# CONSOLIDATED REPORTS OF AUGSTSPRIEGUMA TĪKLS GROUP AND UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS OF JSC AUGSTSPRIEGUMA TĪKLS FOR 3 MONTHS OF 2021

FOR 3 MONTHS OF 2021 FROM 01.01.2021 TO 31.03.2021

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## FOR THE PERIOD OF 3 MONTHS FROM 01.01.2021 TO 31.03.2021

Prepared in accordance with International Financial Reporting Standards
as adopted by the European Union

# CONTENTS

# INFORMATION: ABOUT THE GROUP AND THE COMPANY

| | |
|---|---|
| **Name of the parent company** | JSC Augstsprieguma tīkls |
| **Legal status of the parent company** | Joint Stock Company |
| **Registration number, place and date of the parent company** | 000357556<br>Riga, 28 December 2001<br><br>Re-registration in the Commercial Register is performed<br>On 13 November 2004<br>under unified registration number<br>40003575567 |
| **Type of principal activity of the parent company** | Electricity supply, NACE code 35.12 |
| **Type of principal activity of the Group** | Electricity supply, NACE code 35.12 and<br>Pipeline transport (NACE code 49.50) |
| **Address** | Dārzciema iela 86,<br>Riga, LV-1073, Latvia |
| **Parent company shareholder** | From 2 January 2012:<br>Ministry of Finance in the name of the Republic of Latvia (100%)<br>Smilšu iela 1, Riga, LV-1050, Latvia |
| **Names, surnames and positions held of the board members** | Varis Boks - Chairman of the Board (until 31.03.2021)<br>Arnis Staltmanis - Board Member (until 07.04.2021)<br>Imants Zviedris - Board Member<br>Gatis Junghāns - Board Member<br>Mārcis Kauliņš - Board Member |
| **Names, surnames and positions held of Supervisory Board members** | Kaspars Āboliņš — Council Chairman<br>Olga Bogdanova — Deputy Council Chairmwoman<br>Armands Eberhards — Council Member<br>Madara Melne — Council Member<br>Aigars Ģērmanis — Council Member |
| **Accounting period** | 1 January 2021–31 March 2021 |
| **Participation in other companies** | JSC Conexus Baltic Grid (68.46% from 21.07.2020;<br>34.36% until 20.07.2020) |

# KEY FINANCIAL INDICATORS

| Financial indicators | JSC Augstsprieguma tīkls<br>3 months of 2021 EUR | JSC Augstsprieguma tīkls<br>3 months of 2020 EUR | Group<br>3 months of 2021 EUR | Group<br>3 months of 2020 EUR |
|---|---|---|---|---|
| Revenue, thous. EUR | 25,498 | 40,629 | 44,058 | 40,629 |
| EBITDA, thous. EUR | 11,617 | 12,264 | 24,848 | 12,264 |
| Profit, thous. EUR | 2,930 | 2,436 | 8,952 | 2,436 |
| | **31.03.2021.** | **31.12.2020.** | **31.03.2021.** | **31.12.2020.** |
| Balance sheet total, thous. EUR | 908,581 | 905,527 | 1,247,692 | 1,213,515 |
| Equity, thous. EUR | 387,739 | 384,809 | 656,081 | 639,203 |
| Loans, thous. EUR* | 222,872 | 222,872 | 268,720 | 244,747 |
| Cash and its equivalents, thous. EUR** | 63,115 | 57,225 | 109,870 | 72,388 |
| **Financial coefficients** | | | | |
| Liquidity total ratio | 5.4 | 4.7 | 4.0 | 3.1 |
| EBITDA Profitability | 46% | 30% | 56% | 30% |
| Equity ratio (≥35%) | 43% | 42% | 53% | 53% |

EBITDA – earnings before interest, income from participating interests, taxes, depreciation and amortisation Total liquidity ratio – current assets/current liabilities (excluding the part of short-term borrowings to be refinanced)
EBITDA profitability – EBITDA/revenue
Equity ratio = Equity/Balance sheet total

* loans include an overdraft agreement of EUR 20,000
** including short-term time deposits with a maturity of less than 3 months

# MANAGEMENT REPORT

# TYPE AND DESCRIPTION OF ACTIVITY

The principal activity of the Augstsprieguma tīkls Group is the provision of electricity transmission system operator functions, efficient management of energy supply system assets, natural gas transmission and storage.

As at 31 December 2020, Augstsprieguma tīkls Group structure consists of a group of commercial companies in which the parent company JSC Augstsprieguma tīkls (hereinafter also – AST or the Parent Company) has a decisive influence and which includes the subsidiary JSC Conexus Baltic Grid (hereinafter also – Conexus or the Subsidiary).

All shares of JSC Augstsprieguma tīkls are owned by the Ministry of Finance of the Republic of Latvia.

The structure of the Augstsprieguma tīkls Group is organised in two operating segments: electricity transmission and transmission and storage of natural gas. The division is made on the basis of the Group's internal organisational structure, which forms the basis for monitoring and control of the segment's performance.

The overall strategic goal of the Augstsprieguma tīkls Group is to ensure the security of energy supply of Latvia, provide a continuous, high-quality and affordable energy transmission service, as well as to implement sustainable management of energy supply assets of strategic importance to the country and facilitate their integration in the internal energy market of the European Union.

OUR MISSION IS TO ENSURE AN UNINTERRUPTED, SECURE AND SUSTAINABLE EFFICIENT ENERGY SUPPLY THROUGHOUT LATVIA.

## ELECTRICITY TRANSMISSION

According to the issued licence No. E12001 and Section 11, Paragraph one of the Electricity Market Law, the Joint Stock Company Augstsprieguma tīkls is the only electricity transmission system operator (hereinafter also – TSO) in Latvia, and its licence area is the entire territory of Latvia.

According to Section 5 of the Energy Law, electricity transmission is a regulated sector. The sole shareholder of the parent company is the Republic of Latvia in the person of the Ministry of Finance (100%).

ACTIVITY OF AST AS THE POWER TRANSMISSION SYSTEM OPERATOR IS CHARACTERISED BY THREE DIRECTIONS:

- Provision of electricity transmission system services
- Maintaining and developing the electricity market
- Management, development, and integration of the electricity transmission system into the European power system

# QUALITY MANAGEMENT SYSTEM AND VALUES

The Parent Company has developed, implemented, and maintains the management system of the company in accordance with the requirements of ISO 9001:2015 (quality), ISO 14001:2015 (environment), ISO 45001:2018 (OHSAS 18001:2007) (occupational safety), ISO 50001:2011 (energy management).

The implemented Integrated Management System ensures the efficient operation of AST, observing internationally accepted operating mechanisms regarding quality, energy management, environment protection, occupational and occupational health management, ensuring correct compliance with regulatory requirements, promoting awareness of the business context of AST, taking the view of AST's risks and processes into account.

THE PARENT COMPANY HAS DEVELOPED A QUALITY POLICY WHICH, BASED ON THE ENERGY LAW, THE ELECTRICITY MARKET LAW AND THE NETWORK CODE, DEFINES THE FOLLOWING AST CORE VALUES:

| | |
|---|---|
| **TRUST** | **Honestly**<br>Independent, ethical, and transparent action towards anyone and everyone |
| **GROWTH** | **Wisely**<br>Effectively. Looking forward. Long-term thinking |
| **SAFETY** | **Responsibly**<br>Deliberate action. With high responsibility towards work, people, and nature |
| **TEAM** | **Together**<br>We join forces to achieve more. Strong team that encourages and challenges |

# CORPORATE AND SOCIAL RESPONSIBILITY

THE PARENT COMPANY'S STRATEGIC DIRECTION IS FOCUSING ON SUSTAINABLE DEVELOPMENT. THE COMPANY PARTICIPATES IN THE ANNUAL "SUSTAINABILITY INDEX" ORGANISED BY THE INSTITUTE OF CORPORATE SUSTAINABILITY AND RESPONSIBILITY, WHERE IN 2020 THE COMPANY RECEIVED THE TOP PLATINUM AWARD (AS AN ASSESSMENT OF ITS WORK IN 2019). THE COMPANY ALSO RECEIVED THE TITLE OF THE MINISTRY OF WELFARE "FAMILY FRIENDLY BUSINESS".

In the reporting year, the improvement of corporate governance was continued, and the Corporate Governance Policy was developed. The Corporate Governance Policy of JSC Augstsprieguma tīkls has been developed taking into account the laws and regulations of the Republic of Latvia, the principles of corporate governance and recommendations regarding their implementation developed by NASDAQ OMX Riga AS, and cooperation and development recommendations for corporate governance made by the European Union and Organisation for Economic Co-operation, as well as by reviewing and summarising the corporate governance practices of JSC Augstsprieguma tīkls.

Since 2017, in addition to AST financial statements, a non-financial report, Sustainability Report, has been prepared in accordance with the Global Sustainability Reporting Guidelines, the Core Approach issued by the non-profit organisation Global Reporting Initiative (GRI).

The Sustainability Report covers corporate social responsibility, economic responsibility, responsibility to society, employees and the work environment, environmental protection and other relevant aspects. The Sustainability Report 2020 of JSC Augstsprieguma tīkls is available on the Augstsprieguma tīkls website at www.ast.lv.

The Parent Company has developed and approved a Corporate and Social Responsibility Policy. Corporate and social responsibility (hereinafter – CSR) policy defines the forms, basic principles and directions of CSR, as well as criteria for choosing activities.

The goal of the Parent Company's Environmental Policy is to continuously improve environmental performance by preventing or reducing harmful effects on the environment, rationally using natural resources and introducing the best available techniques in all areas of activity.

The Parent Company systematically performs risk assessments, and environmental programmes are established to prevent significant risks. A register of environmental events is maintained. Key environmental pollution indicators are periodically controlled in accordance with the environment monitoring plan. The overall environmental risk is low.

Increased attention is paid to energy efficiency issues. The goal of the Parent Company's Energy Management Policy is to continuously improve the Company's energy performance by reducing technical and technological losses, improving the energy consumption indicators of the company's facilities and improving the company's vehicle purchase and use strategy.

# NATURAL GAS TRANSMISSION AND STORAGE

Considering the Parent Company's investment in its subsidiary Latvian natural gas transmission and storage system operator JSC Conexus Baltic Grid, an important direction of the Group's activities is the sustainable management of strategically important energy supply assets and their integration into the European Union (hereinafter – the EU) internal energy market.

JSC Conexus Baltic Grid is the unified natural gas transmission and storage operator in Latvia, managing one of the most modern natural gas storage facilities in Europe – the Inčukalns underground gas storage facility (hereinafter – the Inčukalns UGS, storage facility) and the main natural gas transmission system directly connecting the Latvian natural gas market with Lithuania, Estonia and the North-West region of Russia.

Conexus offers its customers natural gas transmission and storage services in accordance with the tariffs set by the Public Utilities Commission.

Conexus was established on 22 December 2016, as a result of the reorganisation, separating the transmission and storage business lines from JSC Latvijas Gāze.

Conexus' vision is to become the most reliable energy source in the region by promoting the development of the transmission system and exploiting the potential of underground gas storage.

Conexus' mission is to promote the sustainable operation of the energy market in the region by ensuring the reliable operation of the natural gas transmission and storage system. Conexus values:

**Safe operation of the system** – we take care of the safe operation of the infrastructure by performing regular infrastructure monitoring.

**Flexibility and openness through competent solutions** – we support market development and are open to new solutions that support market development.

**Sustainable development** – in order to protect the population and the environment from potential security risks, we regularly invest in the modernisation and increase of security of the gas system, as well as in the development of the technological system.

**Professional and united team** – we value professionalism in everything, and we can be relied on by colleagues, clients and cooperation partners.

Sustainability – Conexus is a socially responsible company that ensures the growth of employees and the overall development of the industry, creating sustainable employment and added economic value, while taking care of the impact of technological processes on the environment.

# DESCRIPTION OF THE BUSINESS ENVIRONMENT

## ELECTRICITY TRANSMISSION

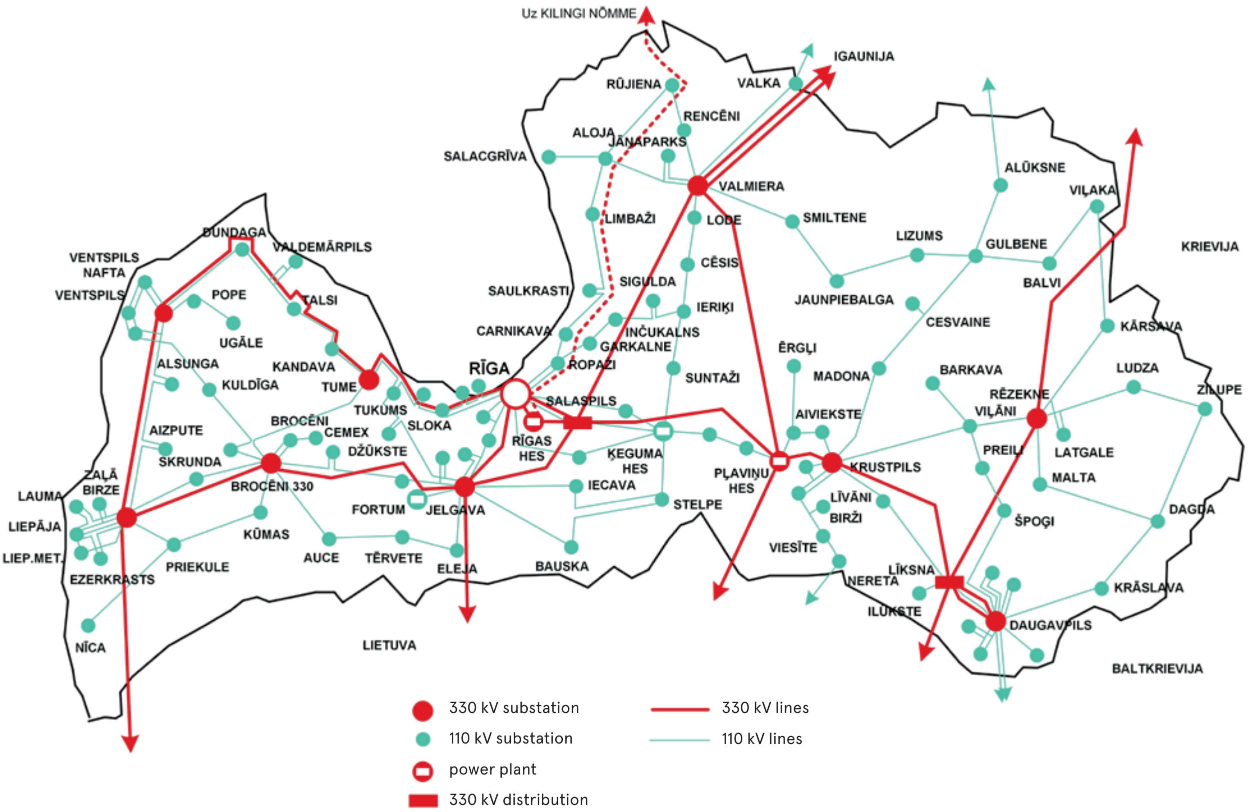
Electricity transmission is carried out by the transmission system operator through a transmission system that includes interconnected networks and equipment, including cross-border connections, with a voltage of 110 kilovolts or more, that are used for transmission to the relevant distribution system or users.

The activities of the electricity transmission system operator are regulated by the Public Utilities Commission (hereinafter – PUC) under the guidance of its Supervisory board.

