the Company as follows:

- A person or a close member of that person's family is related to a reporting entity if that person:
 - has control or joint control over the reporting entity;
 - has significant influence over the reporting entity; or
 - is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
- An entity is related to a reporting entity if any of the following conditions applies:
 - The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
 - One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
 - Both entities are joint ventures of the same third party;
 - One entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - The entity is a post-employment defined benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
 - The entity is controlled or jointly controlled by a person identified in (a);
 - A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

Mutual balances and transactions between the Group Parent Company AS "Eco Baltia" and its subsidiaries, which are related companies, are eliminated for consolidation purposes and are not disclosed in this note. In the reporting year, the Group companies were involved in the following transactions with the top management officers and shareholders.

37 (a) Loans to related companies*

* See Note 21.

37 (b) Amounts owed to related companies*

| | 31.12.2020 | 31.12.2019 |
|--------------------------|---------------|---------------|
| Due to related companies | 72 278 | 70 452 |
| Total | 72 278 | 70 452 |

*Balances due to related companies are reported in the balance sheet item "Accounts payable to suppliers and contractors".

37. Transactions with related parties (continued)

37 (c) Services provided and goods sold

| | <u>2020</u> | | <u>2019</u> |
|---|----------------------|--|-------------------|
| Services provided and goods sold to related companies | 24 156 | | 181 |
| Total | <u>24 156</u> | | <u>181</u> |

37 (d) Services received and goods purchased

| | <u>2020</u> | | <u>2019</u> |
|--|-------------------------|--|-----------------------|
| Services received and goods purchased from related companies | 1 198 271 | | 783 829 |
| Total | <u>1 198 271</u> | | <u>783 829</u> |

37 (e) Interest on Loans and borrowings included in the Consolidated statement of comprehensive income

| | <u>2020</u> | | <u>2019</u> |
|--|---------------------|--|---------------------|
| Interest income from related companies | 3 494 | | 7 006 |
| Total | <u>3 494</u> | | <u>7 006</u> |

37 (f) Terms and conditions of transactions with related parties

Outstanding balances as at the year end are unsecured, and settlements are expected to be in cash. There have been no guarantees provided or received for any related party receivables.

37 (g) Information on remuneration of the top management, board and council*

* See Note 13.

38. Financial risk management

In the ordinary course of business, the Group is exposed to a variety of financial risks: foreign currency risk, interest rate risk, credit risk and liquidity risk.

Financial risk management activities are undertaken to support the underlying operating transactions of the Group. The Group companies do not undertake any high risk transactions that would increase exposure to currency or interest rate risks.

Foreign currency risk

Foreign currency risk is a risk of financial loss incurred by the Group companies due to adverse currency fluctuations. This risk arises when financial assets denominated in a foreign currency do not match with financial liabilities in the same currency, thereby leading to open currency positions. The Group has no material financial assets and liabilities denominated in currencies other than the euro. Consequently, the Group's exposure to foreign currency risk was insignificant in the reporting year.

Interest rate risk

The Group is primarily financed from shareholder's equity, operating cash flows and, to a limited extent, from borrowings. Interest rate risk is a risk of financial loss due to adverse interest rate fluctuations. The Group is exposed to interest rate risk mainly through its non-current and current loans from credit institutions and finance lease liabilities (see Notes 28 and 29) bearing interest at floating rates. As a result, the Group is exposed to a risk of higher interest expense, which may be caused by growing interest rates.

Assuming that in 2021 non-current and current loans from credit institutions and finance lease liabilities would remain approximately at the same level as on 31 December 2020, an increase/decrease in interest rates by 1 percentage point would result in additional interest expense/decrease in interest expense by approximately EUR 101 thousand (2020: EUR 127 thousand).

38. Financial risk management (continued)

The Group companies SIA "Eco Baltia grupa", SIA "Eco Baltia vide", SIA "Eko Kurzeme", SIA "Nordic Plast" and AS "PET Baltija" have non-current loans from credit institutions bearing interest at a floating EURIBOR rate; therefore, these companies are exposed to interest rate risk, which was hedged by means of interest rate swap contracts. These contracts (see Note 36) were terminated on 20 November 2020 and due to changes in the loan agreements zero floor interest introduced.