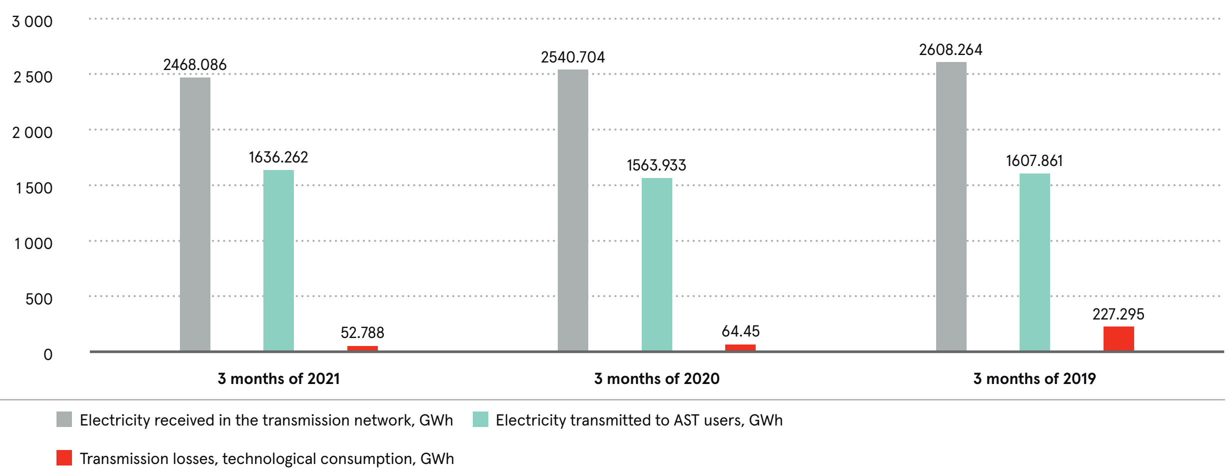
During the reporting period, the obligations imposed on the Transmission system operator were fulfilled through the following transmission network:

| Highest voltage (kV) | Number of substations (pcs) | Number of autotransformers and transformers (pcs) | Installed power (MVA) | Overhead cable and cable EPL (km) |
|---|---|---|---|---|
| 330 kV | 17 | 27 | 4,000 | 1,552.99 |
| 110 kV | 123 | 246 | 5,231 | 3,870.91 |
| **Total** | **140** | **273** | **9,231** | **5,612.91** |

# ELECTRICITY TRANSMISSION SYSTEM




In the 3 months of 2021, 1,636 GWh were transmitted to users in Latvia, which is 5% more than in the corresponding period of 2020 (1,564 GWh).




Source: AST

## TRANSMISSION AND STORAGE OF NATURAL GAS

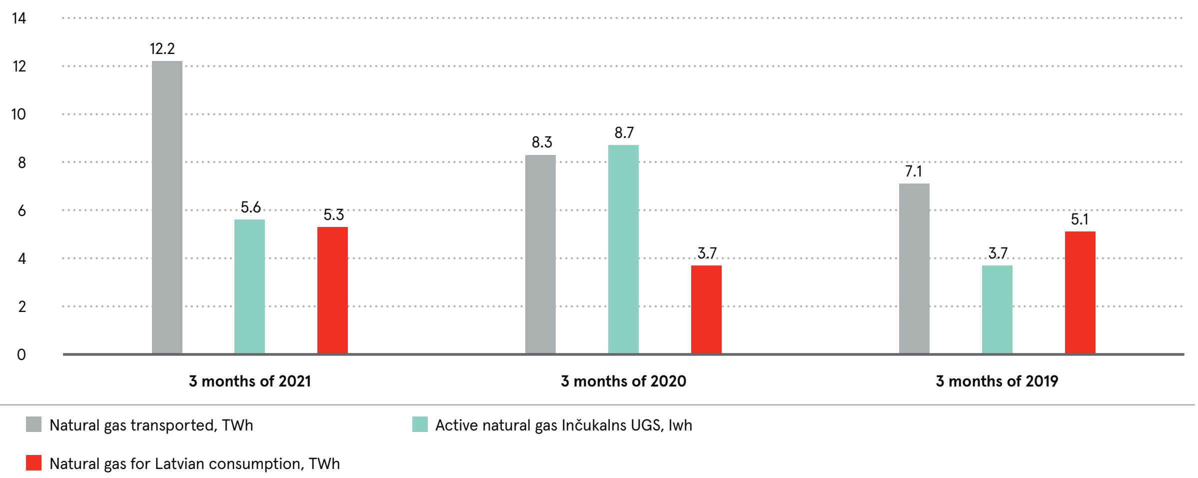
JSC Conexus Baltic Grid is the only natural gas transmission and storage operator in Latvia, which ensures the maintenance of the natural gas transmission system, its safe and uninterrupted operation, and interconnections with transmission systems of other countries, enabling traders to use the natural gas transmission system for natural gas trade.

The main natural gas transmission system is 1,188 km long and is directly connected to the natural gas transmission systems of Lithuania, Estonia and Russia, providing both natural gas transmission in regional gas pipelines on the territory of Latvia and interconnections with the natural gas transmission systems of neighbouring countries.

In the first three months of 2021, the total amount of gas transported reached 12.2 TWh, which is an increase of 47% compared to the same period a year ago. During the reporting period, the volumes of transmitted gas for the needs of Latvian users increased by 42%, reaching 43% of the total transmitted flows, the volume of transmitted flows for the needs of Lithuania more than doubled.

The natural gas storage segment provides the natural gas storage required for the heating season and other needs of the system users in the Inčukalns underground gas storage (UGS).

### NATURAL GAS TRANSMISSION AND STORAGE SEGMENT




**Source: AST**

# SEGMENT PERFORMANCE RESULTS

During the reporting period, the revenue of Augstsprieguma tīkls Group is EUR 44,058,124, the profit attributable to the Parent Company's Shareholders is EUR 8,951,883.

## SEGMENT INFORMATION

| | JSC Augstsprieguma tīkls | | Group | |
|---|---|---|---|---|
| | **31.03.2021.** EUR | **31.03.2020.** EUR | **31.03.2021.** EUR | **31.03.2020.** EUR |
| **Net turnover** | | | | |
| Electricity Transmission | 25,498 | 40,629 | 25,498 | 40,629 |
| Gas transmission | – | – | 13,038 | – |
| Gas storage | – | – | 5,523 | – |
| **EBITDA** | | | | |
| Electricity Transmission | 11,617 | 12,264 | 11,617 | 12,264 |
| Gas transmission | – | – | 9,860 | – |
| Gas storage | – | – | 3,372 | – |
| **Net turnover** | | | | |
| Electricity Transmission | 2,930 | 2,436 | 2,930 | 2,436 |
| Gas transmission | – | – | 7,301 | – |
| Gas storage | – | – | 1,495 | – |

## ELECTRICITY TRANSMISSION SEGMENT

The net turnover of the segment in the reporting period is EUR 25,498 thousand, including income from electric power transmission network services in the amount of EUR 19,311 thousand, which makes up 76% of the total net turnover of the segment. Segment profit in the reporting period is EUR 2,930 thousand.

When evaluating the segment's financial performance indicators and economic performance indicators, it should be taken into account that in accordance with Article 5 of the Energy Law, electricity transmission is a regulated sector, PUC determines the allowed profit by determining the rate of return on capital, approving electricity transmission system service tariffs.

SEGMENT PROFITABILITY FROM THE PROVISION OF ELECTRICITY TRANSMISSION SERVICES COMPLIES WITH THE TERMS AND CONDITIONS OF THE TARIFF METHODOLOGY OF THE ELECTRICITY TRANSMISSION SYSTEM.

The procedure for determining and calculating remuneration is regulated in the parent company's internal regulatory documents in accordance with the requirements of the legislation of the Republic of Latvia.

## NATURAL GAS TRANSMISSION AND STORAGE SEGMENT

In January-March 2021, the total net turnover of the segments is EUR 18,561 thousand, the profit is EUR 8,796 thousand. Revenues of the natural gas transmission segment in January-March 2021 comprise EUR 13,038 thousand, natural gas storage segment – EUR 5,523 thousand.

NATURAL GAS TRANSMISSION AND STORAGE IS A REGULATED OPERATING SEGMENT. REVENUES OF THE TRANSMISSION SEGMENT ARE CALCULATED IN ACCORDANCE WITH THE METHODOLOGY, RETURN ON CAPITAL APPROVED BY THE PUC.

# FINANCIAL RISK MANAGEMENT

Financial Risk Management of the Augstsprieguma tīkls Group is implemented in accordance with the Financial Risk Management Policy and its subordinate Financial Risk Management Regulations.

Group companies, in which the interest of JSC Augstsprieguma tīkls is less than 100%, however, it has a direct decisive influence on the basis of participation within the meaning of the Group Law, develop and approve their Financial Risk Management Policies, if necessary, which are in line with the basic principles of the Group's policy.

The management of financial resources is focused on ensuring the financing of its business activities and financial stability by implementing conservative financial risk management. As part of financial risk management, the Parent Company uses financial risk controls and implements risk mitigation measures to reduce the risk in open positions.

The Parent Company complies with prudential liquidity risk management, ensuring that appropriate financial resources are available to it for the settlement of liabilities within the set time periods.

The financial assets that potentially expose the Parent Company to a certain degree of risk concentration are mainly cash and trade receivables. Although the Parent Company has a significant risk concentration in relation to one counterparty or a group of similar counterparties, this risk is assessed as limited, taking into account the fact that the most important Parent Company's cooperation partner is the state-owned company Latvenergo, as well as the capital companies of its Group. Trade receivables are presented according to the recoverable value.

In cooperation with banks and financial institutions, such business partners are accepted, the credit rating or credit rating of the parent bank of which, set by an international credit rating agency, is at least at the investment grade level.

The management forecasts that it will not have liquidity problems and the Augstsprieguma tīkls Group will be able to settle with creditors within the set deadlines. The management believes that the Augstsprieguma tīkls Group will have sufficient cash resources for the Group so that its liquidity will not be endangered.

## FINANCING AND LIQUIDITY

Pursuant to the decisions of the sitting of the Cabinet of Ministers of the Republic of Latvia of 8 October 2019 and 17 December 2019, in 2020 the reorganisation of the ownership rights of the transmission system assets was implemented.

On 10 June 2020, the former subsidiary of JSC Latvenergo, the owner of the transmission system assets JSC Latvijas elektriskie tīkli, was separated from the Latvenergo Group and on 15 June 2020, JSC Augstsprieguma tīkls was invested. According to the decision of the Enterprise Register of the Republic of Latvia of 25 November 2020, on 25 November 2020, JSC Latvijas elektriskie tīkli was excluded from the Register of Enterprises and was added to JSC Augstsprieguma tīkls.

JSC Latvijas elektriskie tīkli received loans from the parent company JSC Latvenergo in accordance with the agreement "On provision of mutual financial resources" concluded within the Latvenergo Group to ensure the functions of the transmission system asset owner until the change of shareholder. On 8 May 2020, an agreement was concluded between the parent company JSC Latvenergo and JSC Latvijas elektriskie tīkli on merging the long-term loans of JSC Latvijas elektriskie tīkli, refinancing the previously concluded loans in the amount of EUR 184,725 thousand, and envisaging a new loan repayment schedule, as well as setting a fixed interest rate in accordance with the weighted average interest rate at which Latvenergo JSC attracts loans in the foreign market.

After investing the shares of JSC Latvijas elektriskie tīkli, JSC Augstsprieguma tīkls ensures the attraction of the borrowed capital necessary for financing capital investments. The amount of borrowings of JSC Latvijas elektriskie tīkli from the parent company JSC Latvenergo on 16 June 2020, the shares of which were invested in JSC Augstsprieguma tīkls, was EUR 225,232 thousand.

On 18 June 2020, JSC Augstsprieguma tīkls concluded a loan agreement with JSC SEB banka for EUR 116,200 thousand with a maturity of 18 months and an interest rate of 3 months EURIBOR and the added interest rate (see also Annex 20). The purpose of this loan is to partially refinance the liabilities of JSC Latvijas elektriskie tīkli to JSC Latvenergo. Using the loan of JSC SEB banka and the own funds available to JSC Augstsprieguma tīkls, on 19 June 2020 the loan from JSC Latvenergo was refinanced in the amount of EUR 138,560 thousand.

The Board of JSC Augstsprieguma tīkls has approved the Financing Attraction Strategy for 2021–2025; a refinancing plan for existing liabilities has been developed and approved. It is planned to refinance the JSC Augstsprieguma tīkls loan against JSC SEB banka EUR 116,200 thousand in 2021 by issuing bonds. The Company's management believes that JSC Augstsprieguma tīkls will be able to attract the necessary resources to refinance loans.

For the financing of working capital, an overdraft agreement was concluded between

JSC Augstsprieguma tīkls and JSC SEB banka for up to EUR 20,000 thousand. During the reporting period, JSC Augstsprieguma tīkls did not receive any loans within the framework of the overdraft agreement.

The natural gas operator JSC Conexus Baltic Grid attracts external financing with its own resources.

In October 2020, the Company initiated the credit rating procedure by concluding an agreement with the international credit rating agency S&P Global Ratings. The international credit rating agency S&P Global Ratings (S&P) has for the first time assessed and assigned the **long-term credit rating BBB+/Stable to the Latvian transmission system operator JSC Augstsprieguma tīkls.**

# ELECTRICITY TRANSMISSION SYSTEM SERVICES TARIFF

The electricity transmission services tariffs are determined in accordance with the "Methodology for calculating tariffs for electricity transmission system services" approved by the PUC. In 2021, transmission system services were provided at tariffs approved by the PUC Council Decision of 26 November 2020.

By PUC Council Decision No. 153 of 26 November 2020, tariffs for electricity transmission services for the regulatory period from 1 January 2021 to 31 December 2022 were approved. In the draft tariff developed by the parent company, the costs of transmission services are 5% lower than in the current tariff.

The Parent Company has set the implementation of measures to reduce the increase in electricity transmission system service tariffs as one of the priority objectives. In order to achieve the set goal, the Parent Company actively attracts European Union (EU) co-financing to finance capital investments.

Currently, EU co-financing is attracted for 54 capital investment projects. In addition, in order to minimise the impact on the transmission tariffs, the Company redistributes the accumulated overload charge revenue to finance the capital investments.

In 2021, it is planned to continue the activities started in 2017 in improving the efficiency of the Parent Company's business processes and optimising costs.

AS A RESULT OF THE COMPANY'S ACTIVITIES, 80% OF THE FINANCING REQUIRED FOR THE IMPLEMENTATION OF THE DEVELOPMENT PROJECTS INCLUDED IN THE EUROPEAN TEN-YEAR DEVELOPMENT PLAN IS COVERED BY THE EU CO-FINANCING AND OVERLOAD CHARGE REVENUES, THUS REDUCING THE IMPACT ON ELECTRICITY TRANSMISSION SYSTEM SERVICE TARIFFS.

# FURTHER DEVELOPMENT

## DEVELOPMENT OF THE ELECTRICITY TRANSMISSION SYSTEM

The electricity transmission system development plan developed by AST for the period from 2021 to 2030 (hereinafter also – the Development Plan) was approved by the decision of the PUC Council of 20 October 2020 "On the Electricity Transmission System Development Plan".

DEVELOPMENT PLAN DEVELOPED IN ACCORDANCE WITH THE STRATEGIC OBJECTIVE OF AST – STRENGTHENING LATVIA'S ENERGY SECURITY BY SYNCHRONISING LATVIA'S ELECTRICITY TRANSMISSION NETWORK WITH THE CONTINENTAL EUROPEAN NETWORK, COMPLYING WITH THE PRINCIPLES OF SECURITY AND COST-EFFICIENCY.

The approved Development Plan determines the development of the transmission system and the necessary financial investments in the transmission infrastructure for the next 10 years, envisaging the investment of EUR 405 million in the development of the electricity transmission system, including EU co-financing of EUR 177 mln. and EUR 37 million revenue from congestion charges. Both of the above sources of capital investment financing, which together account for 53% of the planned investments over the next 10 years, reduce the impact of realised capital investments on the electricity transmission tariff, as assets financed from EU co-financing or congestion fee revenues are not included in the calculation of electricity transmission tariffs.

In order to minimise the impact of the planned capital investments on electricity transmission tariffs, AST has successfully attracted EU co-financing for projects of common European interest included in the Development Plan, including:

- Third 330 kV interconnection Estonia – Latvia – EU co-financing of up to 65% of eligible costs, or EUR 63 380 was attracted.
- The Project "Synchronisation of the Baltic Power System with the Trans-European Network, Phase 1" – EU co-financing of up to 75% of eligible costs, or EUR 57 750 was attracted.
- Project "Synchronisation of the Baltic Electricity Transmission System with the European Network, Phase 2" – EU co-financing of 75% of the eligible costs or EUR 55,500 thousand has been attracted for urgent projects of Phase 2 2020.

## SYSTEM MANAGEMENT AND ELECTRICITY MARKET DEVELOPMENT

Implementing the policy of the European Union regarding the single electricity market, the strategic direction of JSC Augstsprieguma tīkls is focused on the development of electricity and ancillary services markets and integration into European markets.

> OVER THE COMING YEARS, IT IS PLANNED TO CONTINUE WORKING ON THE DEVELOPMENT AND IMPROVEMENT OF THE SINGLE EUROPEAN DAY-AHEAD AND INTRADAY MARKET. IT WILL INCLUDE NEW OPPORTUNITIES FOR PARTICIPANTS IN THE EUROPEAN UNION INTERNAL ELECTRICITY MARKET, INCLUDING LATVIAN AND BALTIC MARKET PARTICIPANTS.

Currently, several projects are being launched, and upon their implementation market participants will have the opportunity to participate in the day-ahead and intraday market with 15 minutes' time resolution and work with energy and transmission power inclusive products, similar to the current day-ahead market.

It is also planned to continue working on the establishment of the single European mFRR market platform and on the accession of the Baltic TSO to it, which will allow the Baltic balancing service providers to participate in the pan-European reserve market.

To join the platform, a number of changes will have to be made to the operation of the pan-Baltic balancing model, the most important of which is to ensure the transition to the 15-minute balancing market period, which will allow electricity market participants to plan their operations more accurately and control system imbalances more effectively.

The main challenges for the upcoming years will be related to the synchronisation of the Baltic states with continental Europe. Synchronisation of the Baltic states with continental Europe is expected by 2025. Synchronisation will result in the Baltic electric power transmission system becoming part of the European system, meaning more independence from Russia and a more reliable electric power supply.

## TRANSMISSION AND STORAGE OF NATURAL GAS

Considering the priorities set in the energy policy planning documents, the development of the natural gas transmission and storage segment is focused on:

1. Strengthening Latvia's security of supply by ensuring the safe and stable operation of the natural gas transmission system and storage infrastructure and high-quality, non-discriminatory and transparent service to system users, while promoting the involvement of new market participants in the market;
2. Promoting energy sustainability and reducing energy dependency by assessing and facilitating the development of the gas transmission system with a view to facilitating the injection of alternative energy sources to natural gas into the transmission system and storage, as well as integrating solutions for the reduction of carbon footprints;
3. Promoting the liquidity of the gas market through the full integration, expansion and harmonisation of market rules in the regional gas market.

# CIRCUMSTANCES AND EVENTS AFTER THE END OF THE REPORTING YEAR

After the end of the reporting period there were no other material circumstances or events that could affect the future development of the Company.

**Imants Zviedris**,
Board Member

**Mārcis Kauliņš**,
Board Member

**Gatis Junghāns**,
Board Member

**Māra Grava**,
Head of the Finance and Accounting Department

In Riga, 14 May 2021

# STATEMENT ON RESPONSIBILITY OF THE BOARD

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# RESPONSIBILITY OF THE BOARD

Based on the information at the disposal of the Management Board of JSC Augstsprieguma tīkls, the unaudited condensed interim financial statements of Augstsprieguma tīkls Group and JSC Augstsprieguma tīkls for the 3-month period that ended 31 March 2021 in all important aspects provide a true and fair view of the Augstsprieguma tīkls Group's and JSC Augstsprieguma tīkls assets, liabilities, financial position and profit or loss.

**Imants Zviedris**,
Board Member

**Mārcis Kauliņš**,
Board Member

**Gatis Junghāns**,
Board Member

**Māra Grava**,
Head of the Finance and Accounting Department

In Riga, 14 May 2021

# FINANCIAL STATEMENTS

## PROFIT OR LOSS STATEMENT

| | Annex | JSC Augstsprieguma tīkls 3 months of 2021 EUR | JSC Augstsprieguma tīkls 3 months of 2020 EUR | Group 3 months of 2021 EUR | Group 3 months of 2020 EUR |
|---|---|---|---|---|---|
| **Revenue** | 3 | **25,497,601** | **40,629,156** | **44,058,124** | **40,629,156** |
| Other income from business activities | 4 | 715,930 | 132,862 | 925,793 | 132,862 |
| Used raw materials and materials, repair costs | 5 | (7,229,920) | (4,361,609) | (8,726,243) | (4,361,609) |
| Staff costs | 6 | (4,137,195) | (4,126,154) | (7,064,078) | (4,126,154) |
| Other business costs | 7 | (3,229,814) | (20,009,773) | (4,345,176) | (20,009,773) |
| **EBITDA** | | 11,616,602 | 12,264,482 | 24,848,420 | 12,264,482 |
| Depreciation and amortisation | 9 | (8,063,368) | (9,786,233) | (12,454,430) | (9,786,233) |
| **Operating profit** | | 3,553,234 | 2,478,249 | 12,393,990 | 2,478,249 |
| Financial income, net | 8 | (623,327) | (42,122) | (667,741) | (42,122) |
| **Profit before taxes** | | **2,929,907** | **2,436,127** | **11,726,249** | **2,436,127** |
| Deferred corporate income tax | | | | | - |
| Corporate income tax | | | | | - |
| **Profit for the reporting period** | | **2,929,907** | **2,436,127** | **11,726,249** | **2,436,127** |
| Applicable to non-controlling interests | | | | 2,774,366 | - |
| **Applicable to the Parent Company's shareholder** | | **2,929,907** | **2,436,127** | **8,951,883** | **2,436,127** |

Annexes from page 32 to 67 are an integral part of these financial statements.

**Imants Zviedris,**
Board Member

**Mārcis Kauliņš,**
Board Member

**Gatis Junghāns,**
Board Member

**Māra Grava,**
Head of the Finance and Accounting Department

In Riga, 14 May 2021

## STATEMENT OF FINANCIAL POSITION ON 31 MARCH 2021

| | Annex | JSC Augstsprieguma tīkls 31.03.2021. EUR | JSC Augstsprieguma tīkls 31.12.2020. EUR | Group 31.03.2021. EUR | Group 31.12.2020. EUR |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Long-term investments** | | | | | |
| Intangible investments | 9.1. | 1,423,416 | 1,435,210 | 3,244,326 | 3,307,881 |
| Fixed assets | 9.2 | 652,116,570 | 654,359,778 | 1,065,304,228 | 1,067,674,394 |
| Right to use assets | | 14,004,536 | 14,212,293 | 14,484,937 | 14,715,877 |
| Other long-term financial investments | 10 | 134,396,393 | 134,396,393 | 1,185,663 | 1,210,860 |
| **Total long-term investments** | | **801,940,915** | **804,403,674** | **1,084,219,154** | **1,086,909,012** |
| **Current assets** | | | | | |
| **Inventories** | 11 | **560,882** | **514,087** | **3,460,362** | **3,535,090** |
| **Debtors** | | | | | |
| Net Trade receivables | 12 | 1,517,746 | 1,673,797 | 8,242,480 | 8,528,491 |
| Deposits | 13 | - | 25,000,000 | - | 25,000,000 |
| Other debtors | 13 | 31,871,512 | 31,647,751 | 31,973,093 | 31,740,753 |
| Corporate income tax | 13 | 11,512 | 11,512 | 11,512 | 11,512 |
| Deferred expenses | | 941,523 | 629,093 | 1,293,531 | 979,586 |
| Accrued revenue | 14 | 8,621,646 | 9,422,703 | 8,621,646 | 9,422,703 |
| **Total debtors** | | **42,963,939** | **68,384,856** | **50,142,262** | **75,683,045** |
| **Cash** | 15 | **63,115,444** | **32,224,560** | **109,869,959** | **47,388,296** |
| **Total current assets** | | **106,640,265** | **101,123,503** | **163,472,583** | **126,606,431** |
| **TOTAL ASSETS** | | **908,581,180** | **905,527,177** | **1,247,691,737** | **1,213,515,443** |

Annexes from page 32 to 67 are an integral part of these financial statements.

**Imants Zviedris**,
Board Member

**Mārcis Kauliņš**,
Board Member

**Gatis Junghāns**,
Board Member

**Māra Grava**,
Head of the Finance and
Accounting Department

In Riga, 14 May 2021

## STATEMENT OF FINANCIAL POSITION ON 31 MARCH 2021 (CONTINUED)

| | | JSC Augstsprieguma tīkls | | Group | |
|---|---|---|---|---|---|
| | **Pielikums** | **31.03.2021.** EUR | **31.12.2020.** EUR | **31.03.2021.** EUR | **31.12.2020.** EUR |
| **LIABILITIES AND EQUITY** | | | | | |
| **Equity** | | | | | |
| Share capital | | 363,896,079 | 363,896,079 | 363,896,079 | 363,896,079 |
| Reserves | | 4,119,062 | 4,172,258 | 140,779,663 | 6,304,575 |
| Retained profit | | 16,794,221 | 6,741,633 | 17,141,524 | 82,722,433 |
| Profit for the reporting period | | 2,929,907 | 9,999,392 | 8,951,883 | 64,051,311 |
| Non-controlling interest | | - | - | 125,311,997 | 122,228,140 |
| **Total equity** | | **387,739,269** | **384,809,362** | **656,081,147** | **639,202,537** |
| **Long-term liabilities** | | | | | |
| Employee benefit obligations | | 2,601,083 | 2,636,255 | 3,629,577 | 3,664,749 |
| Lease liabilities | 2.6 | 13,474,216 | 13,761,561 | 13,928,068 | 14,215,413 |
| Loans | 20 | 86,672,207 | 86,672,207 | 102,197,380 | 86,672,207 |
| Deferred revenue | 17 | 281,879,246 | 279,847,333 | 292,576,605 | 290,629,069 |
| Advance payments received | 18 | 162,277 | 162,277 | 162,277 | 162,277 |
| **Total long-term liabilities** | | **384,789,029** | **383,079,633** | **412,493,907** | **395,343,715** |

Annexes from page 32 to 67 are an integral part of these financial statements.

**Imants Zviedris**,
Board Member

**Mārcis Kauliņš**,
Board Member

**Gatis Junghāns**,
Board Member

**Māra Grava**,
Head of the Finance and Accounting Department

In Riga, 14 May 2021

## STATEMENT OF FINANCIAL POSITION ON 31 MARCH 2021 (CONTINUED)

| | | JSC Augstsprieguma tīkls | | Group | |
|---|---|---|---|---|---|
| | Pielikums | 31.03.2021. EUR | 31.12.2020. EUR | 31.03.2021. EUR | 31.12.2020. EUR |
| **Short-term liabilities** | | | | | |
| Loans | 20 | 116,200,000 | 116,200,000 | 146,522,917 | 138,075,000 |
| Lease liabilities | 2.6 | 761,477 | 657,434 | 795,777 | 717,652 |
| Deferred revenue | 17 | 6,041,375 | 5,973,540 | 10,587,420 | 7,226,470 |
| Trade payables | | 4,177,368 | 4,908,151 | 7,860,164 | 12,544,628 |
| Taxes and mandatory state social insurance contributions | 21 | 1,705,091 | 1,754,449 | 3,010,682 | 2,811,710 |
| Deferred corporate income tax liabilities | | - | - | - | 5,152,360 |
| Advance payments received | 18 | 295,959 | 602,252 | 912,525 | 1,255,537 |
| Other creditors | 18 | 2,328,774 | 2,232,912 | 3,035,359 | 2,963,606 |
| Accrued liabilities | 19 | 4,542,838 | 5,309,444 | 6,391,840 | 8,222,228 |
| **Total short-term liabilities** | | **136,052,882** | **137,638,182** | **179,116,684** | **178,969,191** |
| **TOTAL LIABILITIES AND EQUITY** | | **908,581,180** | **905,527,177** | **1,247,691,738** | **1,213,515,443** |

Annexes from page 32 to 67 are an integral part of these financial statements.

**Imants Zviedris,**
Board Member

**Mārcis Kauliņš,**
Board Member

**Gatis Junghāns,**
Board Member

**Māra Grava,**
Head of the Finance and Accounting Department

In Riga, 14 May 2021

## STATEMENT ON CHANGES IN EQUITY

| | JSC Augstsprieguma tīkls | | | |
|---|---|---|---|---|
| | **Share capital** EUR | **Retained profit** EUR | **Reserves** EUR | **Total** EUR |
| **BALANCE ON 31 DECEMBER 2019** | **64,218,079** | **2,951,011** | **2,786,621** | **69,955,711** |
| Share capital increase | 299,678,000 | – | – | 299,678,000 |
| Dividends paid for 2019 | – | (1,735,958) | – | (1,735,958) |
| Addition of JSC Latvijas elektriskie tīkli as a result of reorganisation | – | 5,211,434 | (27,336,704) | (22,125,270) |
| Recognition of revaluation reserve as a result of reorganisation | – | – | 28,653,237 | 28,653,237 |
| Other income for the reporting year | – | – | 384,250 | 384,250 |
| Transfer of retained earnings | – | 315,146 | – | 315,146 |
| Profit for the reporting year | – | 9,999,392 | – | 9,999,392 |
| **BALANCE ON 31 DECEMBER 2020** | **363,896,079** | **16,741,025** | **4,172,258** | **384,809,362** |
| Retained earnings/(accumulated losses) | – | 53,196 | (53,196) | – |
| Profit for the reporting period | – | 2,929,907 | – | 2,929,907 |
| **BALANCE ON 31 MARCH 2021** | **363,896,079** | **19,724,128** | **4,119,062** | **387,739,269** |

Annexes from page 32 to 67 are an integral part of these financial statements.

**Imants Zviedris**,
Board Member

**Mārcis Kauliņš**,
Board Member

**Gatis Junghāns**,
Board Member

**Māra Grava**,
Head of the Finance and Accounting Department

In Riga, 14 May 2021

## STATEMENT OF CHANGES IN EQUITY (CONTINUED)

| | Group | | | | |
|---|---|---|---|---|---|
| | Share capital EUR | Retained profit EUR | Reserves EUR | Non-controlling interest EUR | Total EUR |
| **BALANCE ON 31 DECEMBER 2019** | **64,218,079** | **56,367,925** | **2,756,459** | **-** | **123,342,463** |
| Share capital increase | 299,678,000 | - | - | - | 299,678,000 |
| Dividends paid for 2019 | - | (1,735,958) | - | - | (1,735,958) |
| Transaction between companies under common control, net result | - | - | 25,778,705 | - | 25,778,705 |
| Transfer of revaluation surplus upon acquisition of control of an associate | - | 28,090,467 | (28,090,467) | - | - |
| Other income/(loss) for the reporting year | - | - | 28,502,092 | 8,275 | 28,510,367 |
| Transaction between companies under unified control, takeover of revaluation reserve | - | - | 28,915,196 | - | 28,915,196 |
| Profit for the reporting year | - | 64,051,311 | - | 1,307,174 | 65,358,485 |
| Acquisition of a subsidiary with a non-controlling interest | - | - | - | 120,912,690 | 120,912,690 |
| **BALANCE ON 31 DECEMBER 2020** | **363,896,079** | **146,773,745** | **6,304,575** | **122,228,140** | **639,202,537** |
| Changes in reserves | - | (136,524,657) | 136,524,657 | - | - |
| Retained earnings/ (accumulated losses) | - | 6,892,438 | (2,049,569) | 309,491 | 5,152,360 |
| Profit for the reporting period | - | 11,726,249 | - | - | 11,726,249 |
| Minority share | - | (2,774,366) | - | 2,774,366 | - |
| **BALANCE ON 31 MARCH 2021** | **363,896,079** | **26,093,407** | **140,779,663** | **125,311,997** | **656,081,146** |

Annexes from page 32 to 67 are an integral part of these financial statements.