Credit risk

Credit risk is a risk of financial loss in the event of a counterparty's default on their obligations to the Group companies. Credit risk is mainly caused by cash at bank (see Note 25), trade receivables (see Note 20) and issued non-current and current other loans (see Note 21).

Cash at bank

Credit risk related to cash at bank is managed by balancing the placement of financial assets in order to maintain the possibility of choosing the best offers and reduce the probability of financial losses. The Group companies evaluate credit ratings assigned to banks by international credit rating agencies and financial performance of banks on a regular basis.

Trade receivables

The Group companies have no significant concentration of credit risk with any single customer or group of customers having similar characteristics.

The Group controls its credit risk by continuously assessing the credit history of customers and setting permissible credit limits. The Group maximum permissible exposure to credit risk is defined to the extent of the balance sheet value of each debtor. The Group companies monitor overdue trade receivables on a regular basis. Balance sheet value of trade receivables is reduced by allowances made for doubtful and bad trade receivables. In addition Group uses factoring services.

Issued non-current and current loans

The Group controls its credit risk by continuously assessing the financial performance, sufficiency and quality of collateral and credit histories of borrowers. Balance sheet value of granted loans is reduced by allowance made for doubtful and bad loans and receivables.

| Categories of financial instruments | 31.12.2020 EUR | 31.12.2019 EUR |
|---|-------------------|-------------------|
| Financial assets | | |
| Cash at bank and on hand | 3 782 431 | 2 358 011 |
| Loans and receivables carried at amortized cost value | 7 854 218 | 6 868 734 |
| Total financial assets | 11 636 649 | 9 226 745 |
| Financial liabilities | | |
| Financial liabilities carried at amortized cost value | 24 408 992 | 24 915 829 |
| Fair value of derivatives | - | 35 224 |
| Total financial liabilities | 24 408 992 | 24 951 053 |

Liquidity Risk

Liquidity risk is a risk that the Group companies will default on their full obligations. Liquidity risk arises if the maturities of financial assets and liabilities do not match. The goal of liquidity risk management by the Group is to maintain an adequate amount of cash and cash equivalents and arrange an adequate sufficiency of financing by using the financing granted by banks (see Note 28), thereby enabling the Group companies to meet their obligations as they fall due. The Group companies assess whether the maturities of financial assets and liabilities match on a regular basis and the stability of financing for non-current assets. For the purposes of liquidity management, operational cash flow forecasts are made after the actual results for the prior month. The Group's management believes that the Group companies will have sufficient funds available so that their liquidity position might not be negatively jeopardized. As at 31.12.2020 Groups current assets are by EUR 2 087 304 more than current liabilities (31.12.2019: by EUR 912 695).

38. Financial risk management (continued)

The following table demonstrates undiscounted contractual maturities of financial liabilities:

| 31 December 2020 | Carrying amount | Total contractual cash flows | 3 months or less | From 3 to 12 months | From 1 to 5 years |
|---|----------------------------|---|-----------------------------|--------------------------------|------------------------------|
| | EUR | EUR | EUR | EUR | EUR |
| Non-derivative financial liabilities | | | | | |
| Trade and other payables | 12 195 607 | 12 195 607 | 12 195 607 | - | - |
| Obligations under finance leases | 5 180 571 | 5 461 638 | 495 408 | 1 365 470 | 3 600 760 |
| Lease liabilities | 2 748 856 | 2 907 762 | 357 078 | 665 236 | 1 885 448 |
| Borrowings | 4 648 075 | 4 805 401 | 499 718 | 1 478 732 | 2 826 952 |
| Total non-derivative financial liabilities | 24 773 109 | 25 370 408 | 13 547 811 | 3 509 438 | 8 313 160 |
| Derivative financial liabilities | | | | | |
| Fair value of derivative instruments | - | - | - | - | - |
| Total derivative liabilities | - | - | - | - | - |
| Total financial liabilities | 24 773 109 | 25 370 408 | 13 547 811 | 3 509 438 | 8 313 160 |