**Imants Zviedris**,
Board Member

**Mārcis Kauliņš**,
Board Member

**Gatis Junghāns**,
Board Member

**Māra Grava**,
Head of the Finance and Accounting Department

In Riga, 14 May 2021

## NAUDAS PLŪSMAS PĀRSKATS

| | JSC Augstsprieguma tīkls | | Group | |
|---|---|---|---|---|
| | 31.03.2021. EUR | 31.03.2020. EUR | 31.03.2021. EUR | 31.03.2020. EUR |
| **I CASH FLOW FROM OPERATING ACTIVITIES** | | | | |
| **1. Profit or loss before taxes** | **2 929 907** | **2 436 127** | **11 726 249** | **2 436 127** |
| **Adjustments:** | | | | |
| - amortisation, depreciation and impairment in value of intangible assets, fixed assets and rights to use assets | 8,142,421 | 8,074,675 | 12,533,483 | 8,074,675 |
| - increase in provisions/ (reduction) | (35,172) | 100,371 | (35,172) | 100,371 |
| - net financial corrections | 406,419 | (833) | 513,056 | (833) |
| - revenue from dividends | - | - | 30,820 | - |
| **Profit before corrections of the influence of changes in the balances of the current assets and short-term creditors** | **11,443,575** | **10,610,340** | **24,768,436** | **10,610,340** |
| **Adjustments:** | | | | |
| decrease/(increase) of trade receivables | 32,201,976 | 25,099,530 | 32,322,170 | 25,099,530 |
| (increase)/reduction of stocks | (46,795) | (5,929) | 74,728 | (5,929) |
| increase/(decrease) in debts to suppliers and other creditors | (31,868,204) | (2,267,210) | (36,509,241) | (2,267,210) |
| **2 Gross cash flow from operating activities** | **11,730,552** | **33,436,731** | **20,656,093** | **33,436,731** |
| Losses from currency exchange rate fluctuations | 2,077 | (1,336) | 45,890 | (1,336) |
| **NET CASH FLOW FROM OPERATING ACTIVITIES** | **11,732,629** | **33 435 395** | **20,701,983** | **33,435,395** |

Annexes from page 32 to 67 are an integral part of these financial statements.

**Imants Zviedris,**
Board Member

**Mārcis Kauliņš,**
Board Member

**Gatis Junghāns,**
Board Member

**Māra Grava,**
Head of the Finance and Accounting Department

In Riga, 14 May 2021

## NAUDAS PLŪSMAS PĀRSKATS (TURPINĀJUMS)

| | JSC Augstsprieguma tīkls | | Group | |
|---|---|---|---|---|
| | 31.03.2021. EUR | 31.03.2020. EUR | 31.03.2021. EUR | 31.03.2020. EUR |
| **II CASH FLOW FROM INVESTING ACTIVITIES** | | | | |
| Acquisition of fixed assets and intangible investments | (5,082,513) | (378,331) | (9,378,311) | (378,331) |
| Sale of fixed assets and intangible assets | - | 97,107 | - | 97,107 |
| Term deposits placed, net | 25,000,000 | (20,000,000) | 25,000,000 | (20,000,000) |
| Interest income from payments | - | 44,224 | - | 44,224 |
| **NET CASH FLOW FROM INVESTING ACTIVITIES** | **19,917,487** | **(20,237,000)** | **15,621,689** | **(20,237,000)** |
| **III CASH FLOW FROM FINANCING ACTIVITIES** | | | | |
| Loans from credit institutions, net | - | - | 23,973,090 | - |
| Expenses for repayment of loans | (564,048) | - | (602,165) | - |
| Asset lease payments | (254,678) | (6,152,852) | 286,292 | (6,152,852) |
| Asset lease interest payments | 59,494 | - | 59,494 | - |
| European Union funding received | - | 172,217 | 3,014,116 | 172,217 |
| Dividends paid to shareholders | - | - | (252) | - |
| **NET CASH FLOW FROM FINANCING ACTIVITIES** | **(759,232)** | **(5,980,635)** | **26,157,991** | **(5,980,635)** |
| **Increase/(decrease) in net cash and cash equivalents during the reporting year** | **30,890,884** | **7,217,760** | **62,481,663** | **7,217,760** |
| Balance of cash and equivalents thereof at the beginning of the reporting year | 32,224,560 | 28,216,327 | 47,388,296 | 28,216,327 |
| **Balance of cash and equivalents thereof at the end of the reporting year** | **63,115,444** | **35,434,087** | **109,869,959** | **35,434,087** |

Annexes from page 32 to 67 are an integral part of these financial statements.

**Imants Zviedris**,
Board Member

**Mārcis Kauliņš**,
Board Member

**Gatis Junghāns**,
Board Member

**Māra Grava**,
Head of the Finance and Accounting Department

In Riga, 14 May 2021

# ANNEXES OF CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

## 1. GENERAL INFORMATION ABOUT THE GROUP

The principal activity of the Augstsprieguma tīkls Group is the provision of electricity transmission system operator functions, efficient management of energy supply system assets, natural gas transmission and storage.

On 31 March 2021, Augstsprieguma tīkls Group structure consists of a group of commercial companies in which the parent company JSC Augstsprieguma tīkls has a decisive influence and which includes the subsidiary JSC Conexus Baltic Grid.

JSC Augstsprieguma tīkls is a transmission system operator, licensed by the Public Utilities Commission under licence No. E12001, that ensures the security of the operation of the transmission network and the power supply system of Latvia, provides the transmission service on the basis of published transmission service tariffs, and ensures the availability of the transmission system services on a continuous basis.

JSC Augstsprieguma tīkls is engaged in operational management of the transmission system and ensures secure and reliable electric power transmission.

All shares of JSC Augstsprieguma tīkls are owned by the Ministry of Finance of the Republic of Latvia. The registered address of the Company is Dārzciema iela 86, Rīga, LV-1073, Latvia.

The financial statements were approved by the Board of the Company on 14 May 2021 as follows: Imants Zviedris (Board Member), Mārcis Kauliņš (Board Member), Gatis Junghāns (Board Member).

The auditor of the Company is the certified audit company SIA Deloitte Audits Latvia, and the responsible certified auditor is Inguna Staša.

## 2. SIGNIFICANT ACCOUNTING PRINCIPLES

This section of the appendix sets out the key accounting principles that are used in the preparation of the financial statements. These principles are applied consistently, reflecting data for all periods presented in the report.

The consolidated and separate financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union on a going concern basis. Taking the European Union approval process into account, this Annex also presents standards and interpretations that have not been approved for application in the European Union, as those standards and interpretations may have an impact on the Company's financial statements in future periods, if they are adopted.

The consolidated and separate financial statements have been prepared under the historical cost convention, except for items carried at fair value. The profit or loss statement is classified by type of expense. The cash flow statement has been prepared using the indirect method.

The financial statements are presented in the currency of the Republic of Latvia, the euro (hereinafter – EUR).

The comparability of indicators is kept in the financial report; in the case when the presentation of financial statement information is changed during the reporting year, comparative figures are reclassified and are comparable.

The financial statements cover the period from 1 January to 31 March 2021. The consolidated financial statements of the Group include the financial results of the subsidiary JSC Latvijas elektriskie tīkli from 1 June to 30 September 2020, when the company merged as a result of the reorganisation, and the financial results of the subsidiary JSC Conexus Baltic Grid from 1 August 2020.

As at 31 March 2021, the Group's parent company had investments in the following subsidiaries:

| Name of subsidiary | Country | Type of business activity | Date of establishment/ acquisition | Shareholding |
|---|---|---|---|---|
| JSC Conexus Baltic Grid | Latvia | Transmission and Storage of Natural Gas Pipeline transport (NACE code 49.50) | 21.07.2020 | 68.46% |

## PRINCIPLES FOR PREPARING FINANCIAL STATEMENTS

**Standards and interpretations applicable during the reporting year**

Except for the changes described below, the Group has consistently applied the accounting policies set out in all periods presented in these financial statements.

The Group has adopted the new standards and amendments to standards described below, including the resulting amendments to other standards, the date of initial application of which was 1 January 2020.

**Application of new or revised standards and interpretations**

During the current reporting period, the following standards issued by the International Accounting Standards Board (IASB) and the new standards adopted by the EU, as well as amendments to the existing standards and new guidance on the interpretation are in force:

- Amendments to IAS 1 "Financial reporting" and IAS 8 "Accounting Policies, Changes in Accounting Estimates, and Errors" – definition of "material" (effective for reporting periods starting on 1 January 2020 or later);
- Amendments to IFRS 3 "Business Combinations" – definition of a business (effective for business combinations in which the business has been acquired during the first reporting period starting on 1 January 2020 or later, as well as for asset acquisition made at the beginning of this period or later);
- Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures" - The reform of the interest rate benchmark adopted by the EU on 15 January 2020 (effective for annual periods beginning on or after 1 January 2020), issued on 26 January 2019 by the IASB;
- Amendments to IFRS 16 Leases" - Covid-19 related rental concessions (adopted by the EU on 9 October 2020 and effective no later than 1 June 2020 for financial years beginning on or after 1 January 2020);
- Amendments to references to the conceptual framework of IFRSs 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 existing standards and interpretations have no material impact on the Group's financial statements.

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

At the date of approval of the financial statements, the following new standards, amendments to existing standards and interpretations issued by the IASB and adopted by the EU but not yet effective:

- Amendments to IFRS 4 Insurance Contracts "Extension of Application of the Temporary Exemption from IFRS 9", adopted by the EU on 16 December 2020 (the deadline of 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" - Reform of the Interest Rate Benchmark - Phase 2 adopted by the EU on 13 January 2021 (effective for annual periods beginning on or after 1 January 2021).

The Group decided not to adopt the new standards, amendments to existing standards and interpretations before their effective date. The Group anticipates that the adoption of these standards and amendments to existing standards will not have a material impact on the financial statements in the period of initial application.

**New standards and amendments to existing standards issued by the IASB but not yet adopted by the EU**

At the moment, the IFRS adopted by the EU do not differ significantly from those adopted by the International Accounting Standards Board (IASB), except for the following standards, amendments of existing standards, and guidance on the interpretation not yet endorsed by the EU as of 31 December 2020 (effective dates refer to IFRSs issued by the IASB):

- IFRS 14 14 "Deferred Items Established by the Regulator" (effective for annual periods beginning on or after 1 January 2016) – the European Commission has decided not to initiate the application process for the interim standard, but to await the final version of the standard;
- IFRS 17 "Insurance Contracts" and amendments to IFRS 17 (effective for reporting periods beginning on 1 January 2023 or after).
- 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 Policy (effective for annual periods beginning on or after 1 January 2023);
- Amendments to IAS 8 "Accounting Policy, Changes in Accounting Estimates, and Errors" – Definition of Accounting Estimates (effective for reporting periods starting on 1 January 2023 or later);
- Amendments to IAS 16 "Fixed Assets" – Revenue 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 – Contract Performance Costs (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 reporting periods beginning on 1 January 2022 or after).
- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" – asset sales or investment transaction between the investor and its associate or joint venture and further amendments (entry into force pending indefinitely until the completion of the research project on the equity method);
- Amendments to various standards related to "Improvements to IFRSs (2018-2020 Cycle)" resulting from the Annual Improvements to IFRSs (IFRS 1, IFRS 9, IFRS 16, and IAS 41, mainly to eliminate inconsistencies and clarify wording (Amendment to IFRS 1 IFRS 9, and IAS 41, shall be effective for reporting periods beginning on 1 January 2022 or after. Amendment to IFRS 16 is for illustrative purposes only, so the effective date is not specified).

The Group anticipates that the adoption of these new standards and amendments to existing standards will not have a material impact on the Group's financial statements in the period of initial application.

**Consolidation**

**(a) Subsidiaries**

A subsidiary is a company that is controlled by the Group. Control is presumed to exist when the Group has the power to obtain or obtains control rights over certain benefits from its interest in an investment and if it has the possibility to obtain a return by using its impact on its investment (existing rights that give a current possibility to determine control over the company) (IFRS 10 "Consolidated Financial Statements").

A subsidiary is consolidated from the date on which control is transferred from the parent company and consolidation is terminated when this control ceases to exist.

All transactions between the companies of the Augstsprieguma tīikls Group are determined according to the market value of the transactions, and mutual balances and unrealised gains on transactions between the companies of the Augstsprieguma tīikls Group are excluded. Uncovered losses are also eliminated and are considered an indicator of impairment of the transferred asset. If necessary, the accounting and valuation methods of the subsidiary are changed to ensure compliance with the accounting and valuation methods used in the Augstsprieguma tīkls Group.

Investments in subsidiaries are stated in the Company's separate financial statements at historical cost less impairment losses, if any.

**b) Transactions with minority shareholders**

The Company's transactions with minority shareholders are treated as external transactions, while the Augstsprieguma tīkls Group's transactions with minority shareholders are treated as transactions with the owners of the parent company. Gains or losses on transactions with minority shareholders are recognised in the profit or loss statemen or in equity (IFRS).

**(c) Associates**

Investments in an associate are investments in a company in which the Augstsprieguma tīkls Group has significant influence over the Group company (owns 20 percent or more), but does not have undisputed sole control over the activities of the other company. Investments in associates that are not held for sale are classified in the balance sheet as non-current financial investments.

In these statements, investments in associates are stated at their acquisition cost. In the consolidated financial statements, investments in equity of an associate are accounted for in accordance with International Accounting Standards (hereinafter – IAS) 28, and such investments are accounted for using the equity method.

Under the equity method, an investment is initially recognised at cost and subsequently adjusted to reflect post-acquisition changes in the parent's share of the associate's net assets. The parent's profit or loss includes the Parent Company's share of the associate's profit or loss, while the Parent Company's other comprehensive income includes the Parent Company's share of the associate's other comprehensive income.

**d) Goodwill**

Investments in subsidiaries are accounted for using the acquisition method. Acquisition costs are measured at the fair value of the assets acquired, equity instruments issued and liabilities incurred or assumed at the date of the change. Acquisition costs are charged to the Profit or Loss Statement in the period in which they are incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. Goodwill is initially measured as the excess of the total sum of an acquisition value and the value of the minority interest, and the amount of identified assets acquired and liabilities assumed. If the amount of the transferred assets is less than the fair value of the net assets acquired, the difference is recognised in the Profit or Loss Statement. Goodwill is presented in the intangible assets section.

Goodwill arising on the acquisition of a company is stated at cost, determined at the acquisition date of the company, less any accumulated impairment losses, if any. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the goodwill may be impaired. Impairment losses on goodwill are recognised in the consolidated statement of comprehensive income.

## 2.1. FINANCIAL INSTRUMENTS

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

Financial assets and financial liabilities are initially recognised at fair value. Transaction costs that are directly attributable to the acquisition or issue of a financial asset and financial liabilities (other than a financial asset and financial liabilities at fair value through the profit or loss statement) are initially recognised or deducted from financial assets or fair values of financial liabilities.

**Financial assets**

All financial assets recognised on initial recognition are measured at amortised cost or fair value, depending on the classification of the financial assets.

*Classification of financial assets*

Debt instruments that meet the following conditions, after initial recognition, are measured at amortised cost:

- the financial asset is held within the framework of a business model, the purpose of which is to hold the financial assets in order to collect the contractual cash flows;
- the terms of a financial asset contract generate cash flows at specified dates that are only principal and interest payments.

Debt instruments that meet the following conditions after initial recognition are measured at fair value through the statement of Other Comprehensive Income (FVTOCI):

- the financial asset is held in a business model, the objective of which is achieved both by collecting the contractual cash flows and by selling the financial asset;
- the terms of a financial asset contract generate cash flows at specified dates that are only principal and interest payments.

By default, all other financial assets after initial recognition are measured at fair value through the Profit or Loss Statement (FVTPL).

Notwithstanding the above, upon the initial recognition of a financial asset, the Company may irrevocably choose:

- to classify equity instruments at fair value through other comprehensive income, if certain criteria are met.

*Equity instruments at fair value through other comprehensive income*

After initial recognition, the Company may irrevocably elect (separately for each instrument) to measure certain equity instruments at fair value through other comprehensive income. This classification is not allowed, if the equity instrument is held for trading or if it is a variable consideration received as a result of business combination.

Investments in equity instruments recognised in other comprehensive income are measured initially at fair value adding transaction costs. They are subsequently measured at fair value, with profit or loss arising from changes in fair value, recognised in other comprehensive income in the revaluation reserve. At the time the equity instrument is disposed of, the cumulative gain or loss is not reclassified to the profit or loss statement, but it is transferred to retained earnings.

Dividends from those investments in equity instruments are recognised in the profit or loss statement in accordance with IFRS 9, unless the dividends clearly represent a return on the investment cost.

At the initial application of IFRS 9 the Company has classified all investments in equity instruments that are not held for trading, in the category at fair value through other comprehensive income.

*Impairment of financial assets*

The Company recognises a deduction for expected credit losses on investments in debt instruments that are measured at amortised costs or fair value recognised in other comprehensive income, lease trade receivables, trade receivables, as well as financial guarantee contracts. The expected amount of credit risk losses shall be reviewed at each date of the report to reflect changes in credit risk since the initial recognition of the financial instrument. The Company always recognises life expectancy credit losses on trade receivables and contract assets. The expected credit losses from these financial assets are calculated by using a provision matrix based on the Company's historical credit loss experience.

*Derecognition of financial assets*

The Company only derecognises a financial asset when the contractual rights to the cash flows from the asset expire or when it substantially transfers all the risks and rewards incidental to ownership of the financial asset to another entity. If the Company does not transfer or retain substantially all of the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest and related liabilities to the extent that it may be required to pay. If the Company substantially retains all the risks and rewards of ownership of the transferred financial asset, the Company continues to recognise the financial asset and also recognises a secured loan for revenue received.

**Financial liabilities**

All financial liabilities are initially measured at amortised cost using the effective interest method or at fair value, recognising it in the profit or loss statement.

*Financial liabilities with evaluation at amortised cost*

Financial liabilities other than i) the potential consideration from the acquirer in a business combination, ii) held for trading, or iii) initially recognised at fair value through the Profit or Loss Statement, after initial recognition, are subsequently measured at amortised cost using the effective interest method.

The effective interest method is the method of calculating the amortised cost of financial liabilities and allocating the interest expense over the period. The effective interest rate is the rate at which discounted future cash flows or revenue (including any fees and interest paid or received by the parties to the contract that are an integral part of the effective interest rate, transaction costs and any other premiums or discounts) at the expected life of the financial asset or financial liability, the gross carrying amount of a financial asset, or the amortised cost of a financial liability, is precisely obtained.

*Derecognition of financial liabilities*

The Company only derecognises a financial liability when the Company's liabilities are executed, cancelled, or terminated. The difference between the book value of financial liabilities and the consideration paid or payable is recognised in the profit or loss statement.

## 2.2. TRANSACTIONS IN FOREIGN CURRENCIES

***(a) Functional and presentation currency***

The items of financial statements of the Company are measured in the currency of the economic environment in which the Company operates (the functional currency). The items of the financial statements are presented in euros (EUR), which is the Company's functional and presentation currency.

***(b) Transactions and balances***

All transactions in foreign currencies are revalued into euros at the official exchange rate set by the European Central Bank ruling on the date of the relevant transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated to euros at the exchange rates prevailing on the last day of the reporting year. Gained profit or losses are recognised in the profit or loss statement for the relevant period.

## 2.3. INTANGIBLE INVESTMENTS AND FIXED ASSETS

All intangible investments are counted at initial value less accumulated amortisation. Computer software licences, computer software and related implementation costs are recognised as intangible investments and amortised on a straight-line basis over the estimated useful lives of these assets, up to five years.

The Group's property, plant and equipment (excluding Buildings and structures and technological equipment) are stated at cost less accumulated depreciation and accumulated impairment losses. The acquisition value includes expenses that are directly related to the acquisition of the intangible investment or fixed asset. Depreciation of fixed assets is calculated using the straight-line method over the useful life of the asset, to allocate the acquisition cost to its estimated residual value at the end of the useful life period. For other fixed assets and equipment (means of communication and equipment, office supplies and equipment), it shall not exceed two to five years.

The main groups of the Group's fixed assets are real estate (buildings and structures) related to electricity transmission assets, electricity transmission lines and technological equipment, buildings related to natural gas transmission and storage, natural gas transmission gas pipelines and related technological equipment, Inčukalns underground gas storage facilities, equipment and machinery related to natural gas transmission. Buildings and structures and technological equipment are stated at revalued amount in the financial statements. Revaluations are performed with sufficient regularity to ensure that the carrying amount of these assets does not differ materially from that which would be determined using fair value at the end of the reporting period (but at least every five years). Other fixed assets, including land, buffer gas in the Inčukalns underground gas storage, technological natural gas in transmission pipelines and the emergency reserve for fixed assets spare parts, are stated at cost.

The increase in value resulting from the revaluation of property, plant and equipment is presented in the equity item "Reserves". The revaluation reserve is reduced if the revalued property, plant and equipment is disposed of, liquidated or there is no longer a basis for an increase in value according to management's assessment.

Further expenses are included in the balance sheet value of the asset or only recognised as a separate asset when there is a great possibility that the future commercial benefits related to this item will flow in the Company and expenses of this item can be credibly determined. Such costs are written off during the remaining period of the service life of the relevant fixed asset.

Current repairs and maintenance of fixed assets are included in the profit or loss statement for the period when they were incurred.

Profit or loss from excluding fixed assets is calculated as the difference between the balance sheet value of the fixed asset and the revenue obtained as a result of selling it and included in the profit or loss statement for the period when they were incurred.

If the balance value of some intangible investment or fixed asset is above the recoverable value thereof, the value of the relevant intangible investment or fixed asset is written off without delay to the recoverable value thereof. The recoverable value is the highest value from the fair value of the relevant intangible investment or fixed asset, less sales costs or value of use.

## 2.4. FAIR VALUE

IFRS 13 establishes a hierarchy of valuation techniques based on whether observable market data is used in the valuation technique or whether there is any observable market data. Observable market data is obtained from independent sources. If market data is not observable, the valuation technique reflects the Company's management's assumptions about the market situation. This hierarchy requires the use of observable market data, if it is available. When carrying out the revaluation, the Company shall take into account the relevant observable market prices, if it is possible. The objective of measuring the fair value, even if the market is not active, is to determine the transaction price at which market participants would be ready to sell the asset or make a commitment at a given valuation date under current market conditions. Several methods are used to determine the fair value of a financial instrument: quoted prices or valuation techniques that incorporate observable market data and are based on internal models. Based on the fair value hierarchy, all valuation techniques are divided into Level 1, Level 2, and Level 3. The level of the fair value hierarchy of a financial instrument should be determined as the lowest level if a significant part of their value consists of lower level data. The classification of a financial instrument in the fair value hierarchy is carried out in two steps:

1. Classify each level of data to determine the fair value hierarchy;
2. Classify the financial instrument itself on the basis of the lowest level if a significant part of its value consists of lower level data.

Quoted market prices - Level 1 The valuation technique in Level 1 uses unadjusted quoted prices in an active market for identical assets or liabilities, when quoted prices are readily available and the price represents the actual market position for the transactions under fair competition.

Valuation techniques, when using market data – Level 2 In the valuation technique used in Level 2 models, all relevant data, directly or indirectly, are observable from the asset or liability side. The model uses market data that are not the quoted prices at Level 1, but that are observable directly (i.e., price) or indirectly (i.e., derived from price).

Valuation technique using market data that is not based on observable market data – Level 3 Valuation technique using market data that is not based on observable market data (non-observable market data) are classified in Level 3. Non-observable market data are the data that are not easily available in an active market due to the illiquidity of the market or the complexity of the financial instrument. Level 3 data are determined mainly on the basis of observable market data of a similar nature, historical observations or analytical approaches.

## 2.5. LONG-TERM FINANCIAL INVESTMENTS

Long-term financial investments are investments in the equity of other companies.

**Investments in associates**

Investments in associates are investments in companies in which the Company has significant influence, but not control, over the other company.

In the consolidated financial statements, investments in equity of an associate are accounted for in accordance with International Accounting Standards (hereinafter - IAS) 28, and such investments are accounted for using the equity method.

**Other long-term financial investments**

Other long-term financial investments are investments in the equity of other companies in which the Company has no significant influence or control.

According to IFRS 9, equity instruments after initial recognition are measured at fair value. The Company chose the approach allowed by IFRS 9, initially recognising the financial asset, to irrevocably choose to reflect equity instruments that are not held for trading or are acquired in a business combination, at fair value through other comprehensive income.

## 2.6. LEASEHOLD

**The Company as the lessee**

When concluding a contract, the Company assesses whether the contract is a lease or includes a lease. The Company recognises the right-of-use asset and the corresponding lease liabilities in respect to all lease contracts in which it is the lessee; exceptions are possible for short-term lease (the lease term being 12 months or less) and lease of low-value assets (for example, lease of tablets and personal computers, as well as small office furniture and phone accessories). The Company recognises lease payments related to this lease as operating expenses on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern in which the economic benefits of the leased asset are used.

At the initial date, the Company measures the lease liabilities at the present value of the lease payments outstanding at that date. Lease payments are discounted using the interest rate implied by the lease. If this rate cannot be readily determined, the Company uses its comparable interest rate.

Lease payments included in the evaluation of lease liabilities include the following payments:

- fixed lease payments (including, in substance, fixed lease payments), with the exception of lease payments receivable;
- variable lease payments that depend on an index or rate and were initially evaluated by using an index or rate at the initial date;
- the amounts that the lessee would have to pay as guarantees of residual value;
- the exercise price of the call option, if there are sufficient grounds to believe that the lessee will exercise this option;
- penalty payments for the termination of the lease, if the term of the lease reflects the fact that the lessee uses the option to terminate the lease.

Lease liabilities are presented as a separate item in the statement of financial position.

Leases are subsequently evaluated at cost, using the effective interest method, and decreasing the carrying amount to reflect the lease payments.

The Company reassesses the lease liabilities (and adjusts the related right-of-use asset accordingly) whenever:

- the lease term has changed or a significant event or change in circumstances has occurred, resulting in a change in the measurement of the call option, in which case the lease liabilities are reevaluated by discounting the revised lease payments using the revised discount rate;
- the lease payments change due to a change in an index or rate, or expected payments change due to a guaranteed residual value; in such cases, the lease liability is remeasured by discounting the revised lease payments at a constant discount rate (unless the lease payments change due to a change in a variable interest rate, in which case a revised discount rate is used).

The lease contract is changed and the change in lease is not accounted for as a separate lease, in which case the lease liability is reevaluated based on the term of the modified lease, discounting the revised lease payments by using the revised discount rate at the effective date of the modification.

The right-of-use asset includes the initial evaluation of the corresponding lease liabilities, lease payments made on or before the initial date, deducting any lease discounts received and any initial direct costs. They are subsequently measured at cost from which the accumulated depreciation and impairment losses have been deducted.

The right-of-use asset is amortised over the term of the contract.

Pursuant to the transmission system operator unbundling model introduced in Latvia, on 31 December 2014, the Company entered into a transmission system asset lease agreement with the transmission system asset owner JSC Latvijas elektriskie tīkli. In accordance with the lease agreement for the transmission system assets by implementing IFRS 16, the lease term is set at 5 years.

Pursuant to the protocol decision of the Cabinet session of 8 October 2019 (No. 46, § 38), supporting the implementation of the full ownership separation model regarding the electric power transmission system operator and assigning the task to contribute the JSC Latvijas elektriskie tīkli shares owned by the State to JSC Augstsprieguma tīkls by 1 July 2020, the Company reviewed the lease term and established a deadline of 31 December 2020.

It was established by the protocol decision of the Cabinet session of 17 December 2019 (No. 59, § 75) that after the contribution of JSC Latvijas elektriskie tīkli shares owned by the State to JSC Augstsprieguma tīkls, reorganisation of JSC Augstsprieguma tīkls and JSC Latvijas elektriskie tīkli, LET should take place by incorporating JSC Latvijas elektriskie tīkli into JSC Augstsprieguma tīkls by 31 December 2020.

Pursuant to the above-mentioned decisions of the Cabinet of Ministers, with the decision of the Register of Enterprises of 25 November 2020, JSC Latvijas elektriskie tīkli was added to JSC Augstsprieguma tīkls on 25 November 2020.

| | JSC Augstsprieguma tīkls | | Group | |
|---|---|---|---|---|
| | **31.03.2021.** EUR | **31.03.2020.** EUR | **31.03.2021.** EUR | **31.03.2020.** EUR |
| ***Right-of-use assets*** | | | | |
| **Residual value at the beginning of the reporting period** | 14,212,293 | 35,920,323 | 14,715,877 | 35,920,323 |
| Recognised changes in lease contracts | 11,882 | 896,290 | 11,882 | 896,290 |
| Depreciation | (219,639) | (9,204,153) | (242,822) | (9,204,153) |
| **Residual value at the end of the reporting period** | **14,004,536** | **27,612,460** | **14,484,937** | **27,612,460** |
| **Lease liabilities** | | | | |
| Residual value at the beginning of the reporting period | 14,418,995 | 37,475,766 | 14,933,065 | 37,475,766 |
| Recognised changes in lease contracts | 11,882 | (659,155) | 11,882 | (659,155) |
| Decrease in lease liabilities | (254,677) | (9,229,277) | (286,291) | (9,229,277) |
| Asset lease interest expense | 59,493 | 42,055 | 65,189 | 42,055 |
| **Residual value at the end of the reporting period** | **14,235,693** | **27,629,389** | **14,723,845** | **27,629,389** |
| **On 31 March 2021** | | | | |
| including: | | | | |
| *Long term* | 13,474,216 | – | 13,928,068 | – |
| *Short term* | 761,477 | 27,629,389 | 795,777 | 27,629,389 |

## 2.7. STOCK

Stock is presented in the lowest value of the prime cost or net sale value. The net sale value is the selling price of the stock determined during the course of regular operation of the Company, minus variable selling expenses. The prime cost is calculated using the weighted average method.

Purchase costs of stock include the purchase price, import duties and other taxes and fees, transportation and associated costs, as well as other costs directly related to the delivery of materials and goods. Trade discounts, rebates and similar discounts are deducted in determining the value of inventories.

The amount of inventories is verified by taking an inventory at the end of the year.

## 2.8. DEFERRED REVENUE

Revenue received before the balance sheet date but relating to the following twelve months (short-term) or after twelve months (long-term) is included in the deferred income in the balance sheet of short-term or long-term creditors.

Deferred income from congestion management income, once it has been used to finance a specific long-term investment project, is amortised through the progressive recognition of that income in the Profit or Loss Statement for the current financial year in accordance with the amortisation/depreciation period of the long-term investment created. Respectively, when the asset is disposed of or excluded, the proceeds are recognised at their residual value.

## 2.9. PENSIONS, POST-EMPLOYMENT BENEFITS

***(a) Pension liabilities***

The Company makes monthly contributions to a closed, fixed contribution pension plan on behalf of employees. The plan is managed by the Joint Stock Company "First Closed Pension Fund" in which the Company participates. Contributions to a fixed contribution pension plan does not give the Company any additional legal or practical obligation to make further payments, if the plan does not have sufficient resources to pay all employee benefits for services provided by the employee in current or prior periods. Contributions are made in the amount of 5% (from 1 January 2018 – 6%) of the salary of each member of the pension plan. Contributions to a fixed contribution plan are recognised by the Company at the time when the employee provides the service in exchange for those contributions.

***(b) Post-employment benefit liabilities***

In addition to the above mentioned pension plan, the Company provides certain post-employment benefits to employees whose employment conditions meet certain criteria. The liabilities for the benefits are calculated on the basis of the current salary levels and the number of employees who are required to receive payments, the amount of historical termination of labour relations, and actuarial assumptions.

Liabilities recognised in the balance sheet in respect of post-employment benefits are reflected at their present value at the balance sheet date, less any past costs.

Post-employment benefit obligations are recalculated for each reporting year by an independent actuary using the projected unit credit method.

The present value of the benefit obligations is determined by discounting the expected future cash outflows using interest rates of government securities.

The Company uses the projected unit valuation method to estimate the present value of its fixed benefit obligations and the related present and future costs.

According to this method it is considered that each period of service creates an additional unit of entitlement to receive the benefit and that the sum of all such units represents the total liability for post-employment benefits.