| 31 December 2019 | Carrying amount | Total contractual cash flows | 3 months or less | From 3 to 12 months | From 1 to 5 years |
|---|----------------------------|---|-----------------------------|--------------------------------|------------------------------|
| | EUR | EUR | EUR | EUR | EUR |
| Non-derivative financial liabilities | | | | | |
| Trade and other payables | 11 187 498 | 11 187 498 | 11 187 498 | - | - |
| Obligations under finance leases | 4 010 972 | 4 490 746 | 460 620 | 1 246 925 | 2 783 201 |
| Lease liabilities | 3 845 113 | 4 132 254 | 345 956 | 1 037 118 | 2 749 180 |
| Borrowings | 6 067 703 | 6 775 946 | 732 792 | 2 013 637 | 4 029 517 |
| Total non-derivative financial liabilities | 25 111 286 | 26 586 444 | 12 726 866 | 4 297 680 | 9 561 898 |
| Derivative financial liabilities | | | | | |
| Fair value of derivative instruments | 35 224 | - | - | - | 35 224 |
| Total derivative liabilities | 35 224 | - | - | - | 35 224 |
| Total financial liabilities | 25 146 510 | 26 586 444 | 12 726 866 | 4 297 680 | 9 597 122 |

Fair value

Based on the Group's management's assessment, the carrying amounts of financial assets and liabilities is approximated to their fair value as at 31 December 2020 and 31 December 2019.

The Group recognizes derivative financial instruments at their fair value, and changes in fair value are recognized in the statement of comprehensive income as profit or loss.

The Group categorizes derivative financial instruments by the following levels of the fair value hierarchy. All other assets and liabilities, except for those mentioned, are allocated to Level 3.

| Financial liabilities at fair value | Date of valuation | Total | Quoted (unadjusted) market prices Level 1 | Significant inputs that are observable in the market directly or indirectly Level 2 | Significant inputs unobservable in the market Level 3 |
|--|-------------------|--------|--|--|--|
| Derivative financial instruments (Note 36) | 31.12.2020 | - | - | - | - |
| Derivative financial instruments (Note 36) | 31.12.2019 | 35 224 | - | 35 224 | - |

39. Capital management

The Group manages its capital to ensure that the Group companies will be able to continue as a going concern, meanwhile maximizing the return to shareholders through the optimization of debt and equity balance.

The Group's capital structure consists of net debt (borrowings as detailed in Notes 28 and 29 offset by cash on hand and at bank) and equity of the Group (comprising issued capital, reserves, retained earnings and non-controlling interests).

Group's management reviews the capital structure of the Group on an annual basis. Under these consolidated financial statements, the Group's management considers the capital structure and the risks associated with each class of capital.

| Adjusted Equity Ratio | 31.12.2020 EUR | 31.12.2019 EUR |
|--------------------------------|-------------------|-------------------|
| Total assets | 78 716 003 | 78 684 307 |
| Debt (i) | 12 577 502 | 13 923 788 |
| Cash and cash equivalents (ii) | (3 782 431) | (2 358 011) |
| Net debt | 8 795 071 | 11 565 777 |
| Equity (iii) | 51 948 456 | 51 851 089 |
| Net debt to equity ratio | 17% | 22% |
| Adjusted Equity ratio | 66% | 66% |

- (i) Debt is defined as non-current and current borrowings (excluding derivative financial instruments and financial guarantee contracts), as described in Notes 28 and 29, and other borrowings;
- (ii) Cash equivalent investments are defined as liquid investments, including deposits maturing within one year, investments in financial markets;
- (iii) Equity includes all share capital and reserves of the Group that are managed as capital.