The Company also uses objective and mutually agreed actuarial assumptions about variable demographic factors (such as staff turnover and mortality rates) and financial factors (such as expected salary increases and certain changes in benefit levels).

Actuarial gains and losses arising from adjustments and changes in actuarial assumptions are recognised in the statement of comprehensive income in the period in which they arise.

## 2.10. CORPORATE INCOME TAX

Corporate income tax is calculated in accordance with the tax legislation of the Republic of Latvia, taking income subject to income tax in the taxation period into account.

The tax rate is 20 percent of the calculated tax applicable base, which is adjusted before the tax rate is applied, by dividing the object value applicable to corporate tax by a coefficient of 0.8.

Corporate income tax on dividend payments is recognised in the profit or loss statement as an expense in the period in which the dividends are declared, and for other contingent items in the period in which the expenses are incurred in the reporting year, regardless of the time of payment.

**Deferred income tax**

Deferred income tax arising from temporary differences between the tax bases of assets and liabilities and their carrying amounts has been calculated in these financial statements using the liability method. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the temporary differences reverse.

The main temporary differences arise from the different depreciation rates used for accounting and tax purposes for property, plant and equipment and certain non-deductible provisions for tax purposes, as well as tax losses carried forward.

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, current and deferred tax assets and liabilities should be measured at the tax rate applicable to the retained earnings. In Latvia, retained earnings will be subject to a 0% tax rate.

As the parent controls the dividend policy of its subsidiaries, it is able to control the timing of the reversal of the temporary difference relating to that investment, including the temporary difference arising from retained earnings. Therefore, in the consolidated financial statements, the Group was able to recognise deferred tax assets and liabilities in respect of investments in subsidiaries using the tax rate applicable to distributed profits. Where the Parent Company has determined that the subsidiary's profits will not be distributed in the foreseeable future, the Parent Company does not recognise deferred tax assets and liabilities.

## 2.11. SAVINGS

Provisions are recognised when the Company has legal or other reasonable commitments triggered by a certain past event and there is a probability present that the fulfilment of such liabilities would require the outflow of resources containing economic benefits from the Company, and it is possible to sufficiently assess the scope of liabilities. No provisions are made for future operating losses.

Provisions are recognised in the balance sheet by determining the amount of expenditure that would be required to settle the obligation at the balance sheet date as precisely as possible. Provisions are only used for the expenses for which the provision was initially recognised, and they are reversed if a potential outflow of resources is no longer expected.

Provisions are measured based on the present value of the expenses that are expected to be incurred to settle the present obligations, using a pre-tax discount rate that includes the current market value of the cash and the risks specific to the liabilities.

Provisions for unused holiday are made to accurately reflect the Company's liabilities to employees for unused holiday, if there are any. Accruals for unused holiday are calculated monthly in the HORIZON resource accounting system.

## 2.12. REVENUE RECOGNITION

The Company's revenue from customers is the value of products sold and services provided as a result of operating activities. The Company only keeps records for contracts with the client within the scope of IFRS 15 if all of the following criteria are met:

a) the parties to the contract have approved the contract (in writing, orally or in accordance with other normal commercial practices) and have undertaken to comply with their respective obligations;

b) the Company may determine the rights of each party regarding the goods or services to be transferred;

c) the Company may establish payment terms for the goods or services to be transferred;

d) the agreement is of a commercial nature (i.e. it is expected that the contract will result in a change in the Company's future cash flow risk, schedule or amount);

e) there is a possibility that the Company will charge an indemnity in exchange for goods or services transferred to the customer. When assessing whether it is possible to collect the indemnity amount, the Company only takes the ability and intention of the client to repay the indemnity in a timely manner into consideration.

In accordance with IFRS 15 The Company transfers control of a good or service over time, and thereby carries out its obligation of fulfilment and recognises revenue over time, if one of the following criteria is met:

a) the customer simultaneously receives and consumes the benefits that are assured by the Company's activities in the course of the Company's business;

b) with operation of the Company the asset is created or improved (for example, repairs) and the customer controls the asset at the time the asset is created or improved;

c) The Company's operation does not constitute an asset that the Company could use as an alternative and the Company has enforceable rights to payment for timely completion.

For each performance obligation that has been discharged over time, the Company only recognises revenue over time if the Company can reasonably measure its progress towards the full implementation of the performance obligation.

**The material types of the Company's revenue are as follows:**

***(a) Electricity transmission system services***

Based on the fact that the customer simultaneously receives and consumes the benefits provided by the Company's operations in the course of the Company's operations, the Company transfers control over the service over time and thus fulfils the performance obligation and recognises revenue over time.

The Company only recognises revenue from the performance of obligations over the term when control over the service is transferred to the customer, when (or as soon as) the customer decides to use the asset and benefits from it, and when the Company can reasonably measure its progress towards the full implementation of their obligations.

Based on the fact that revenues from transmission system services are based on tariffs approved by the Public Utilities Commission, according to IFRS 15. The Company is entitled to receive reimbursement from the customer for an amount that directly reflects the value the customer receives from the Company's timely completion of Company's activities; for practical purposes, the Company may recognise revenue in the amount the Company is entitled to collect.

The Company recognises revenue from the provided transmission system services at the end of each month on the basis of automatically read meter readings.

***(b) Congestion and overload management***

JSC Augstsprieguma tīkls implements transmission system congestion and overload management in accordance with Section 13, Paragraph 4 and Section $13^1$, Paragraph 6 of the Electricity Market Law, and receives a fee for a cross-section restricted capacity auction in accordance with the mutual compensation mechanism and concluded contracts of the transmission system operators.

According to Article 16 of Regulation (EC) No. 714/2009 of the European Parliament and of the Council "On conditions for access to the network for cross-border exchanges in electricity and repealing Regulation (EC) No. 1228/2003" (hereinafter – the Regulation), any revenues resulting from the allocation of interconnection capacity shall be used for one or more of the following purposes:

a) ensuring the actual availability of the allocated capacity and/or

b) maintaining or improving interconnection capacity through network investments, in particular in new interconnectors;

c) if the revenues cannot be used effectively for the above purposes, they may – subject to approval by the regulatory authorities of the relevant member states – up to a maximum value to be determined by the mentioned regulatory authorities, be used as revenues to be taken into account by the national regulatory authorities when approving the methodology for calculating network tariffs/or setting network tariffs.

Considering the provisions of the Regulation, revenues received from congestion management, which are not used to eliminate overload and congestion in the transmission network, are reflected in the balance sheet as deferred income. Once this income has been used to finance a specific long-term investment project, deferred income is amortised through the progressive recognition of that income in the Profit or Loss Statement for the current financial year in accordance with the amortisation/depreciation period of the long-term investment created.

Based on the fact that the customer simultaneously receives and consumes the benefits provided by the Company's operations in the course of the Company's operations, the Company transfers control over the service over time and thus fulfils the performance obligation and recognises revenue over time.

The Company only recognises revenue from the performance of obligations over the term when control over the service is transferred to the customer, when (or as soon as) the customer decides to use the asset and benefits from it, and when the Company can reasonably measure its progress towards the full implementation of their obligations.

In accordance with the principle of reconciliation of revenues and costs, the revenues of congestion management that are used to eliminate congestion and overload in the transmission network, shall be shown in the profit or loss statement according to the amount of costs (resource method for measuring progress) associated with congestion and overload elimination.

***(c) Mandatory procurement component income***

In accordance with Paragraph 105 of Cabinet Regulation No. 50 of 21 January 2014, Electricity Trading and Use Regulations, the Company collects mandatory procurement components (hereinafter – OIK) from all electricity end-users or their traders, if the end-user has delegated settlements to the trader with the Company for system services and ancillary services.

The revenues of MPC are determined in accordance with the tariffs set by the Public Utilities Commission and the volumes of electricity transmitted. At the same time, the Company is obliged to make MPC payments to the Public energy trader for the electricity transmitted to the end users.

Given that the Company has no influence over the pricing of the service and does not have the power to determine the price directly or indirectly, MPC revenue is recognised on an agent basis, with revenue recognised in the profit or loss statement on a net basis.

***(d) Income from electricity/capacity sales***

According to Article 11 Section 2 of the Electricity Market Law, the transmission system operator may participate in electricity trading, if the purchase and sale of electricity or capacity is necessary for system balancing, buying ancillary services, covering electricity transmission losses, for the transmission system operator's own consumption, or if there is a deviation in the system from a normal operation or there has been an accident.

When participating in the trade of electricity, the transmission system operator shall act in accordance with open, non-discriminatory and market based procedures, except in the event of deviations from the normal operating system or if there has been an accident. In the event of deviations from the normal operating system or in the event of an accident, the transmission system operator shall act in accordance with the provisions of the Network code.

Based on the fact that the customer simultaneously receives and consumes the benefits provided by the Company's operations in the course of the Company's operations, the Company transfers control over the service over time and thus fulfils the performance obligation and recognises revenue over time.

The Company only recognises revenue from the performance of obligations over the term when control over the service is transferred to the customer, when (or as soon as) the customer decides to use the asset and benefits from it, and when the Company can reasonably measure its progress towards the full implementation of their obligations.

Revenue from the sale of electricity/capacity is recognised on the basis of acceptance notes and bills, which are invoiced each month for the electricity/capacity delivered during the month in accordance with the contracts entered into with each other.

***(e) New construction and renovation of transmission assets (until 01.10.2020)***

According to Article 13. Section 6 of the Electricity Market Law, the Company shall be responsible for the planning, construction, and commissioning of new transmission infrastructure objects during the development of the transmission system. In turn, according to Article 21.[2] Section 2 of the Electricity Market Law, the transmission system asset owner JSC Latvijas elektriskie tīkli finances capital investments in the transmission system assets. Within the framework of the service, with its personnel resources the Company plans, organises, documents, and controls the construction, reconstruction, and renovation works in the assets of the recipient of the service – JSC Latvijas elektriskie tīkli. The service includes the provision of capital investment project management. The service was provided until the addition of JSC Latvijas elektriskie tīkli on 25 November 2020.

Based on the fact that the customer simultaneously receives and consumes the benefits provided by the Company's operations in the course of the Company's operations, the Company transfers control over the service over time and thus fulfils the performance obligation and recognises revenue over time.

The Company only recognises revenue from the performance of obligations over the term when control over the service is transferred to the customer, when (or as soon as) the customer decides to use the asset and benefits from it, and when the Company can reasonably measure its progress towards the full implementation of their obligations.

Revenue from the construction and renovation of transmission assets is recognised on the basis of mutually agreed monthly acceptance acts and invoices, which are invoiced monthly for the amount of work performed.

***(f) Charges for connection to the electricity transmission system***

JSC Augstsprieguma tīkls ensures the necessary connection of the system participants to the transmission system or the increase of the permitted load of the existing connections in accordance with the system participants' connection regulations issued by the Public Utilities Commission.

Based on the fact that the Company's operations do not constitute an asset that could be used alternatively by the Company, and the Company has an enforceable right to payment on time, the Company transfers control over the service over time and therefore exercises performance and recognises revenue over time.

The Company only recognises revenue from the performance of obligations over the term when control over the service is transferred to the customer, when (or as soon as) the customer decides to use the asset and benefits from it, and when the Company can reasonably measure its progress towards the full implementation of their obligations.

Transmission system connection fees are recognised in the statement of financial position as deferred income and, using the straight-line method, are amortised to the profit and loss statement over the estimated period of the commercial relationship with the customer (lease period) – 20 years. Advance payments made for the provision of the service are reflected in the balance sheet as current liabilities and short-term receivables, they are not included in the profit or loss statement.

***(g) Revenues from natural gas transmission***

The natural gas transmission service shall be considered as a single performance obligation in accordance with IFRS 15. Trade in natural gas transmission capacity products is a regulated service provided by a subsidiary to transmission system users at approved tariffs. Short-term (quarterly, monthly, daily and current daily capacity) and long-term natural gas transmission capacity (annual capacity) products are offered. Revenues from transmission capacity trading products, which by the nature of the service means the provision of transmission infrastructure and does not change over time for each capacity unit according to the selected product, are recognised in the profit or loss statement for each reporting month in proportion to the user-reserved transmission capacity period.

***(h) Revenues from natural gas storage***

The natural gas storage service shall be considered as a single performance obligation in accordance with IFRS 15. The subsidiary provides the Inčukalns underground gas storage capacity trading services at approved tariffs to storage users who have reserved natural gas storage capacity during the storage season. Revenues from the sale of storage capacity, which by the nature of the service means the provision of Inčukalns underground gas storage infrastructure and does not change during the storage season, are recognised for each reporting month according to the storage tariff and in proportion to the remaining months until the end of the storage season.

***(i) Revenue from balancing (natural gas)***

The subsidiary shall maintain information regarding the amount of natural gas entered into the transmission system and withdrawn from the transmission system by the natural gas transmission system users and calculate the imbalance. The amount of daily imbalance is the difference between input and output. In cases where a negative imbalance occurs to the transmission system user, the charge for the amount of imbalance for each day is calculated by multiplying the calculated amount by the daily published balancing natural gas sales price (the obligation to perform balancing is equal for each unit of transported gas volume).

Revenues from balancing shall be recognised for each reporting month when a negative imbalance occurs in the natural gas transmission system user, which has caused a natural gas shortage in the transmission system. In the financial statements, the income from balancing is presented in the other income section at net value (less income for periods when the balance is positive). If market participants cause differences and if the subsidiary does not have sufficient gas resources to ensure the proper functioning of the gas transmission system, the subsidiary shall purchase appropriate quantities of balancing gas.

## 2.13. RECOGNITION OF COSTS

Costs are recognised on an accrual basis. Accounting costs include all foreseeable costs and contingent liabilities incurred in the current or prior years, even if they become known between the balance sheet date and the date of preparation of the financial statements, regardless of the date of receipt of the invoice, as the Company's economic transactions are accounted for and presented in the financial statements on the basis of their economic content and nature, not merely their legal form.

Operating expenses and other operating expenses indicated in the profit or loss statement are disclosed in the annexes to the financial statements in more detailed terms.

## 2.14. LONG-TERM AND SHORT-TERM LIABILITIES

The Company's trade payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method. Liabilities to suppliers and contractors are stated in the financial statements according to supporting documents and entries in the accounting records in the amount of invoices received from suppliers of the Company but not paid at the end of the reporting period.

Accrued expenses that have been incurred during the reporting year when the amount of such costs or the date of payment during the reporting period is clearly known, but the invoices containing such have not yet been received from the suppliers, are included in the item "Accrued liabilities".

## 2.15. BORROWINGS AND LOANS

**Borrowings** are divided into long-term and short-term borrowings.

Borrowings are initially recognised at fair value, net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost. The difference between the proceeds and the redemption value of the loan, deducting the costs related to the receipt of the loans, is gradually included in the profit or loss statement, except for the capitalised portion.

Borrowings are classified as current liabilities unless there is an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

General and specific borrowing costs that relate directly to the acquisition or construction of qualifying assets, i.e. assets that require a significant period of time before their expected use or sale, are added to the costs of creating or acquiring those assets until they are actually ready for their intended use.

**Loans**

Loans are initially recognised at fair value. In subsequent periods, loans are stated at amortised cost. The difference between the proceeds and the redemption value of the loan is recognised in the Profit or Loss Statement over the period of the loan using the effective interest method. Loans are presented as short-term receivables or as long-term receivables if there is an undisputed right to defer the fulfilment of these obligations for at least 12 (twelve) months after the balance sheet date.

## 2.16. RELATED PARTIES

Company shareholder, members of the Board, members of the Supervisory Board, their close relatives and companies, in which they have significant influence or control, are defined as related parties.

As all the shares of JSC Augstsprieguma tīkls are 100% owned by the Republic of Latvia, state-controlled capital companies are also considered related parties.

## 2.17. SEGMENT INFORMATION

Reportable segments are operating segments or sets of segments that meet certain criteria. An operating segment is a component of the Group that is engaged in business activities from which it can earn revenues and cover expenses (including income and expenses related to transactions with other components of the Group), the results of which are regularly reviewed by the Company's chief operating decision-maker, to make decisions about the resources allocated to the segment, evaluate its performance and for which separate financial information is available. The Group considers that it operates in three segments (Electricity Supply, Natural Gas Storage and Transmission), the Group operates geographically only in the territory of Latvia.

## 2.18. SE OF SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

In preparing consolidated financial statements in accordance with IFRS, the Company's management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities at the reporting date and the reported amounts of income and expenses in the current period. The following estimates of the Company's management have a significant impact on the results of the financial statements:

- *Revenue and expenditure related to the public participation in the compensation mechanism for losses of electricity transit flows developed by ENTSO-E*

  Based on statistical and analytical information as well as expert forecasts, the Company makes estimates and assumptions regarding revenues and expenses related to the Company's participation in the Inter Transmission System Operator Compensation Mechanism (ITC mechanism) developed by ENTSO-E. The ITC mechanism is a transit mechanism to cover the costs of transit losses of 35 transmission system operators in Europe, with two funds: the Framework Fund and the united European Union TSOs transit flow volume fund (WWT – with and without transit), which varies according to the electricity market situation. The most important factor influencing the estimate are the electricity transit flows affecting the volume of the WWT Fund in all European electricity transmission networks, as well as the price of transit losses in the ITC Member States. The forecast is made in each Member State on the basis of 6 loss measurements per month and the loss price. Revenue is projected using the precautionary principle.

- *Post-employment benefit liabilities*

  Based on statistical and analytical information as well as estimates made by specialists, the Company makes estimates and assumptions about post-employment benefit obligations as described in the Annex 2.8. In the reporting year, the discount rate used to discount post-employment benefit obligations is fixed at 0.392% (in 2019: 0.744%). The discount rate is determined in accordance with the requirements of International Financial Reporting Standards whereby the discount rate should be determined by reference to the market rate of return on high-quality corporate bonds at the balance sheet date; moreover, the discount rate should reflect the time value of money rather than the actuarial or investment risk. Pursuant to the provisions of the Collective Bargaining Agreement, which envisages the annual indexation of employees 'wages in the amount of inflation, when calculating post-employment benefit accruals, no increase in employees' salaries is planned in 2021, 1.1% in 2022, 1.6% in 2023, 1.7% in 2024, thereinafter - 2.0%.

## SENSITIVITY ANALYSIS OF TOTAL POST-EMPLOYMENT BENEFIT VALUE ON 31 DECEMBER 2020 EUR

| | Increase | Decrease |
|---|---|---|
| Discount rate (+/-1%) | 103,014<br>4% | (230,306)<br>-9% |
| Monthly salary increase (+/- 1%) | 248,696<br>9% | (244,688)<br>-8% |
| Employee turnover rate (+/- 1%) | 293,674<br>11% | (263,033)<br>-9% |

- *Book value of intangible assets and property, plant and equipment*

  The Group's management evaluates the carrying amount of intangible assets and fixed assets and assesses whether there are any indications that the recoverable amount of assets is lower than the carrying amount. The Group's management calculates and recognises impairment losses of intangible assets and fixed assets based on estimates of their future use, disposal or sale. Given the projected business volumes and the potential market value of the assets, management believes that no significant adjustments to the value of intangible assets and fixed assets as at 31 March 2021 are required.

- *Lease Calculation and Asset Use Rights*

  The Group's management applies certain assumptions when calculating the right to use the balance sheet of assets and leasing liabilities. Management believes that such assumptions are reasonably appropriate until 31 March 2021. The accounting policies relevant to IFRS 16 "Leases" are described in Note 2.5.

## 3. REVENUE

| | JSC Augstsprieguma tīkls | | Group | |
|---|---|---|---|---|
| | 3 months of 2021 EUR | 3 months of 2020 EUR | 3 months of 2021 EUR | 3 months of 2020 EUR |
| Electricity transmission system service | 19,311,418 | 18,554,653 | 19,311,418 | 18,554,653 |
| Revenues from transmission of natural gas | – | – | 13,037,879 | – |
| Revenues from storage of natural gas | – | – | 5,522,644 | – |
| Sale of balancing electricity | 3,647,487 | 2,369,957 | 3,647,487 | 2,369,957 |
| Revenues from connection fee | 836,653 | – | 836,653 | – |
| Cross-border electricity perimeter charges | 729,603 | – | 729,603 | – |
| Revenue from reactive electricity | 146,597 | 94,943 | 146,597 | 94,943 |
| Liquidation of electrical capacity overload | 30,193 | 42,611 | 30,193 | 42,611 |
| Reconstruction and renewal of transmission system assets* | – | 18,557,803 | – | 18,557,803 |
| Electricity transit service | – | 655,000 | – | 655,000 |
| Sale of regulatory electricity | (5,097) | 42,488 | (5,097) | 42,488 |
| Congestion management at borders (auction) | – | 3,639 | – | 3,639 |
| Other services | 800,747 | 308,062 | 800,747 | 308,062 |
| **TOTAL REVENUE** | **25,497,601** | **40,629,156** | **44,058,124** | **40,629,156** |

Pursuant to Decision No. 18 of the PUC Council of 30 January 2013 "On the Certification of the Electricity Transmission System Operator", from 1 January 1 2015 AST took over the business lines of maintenance and development of transmission system assets from JSC Latvijas elektriskie tīkli and ensures active new construction, reconstruction and renovation. According to Section $21^2$ of the Electricity Market Law, the transmission system asset owner JSC Latvijas elektriskie tīkli finances capital investments in the transmission system assets, which are decided by JSC Augstsprieguma tīkls. Pursuant to the minutes of the sitting of the Cabinet of Ministers of the Republic of Latvia of 8 October 2019 (No. 46, § 38) and the protocol decision of the sitting of 17 December 2019 (No. 59, § 75), in accordance with the decision of the Register of Enterprises of the Republic of Latvia of 25 November 2020, JSC Latvijas elektriskie tīkli was excluded from the Register of Enterprises and JSC Augstsprieguma tīkls was added.

** In accordance with the Company's accounting policy, the congestion management income is reflected in the Profit or Loss Statement according to the amount of costs related to the prevention of congestion in the transmission.

## 4. OTHER INCOME FROM BUSINESS ACTIVITIES

| | JSC Augstsprieguma tīkls | | Group | |
|---|---|---|---|---|
| | 3 months of 2021 EUR | 3 months of 2020 EUR | 3 months of 2021 EUR | 3 months of 2020 EUR |
| EU financial support | 581,043 | 2,339 | 665,420 | 2,339 |
| Sale of current assets and fixed assets | 87,542 | 109,466 | 87,542 | 109,466 |
| Other revenue | 47,345 | 21,057 | 172,831 | 21,057 |
| **TOTAL OTHER INCOME FROM BUSINESS ACTIVITIES** | **715,930** | **132,862** | **925,793** | **132,862** |

## 5. USED RAW MATERIALS AND MATERIALS, REPAIR COSTS

| | JSC Augstsprieguma tīkls | | Group | |
|---|---|---|---|---|
| | 3 months of 2021 EUR | 3 months of 2020 EUR | 3 months of 2021 EUR | 3 months of 2020 EUR |
| Purchase of balancing electricity | 2,924,851 | 1,969,109 | 2,924,851 | 1,969,109 |
| Transmission electricity losses and technological consumption | 2,505,265 | 1,523,883 | 2,505,265 | 1,523,883 |
| Natural gas transmission and storage system maintenance services | - | - | 1,072,974 | - |
| Electricity transit losses | 861,442 | 282,116 | 861,442 | 282,116 |
| Purchase of regulatory electricity | 709,015 | 440,737 | 709,015 | 440,737 |
| Costs of materials used and repairs | 132,878 | 74,771 | 292,311 | 74,771 |
| Natural gas costs | - | - | 263,916 | - |
| Electricity for own consumption | 96,469 | 70,993 | 96,469 | 70,993 |
| **USED RAW MATERIALS, TOTAL REPAIR COSTS** | **7,229,920** | **4,361,609** | **8,726,243** | **4,361,609** |

## 6. STAFF COSTS

| | JSC Augstsprieguma tīkls | | Group | |
|---|---|---|---|---|
| | 3 months of 2021 EUR | 3 months of 2020 EUR | 3 months of 2021 EUR | 3 months of 2020 EUR |
| Remuneration for work | 3,208,318 | 3,194,958 | 5,456,893 | 3,194,958 |
| State social insurance contributions and benefits determined by the collective agreement | 777,402 | 782,659 | 1,331,455 | 782,659 |
| Contributions to the pension plan | 151,475 | 148,537 | 273,615 | 148,537 |
| Other staff costs | - | - | 2,115 | - |
| **TOTAL STAFF COSTS (INCLUDING REMUNERATION TO THE MANAGEMENT OF THE COMPANY)** | **4,137,195** | **4,126,154** | **7,064,078** | **4,126,154** |

## 7. OTHER COSTS OF BUSINESS ACTIVITY

| | JSC Augstsprieguma tīkls | | Group | |
|---|---|---|---|---|
| | 3 months of 2021 EUR | 3 months of 2020 EUR | 3 months of 2021 EUR | 3 months of 2020 EUR |
| Electricity capacity reserve maintenance costs | 1,012,435 | 1,017,695 | 1,012,435 | 1,017,695 |
| Telecommunication provision services | 718,279 | 726,370 | 718,279 | 726,370 |
| IT system maintenance costs | 245,608 | 155,389 | 408,223 | 155,389 |
| Local taxes and fees | 45,912 | 37,171 | 317,444 | 37,171 |
| Premises and territory maintenance costs | 271,189 | 257,416 | 271,189 | 257,416 |
| Transportation costs | 122,463 | 193,531 | 194,018 | 193,531 |
| Electricity transmission asset reconstruction and renovation works | 29,303 | 18,544,645 | 29,303 | 18,544,645 |
| Nature and labour protection costs | 22,368 | 24,530 | 22,368 | 24,530 |
| Liquidation of electrical capacity overload | – | 46 | – | 46 |
| Impact of changes in the lease term of assets, IFRS 16 | – | (1,555,444) | – | (1,555,444) |
| Various business costs | 762,257 | 608,424 | 1,371,917 | 608,424 |
| **OTHER COSTS OF BUSINESS ACTIVITY TOTAL** | **3,229,814** | **20,009,773** | **4 345 176** | **20,009,773** |

## 8. FINANŠU IEŅĒMUMI/ (IZMAKSAS), NETO

| | JSC Augstsprieguma tīkls | | Group | |
|---|---|---|---|---|
| | 3 months of 2021 EUR | 3 months of 2020 EUR | 3 months of 2021 EUR | 3 months of 2020 EUR |
| **a) Financial income** | | | | |
| Other financial income | – | – | 81 | – |
| **Total financial income** | **–** | **–** | **81** | **–** |
| **b) Financial costs** | | | | |
| Borrowing interest costs | (564,047) | - | (602,164) | - |
| Interest costs for lease of assets, IFRS16 | (59,493) | (42,055) | (65,189) | (42,055) |
| Targeted grants | 2,290 | - | 2,290 | - |
| Other finance costs | (2,077) | (67) | (2,759) | (67) |
| **Total financial costs** | **(623,327)** | **(42,122)** | **(667,822)** | **(42,122)** |
| **NET FINANCIAL INCOME/(COSTS)** | **(623,327)** | **(42,122)** | **(667,741)** | **(42,122)** |

## 9. NEMATERIĀLIE IEGULDĪJUMI, PAMATLĪDZEKĻI

### 9.1. NEMATERIĀLIE IEGULDĪJUMI

| | JSC Augstsprieguma tīkls | | | | |
|---|---|---|---|---|---|
| | **Computer software** EUR | **Right-of-use transmission assets** EUR | **Costs of creating intangible investments** EUR | **Advance payment for rights of use** EUR | **Total** EUR |
| **31 December, 2019** | | | | | |
| Initial value | 1,163,497 | 11,493,000 | 382,708 | 38,028,090 | 51,067,295 |
| Accrued depreciation and impairment | (640,782) | (13,095) | – | – | (653,877) |
| **Residual value on 31 December 2019** | **522,715** | **11,479,905** | **382,708** | **38,028,090** | **50,413,419** |
| **2020** | | | | | |
| Invested as a result of reorganisation | – | 1,080 | – | – | 1,080 |
| Purchased | 298,526 | – | 456,164 | – | 754,690 |
| Regrouped | 639,372 | – | (639,372) | – | – |
| Excluded | – | (11,048,917) | – | (38,028,090) | (49,077,008) |
| Depreciation | (225,960) | (431,011) | – | – | (656,971) |
| **Remaining value on 31 December 2020** | **1,234,653** | **1,057** | **199,500** | **-** | **1,435,210** |
| Initial value | 2,108,318 | 1,892 | 199,500 | – | 2,309,710 |
| Accrued depreciation and impairment | (873,665) | (835) | – | – | (874,500) |
| **Residual value on 31 December 2020** | **1,234,653** | **1,057** | **199,500** | **-** | **1,435,210** |
| **2021** | | | | | |
| Purchased | 15 784 | – | 64,920 | – | 80,704 |
| Depreciation | (92,474) | (24) | – | – | (92,498) |
| **Residual value on 31 March 2021** | **1,157,963** | **1,033** | **264,420** | **-** | **1,423,416** |
| **On 31 March 2021** | | | | | |
| Initial value | 2,124,103 | 1,892 | 264,420 | – | 2,390,415 |
| Accrued depreciation and impairment | (966,140) | (859) | – | – | (966,999) |
| **Residual value on 31 March 2021** | **1,157,963** | **1,033** | **264,420** | **-** | **1,423,416** |

| | Group | | | | |
|---|---|---|---|---|---|
| | Computer software EUR | Right-of-use transmission assets EUR | Costs of creating intangible investments EUR | Advance payment for rights of use EUR | Total EUR |
| **31 December, 2019** | | | | | |
| Initial value | 1,163,497 | 11,493,000 | 382,708 | 38,028,090 | 51,067,295 |
| Accrued depreciation and impairment | (640,782) | (13,095) | - | - | (653,877) |
| **Residual value on 31 December 2019** | **522,715** | **11,479,905** | **382,708** | **38,028,090** | **50,413,419** |
| **2020** | | | | | |
| Balances CBG 31.07.2020 | 1,320,926 | - | 206,999 | - | 1,527,923 |
| Invested as a result of reorganisation | - | 1,080 | - | - | 1,080 |
| Purchased | 298,526 | - | 1,042,403 | - | 1,340,929 |
| Regrouped | 1,372,573 | - | (1,426,240) | - | (53,667) |
| Excluded | (281) | (11,048,917) | - | (38,028,090) | (49,077,288) |
| Depreciation | (413,505) | (431,011) | - | - | (844,516) |
| **Remaining value on 31 December 2020** | **3,100,954** | **1,057** | **205,870** | | **3,307,881** |
| Initial value | 9,807,300 | 1,892 | 205,870 | - | 10,015,063 |
| Accrued depreciation and impairment | (6,706,347) | (835) | - | - | (6,707,182) |
| **Residual value on 31 December 2020** | **3,100,953** | **1,057** | **205,870** | | **3,307,881** |
| **2021** | | | | | |
| Purchased | 15 784 | - | 186,692 | - | 202,476 |
| Regrouped | 32,910 | - | (32,910) | - | - |
| Depreciation | (266,007) | (24) | | | (266,031) |
| **Residual value on 31 March 2021** | **2,883,640** | **1,033** | **359,652** | | **3,244,325** |
| **On 31 March 2021** | | | | | |
| Initial value | 9,855,996 | 1,892 | 359,652 | - | 10,217,540 |
| Accrued depreciation and impairment | (6,972,355) | (859) | - | - | (6,973,214) |
| **Residual value on 31 March 2021** | **2,883,641** | **1,033** | **359,652** | **-** | **3,244,326** |