Besides, in accordance with bank loans, leasing and factoring contracts, the Group is obliged to ensure compliance with certain financial covenants:

- Adjusted equity ratio (set at least 40%) is calculated as Total equity to Total assets ratio;
- Net financial debt to EBITDA ratio (not above 2.5 and not below zero), calculated by extracting cash and cash equivalents from financial debts and attributing them to Earnings before interest, taxes, depreciation and amortisation;

According to the management calculations performed using normalised EBITDA and other financial data as of 31.12.2020 the Group has complied with the above requirements.

40. Going concern

As at the end of the reporting year, the Group's current assets exceeded its current liabilities by EUR 2.087 million. The Group's management is confident that the Group companies will be able to meet their obligations and continue as a going concern. The financial statements have been prepared on the basis that the Group will continue to be a going concern.

41. Contingent liabilities

| | 31.12.2020 EUR | 31.12.2019 EUR |
|---|-------------------|-------------------|
| Liabilities arising from trade financing products: | | |
| Trade financing products | 2 655 153 | 1 087 313 |
| Total | 2 655 153 | 1 087 313 |

The Group's company AS PET Baltija has entered into an agreement with Luminor Bank AS on the issuance of guarantees and letters of credit subject to the total limit of EUR 2 600 000 (31 December 2019: EUR 1 900 000). The total limit expires on 31 October 2022.

In June 2020 there were changes in agreement on the issuance of guarantees and letters of credit with Luminor Bank AS Latvian branch, agreeing that with the total limit guarantees with maturity date 31.10.2028 can be issued not exceeding total value of total EUR 1 700 000.

42. Events after the reporting date

Due to the rapid spread of Covid-19 virus, in February 2021, the government of Latvia has expanded the term of the nationwide emergency situation declared due to Covid-19 until 6 April this year, which means effective precautionary measures to ensure and control social distancing. At the same time, these measures affect economic activity. Since the recycling companies of Eco Baltia are exporters, the companies could be affected also by measures introduced in other countries.

In order to restrict the possible negative impact on entrepreneurship, both the recycling and waste management companies have introduced strict precautionary measures and rescheduled process in all the places of work, thus restricting risk of the disease spread among the employees to the extent possible. Recycling companies have also determined geographic scale of their customers, receivables are monitored and cash flows are controlled.

On 14 January 2021, the State Environmental Service has entered into a contract with the LLC (SIA) "Depozīta Iepakojuma Operators" (DIO), whose shareholder is also the Group company JSC (AS) "PET Baltija", for introduction of packaging deposit system in Latvia.

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

Independent Auditors' Report

To the shareholders of "Eco Baltia" AS

Our Opinion on the Consolidated Financial Statements

We have audited consolidated financial statements of "Eco Baltia" AS and its subsidiaries (further - "the Group") set out on pages 3 to 49 of the accompanying annual report, which comprise:

- the consolidated statement of financial position as at 31 December 2020,
- the consolidated statement of comprehensive income for the year then ended,
- the consolidated statement of changes in equity for the year then ended,
- the consolidated statement of cash flows for the year then ended, and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2020, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

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

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

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

Reporting on Other Information

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

- information about the Group, as set out on page 3 to 4 of the accompanying Annual Report,
- the Management Report, as set out on pages 5 to 7 of the accompanying Annual Report,

Our opinion on the consolidated financial statements does not cover the other information included in the Annual Report, and we do not express any form of assurance conclusion thereon, except as described in the *Other reporting responsibilities in accordance with the legislation of the Republic of Latvia related to Other information* section of our report.

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

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

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Other reporting responsibilities in accordance with the legislation of the Republic of Latvia related to other information

In addition, in accordance with the Law on Audit Services of the Republic of Latvia with respect to the Management Report, our responsibility is to consider whether the Management Report is prepared in accordance with the requirements of the 'Law On the Annual Reports and Consolidated Annual Reports' of the Republic of Latvia.

Based solely on the work required to be undertaken in the course of our audit, in our opinion:

- the information given in the Management Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Management Report has been prepared in accordance with the requirements of the 'Law On the Annual Reports and Consolidated Annual Reports' of the Republic of Latvia.

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

Management is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibility for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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- 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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves a fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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