## 9.2. FIXED ASSETS

| | JSC Augstsprieguma tīkls | | | | |
|---|---|---|---|---|---|
| | **Land, buildings and civil engineering works** EUR | **Power transmission lines and technological equipment** EUR | **Other fixed assets** EUR | **Costs of unfinished construction objects** EUR | **Total** EUR |
| **31 December, 2019** | | | | | |
| Initial value | – | 6,815 | 9,933,969 | 1,000,165 | 10,940,949 |
| Accrued depreciation and impairment | – | (6 815) | (5,442,932) | – | (5,449,747) |
| **Residual value on 31 December 2019** | **–** | **–** | **4,491,037** | **1,000,165** | **5,491,202** |
| **2020** | | | | | |
| Invested as a result of reorganisation | 41,393,506 | 504,246,362 | 197,790 | 80,976,728 | 626 814 386 |
| Purchased | 35,100 | – | 3,161,200 | 38,972,504 | 42,168,804 |
| Regrouped | (867,534) | 18,895,459 | 538,839 | (29,547,165) | (10,980,401) |
| Sold | – | – | – | (283,386) | (283,386) |
| Written off | (60) | (34,175) | (1,973) | – | (36,208) |
| Depreciation | (555,509) | (6,280,342) | (1,869,224) | – | (8,705,075) |
| Adjustment | – | – | – | (109,544) | (109,544) |
| **Residual value on 31 December 2020** | **40,005,503** | **516,827,304** | **6,517,669** | **91,009,302** | **654,359,778** |
| **31 December 2020** | | | | | |
| Initial value | 47,694,860 | 1,065,211,783 | 21,072,775 | 91,009,302 | 1,224,988,720 |
| Accrued depreciation and impairment | (7,689,357) | (548,384,479) | (14,555,106) | – | (570,628,942) |
| **Residual value on 31 December 2020** | **40,005,503** | **516,827,304** | **6,517,669** | **91,009,302** | **654,359,778** |
| **2021** | | | | | |
| Purchased | – | – | 564,996 | 5,022,081 | 5,587,077 |
| Regrouped | 925,938 | 82,590,974 | 1,692,615 | (85,209,527) | – |
| Written off | – | (79,053) | – | – | (79,053) |
| Depreciation | (525,452) | (6,474,486) | (751,294) | – | (7,751,232) |
| Adjustment | – | – | – | – | – |
| **Residual value on 31 March 2021** | 40,405,989 | 592,864,739 | 8,023,986 | 10,821,856 | 652,116,570 |
| Initial value | 48,620,499 | 1,146,514,033 | 23,319,070 | 10,821,856 | 1,229,275,458 |
| Accrued depreciation and impairment | (8,214,510) | (553,649,294) | (15,295,084) | – | (577,158,888) |
| **Residual value on 31 March 2021** | **40,405,989** | **592,864,739** | **8,023,986** | **10,821,856** | **652,116,570** |

| | Group | | | | | |
|---|---|---|---|---|---|---|
| | **Land, buildings and civil engineering works** EUR | **Production equipment** EUR | **Other fixed assets** EUR | **Emergency spare parts** EUR | **Costs of unfinished construction objects** EUR | **Total** EUR |
| **31 December, 2019** | | | | | | |
| Initial value | – | 6,815 | 9,933,969 | – | 1,000,165 | 10,940,949 |
| Accrued depreciation and impairment | – | (6 815) | (5,442,932) | – | – | (5,449,747) |
| **Residual value on 31 December 2019** | **–** | **–** | **4,491,037** | **–** | **1,000,165** | **5,491,202** |
| **2020** | | | | | | |
| Balances CBG 31.07.2020 | 318,876,576 | 73,193,452 | 2,118,839 | 1,404,726 | 10,683,906 | 406,277,499 |
| Invested as a result of reorganisation | 41,393,506 | 504,246,362 | 197,790 | – | 80,976,728 | 626 814 386 |
| Purchased | 35,100 | 226,151 | 3,802,191 | – | 52,264,119 | 56,327,561 |
| Regrouped | 8,692,116 | 20,635,288 | 538,839 | – | (40,771,326) | (10,905,083) |
| Sold | | | | – | (283,386) | (283,386) |
| Written off | (2,157,085) | (827,820) | (133,178) | – | – | (3,118,083) |
| Depreciation | (3,481,458) | (7,505,451) | (1,991,711) | – | – | (12,978,620) |
| Adjustment | – | – | – | 158,462 | (109,544) | 48,918 |
| **Residual value as at 31 December 2020** | **363,358,755** | **589,967,982** | **9,023,807** | **1,563,188** | **103,760,662** | **1,067,674,394** |
| **31 December 2020** | | | | | | |
| Initial value | 809,639,847 | 1,196,131,120 | 28,440,123 | 1,404,727 | 95,666,958 | 2,131,282,775 |
| Accrued depreciation and impairment | (446,281,092) | (606,163, 138) | (19,416,316) | 158,461 | 8,093,704 | (1,063,608,381) |
| **Residual value 31 December 2020** | **363,358,755** | **589,967,982** | **9,023,807** | **1,563,188** | **103,760,662** | **1,067,674,394** |
| **2021** | | | | | | |
| Purchased | 36,404 | 23,697 | 653,612 | – | 9,047,390 | 9,761,103 |
| Regrouped | 1,941,307 | 82,590,974 | 1,692,615 | – | 86,224,896 | – |
| Written off | (76,205) | (108,389) | (1,096) | – | – | (185,690) |
| Depreciation | (3,343,619) | (7,666,942) | (935,018) | – | – | (11,945,579) |
| **Residual value in the associated period on 31 March 2021** | **361,916,642** | **664,807,322** | **10,433,920** | **1,563,188** | **26,583,156** | **1,065,304,228** |
| Initial value | 811,431,751 | 1,277,303,267 | 30,714,320 | 1,563,188 | 26,583,156 | 2,147,595,682 |
| Accrued depreciation and impairment | (449,515,109) | (612,495,945) | (20,280,400) | – | – | (1,082,291,454) |
| **Residual value as of 31 March 2021** | **361,916,642** | **664,807,322** | **10,433,920** | **1,563,188** | **26,583,156** | **1,065,304,228** |

## 10. OTHER LONG-TERM FINANCIAL INVESTMENTS

| | 31.03.2021.<br>EUR | 31.12.2020.<br>EUR |
|---|---|---|
| **Ownership in the capital of associated companies, including:** | 134,394,971 | 134,394,971 |
| JSC Conexus Baltic Grid | 134,394,971 | 134,394,971 |
| **Ownership in the capital of other companies, including:** | 1,422 | 1,422 |
| JSC Pirmais slēgtais pensiju fonds*** | 1,422 | 1,422 |
| **Residual value at the end of the reporting period** | **134,396,393** | **134,396,393** |

| Name of the Company | Location | Type of business activity | Shares (percentage) |
|---|---|---|---|
| JSC Conexus Baltic Grid* | Latvia | Natural gas transmission and storage operator in Latvia | 68.46% |
| JSC Pirmais slēgtais pensiju fonds*** | Latvia | Management of pension plans | 1.9% |

* The parent company owns 1.9% of the capital of JSC Pirmais slēgtais pensiju fonds. The Company is a nominal shareholder, as all the risks and rewards of the Fund are undertaken or acquired by the Company's employees, who are members of the pension plan.

## 11. KRĀJUMI

| | JSC Augstsprieguma tīkls | | Group | |
|---|---|---|---|---|
| | **31.03.2021.**<br>EUR | **31.12.2020.**<br>EUR | **31.03.2021.**<br>EUR | **31.12.2020.**<br>EUR |
| **INVENTORIES** | | | | |
| Materials and spare parts | 560,882 | 514,087 | 2,219,683 | 2,137,535 |
| Natural gas | – | – | 1,320,833 | 1,477,709 |
| Provisions for slow-moving inventories | – | – | (80,154) | (80,154) |
| **TOTAL INVENTORIES** | **560,882** | **514,087** | **3,460,362** | **3,535,090** |

## 12. NET TRADE RECEIVABLES

| | JSC Augstsprieguma tīkls | | Group | |
|---|---|---|---|---|
| | 31.03.2021. EUR | 31.12.2020. EUR | 31.03.2021. EUR | 31.12.2020. EUR |
| **Trade receivables** | | | | |
| Electricity transmission system service debt | 1,413,420 | 1,210,290 | 1,413,420 | 1,210,290 |
| Other trade receivables | 118,777 | 479,125 | 6,843,511 | 7,333,819 |
| **Total receivables** | **1,532,197** | **1,689,415** | **8,256,931** | **8,544,109** |
| For other trade receivables | (14,451) | (15,617) | (14,451) | (15,617) |
| **Total provisions for doubtful and hopeless debts** | **(14,451)** | **(15,617)** | **(14,451)** | **(15,617)** |
| **Net trade receivables** | | | | |
| Electricity transmission system service debt | 1,413,420 | 1,210,290 | 1,413,420 | 1,210,290 |
| Other trade receivables | 104,326 | 463,508 | 6,829,060 | 7,318,201 |
| **TOTAL NET TRADE RECEIVABLES** | **1,517,746** | **1,673,798** | **8,242,480** | **8,528,491** |

## DEBITORU VĒRTĪBAS SAMAZINĀJUMS

| | JSC Augstsprieguma tīkls | | Group | |
|---|---|---|---|---|
| | 31.03.2021. EUR | 31.12.2020. EUR | 31.03.2021. EUR | 31.12.2020. EUR |
| At the beginning of the reporting year | 15,617 | 31,154 | 15,617 | 31,154 |
| Included in the profit or loss statement | (1,166) | (15,537) | (1,166) | (15,537) |
| **At the end of the reporting year** | **14,451** | **15,617** | **14,451** | **15,617** |

The following table shows the evolution of life expectancy credit losses on trade receivables recognised under the simplified approach set out in IFRS 9.

## 13. OTHER DEBTORS

| | JSC Augstsprieguma tīkls | | Group | |
|---|---|---|---|---|
| | 31.03.2021. EUR | 31.12.2020. EUR | 31.03.2021. EUR | 31.12.2020. EUR |
| Deposits | - | 25,000,000 | - | 25,000,000 |
| Overpaid taxes, including: | 11,512 | 11,512 | 11,512 | 11,512 |
| *Corporate income tax* | *11,512* | *11,512* | *11,512* | *11,512* |
| EU funding received | 31,792,941 | 31,570,973 | 31,792,941 | 31,570,973 |
| The rest of the receivables | 78,571 | 76,778 | 180,152 | 169,780 |
| **TOTAL OTHER DEBTORS** | **31,883,024** | **56,659,263** | **31,984,605** | **56,752,265** |

## 14. IFRS 14 ACCRUED INCOME

| | JSC Augstsprieguma tīkls | | Group | |
|---|---|---|---|---|
| | 31.03.2021. EUR | 31.12.2020. EUR | 31.03.2021. EUR | 31.12.2020. EUR |
| **Provisions for revenue from provided services** | | | | |
| For transmission system service revenue | 6,427,373 | 6,346,934 | 6,427,373 | 6,346,934 |
| For the sale of balancing electricity | 1,039,326 | 1,365,183 | 1,039,326 | 1,365,183 |
| For mandatory purchase component revenue | 406,936 | 627,107 | 406,936 | 627,107 |
| Cross-border electricity perimeter charges | 221,816 | 211,132 | 221,816 | 211,132 |
| For revenue from reactive electricity | 41,203 | 50,247 | 41,203 | 50,247 |
| For revenue from the sale of regulatory electricity | 26,299 | 71,975 | 26,299 | 71,975 |
| Provisions for loss compensation in transformers | 19,405 | 20,413 | 19,405 | 20,413 |
| Rental services of fixed assets and equipment | 205,869 | - | - | - |
| For balancing administration service revenue | 3,202 | 3,201 | 3,202 | 3,201 |
| Rental services | 1,269 | - | 1,269 | - |
| For building maintenance service revenue | 393 | 39,779 | 393 | 39,779 |
| For revenue from other services | 22,337 | 392,374 | 22,337 | 392,374 |
| **Total provisions for revenue from provided services** | **8,415,428** | **9,128,345** | **8,209,559** | **9,128,345** |
| Electricity transit service revenue (ITC) | 68,336 | 68,336 | 68,336 | 68,336 |
| Various accrued revenue | 137,882 | 226,022 | 343,751 | 226,022 |
| **TOTAL ACCRUED REVENUE** | **8,621,646** | **9,422,703** | **8,621,646** | **9,422,703** |

## 15. CASH AND CASH EQUIVALENTS

| | JSC Augstsprieguma tīkls | | Group | |
|---|---|---|---|---|
| | 31.03.2021. EUR | 31.12.2020. EUR | 31.03.2021. EUR | 31.12.2020. EUR |
| **CASH IN THE BANK** | **63,115,444** | **32,224,560** | **109,869,959** | **47,388,296** |

## 16. AMENDMENT TO IFRS 16 EQUITY

As at 31 March 2021, the registered share capital of JSC Augstsprieguma tīkls is EUR 363,896,079 (31 December 2020 - EUR 363,896,079), consisting of 363,896,079 shares (as at 31 December 2020 - EUR 363,896,079). shares). The parent company has made payments to the state budget for the use of state capital from the previous year's net profit:

- In 2016 – EUR 155,345;
- In 2017 – EUR 299,511;
- In 2018 – EUR 247,395;
- In 2019 – EUR 3,598,352;
- In 2020 – EUR 1,735,958.

The parent company's reserves consist of retained earnings from previous periods, which have been transferred to other reserves to ensure the Company's development by the owner's decision.

The Group's reserves consist of the revaluation reserve for fixed assets, the reserves specified in the Articles of Association of the subsidiary, the revaluation reserve for post-employment benefits, retained earnings, which have been transferred to other reserves for development by the owner's decision.

## 17. DEFERRED REVENUE

| | JSC Augstsprieguma tīkls | | Group | |
|---|---|---|---|---|
| | **31.03.2021.** EUR | **31.12.2020.** EUR | **31.03.2021.** EUR | **31.12.2020.** EUR |
| **a) Long-term deferred income** | | | | |
| - from European Union funding | 112,111,376 | 112,672,698 | 122,808,735 | 123,454,434 |
| - from the expected European Union funding | 31,792,941 | 31,570,973 | 31,792,941 | 31,570,973 |
| - from connection fees | 40,683,282 | 39,995,011 | 40,683,282 | 39,995,011 |
| - from congestion charge revenue | 97,291,647 | 95,608,651 | 97,291,647 | 95,608,651 |
| **TOTAL** | **281,879,246** | **279,847,333** | **292,576,605** | **290,629,069** |
| | | | | |
| **(b) Short-term deferred income** | | | | |
| - from European Union funding | 2,301,113 | 2,320,835 | 5,664,994 | 2,670,600 |
| - from connection fees | 3,375,254 | 3,379,561 | 3,375,254 | 3,379,561 |
| - from congestion charge revenue | 365,008 | 273,144 | 365,008 | 273,144 |
| - from IPGK reserved capacity charges | – | – | 1,182,164 | 903,165 |
| **TOTAL** | **6,041,375** | **5,973,540** | **10,587,420** | **7,226,470** |

**Movement of deferred income (long-term and short-term part):**

| | JSC Augstsprieguma tīkls | | Group | |
|---|---|---|---|---|
| | **31.03.2021.** EUR | **31.12.2020.** EUR | **31.03.2021.** EUR | **31.12.2020.** EUR |
| **At the beginning of the reporting period** | 285,820,873 | 289,601,283 | 297,855,539 | 301,033,754 |
| Received deferred revenues from European Union financing | 221,968 | 7,507,226 | 3,236,084 | 7,507,226 |
| Deferred revenue from connection fees received | 795,209 | 40,667 | 795,209 | 40,667 |
| Long-term deferred revenue from usage rights is excluded | - | (11,043,332) | - | (11,043,332) |
| Deferred revenue from congestion charges | 1,774,860 | - | 1,774,860 | - |
| Revenue from congestion charges is included in the profit or loss statement | - | 1,141,328 | - | 1,141,328 |
| Connection fees are included in the profit or loss statement | (111,245) | 844,618 | (111,245) | 844,618 |
| Charges for capacity reserved by UGSF | - | - | 278,999 | 903,165 |
| European Union funding is included in the profit or loss statement | (581,044) | (581,681) | (665,421) | (882,651) |
| **AT THE END OF THE REPORTING PERIOD** | **287,920,621** | **285,820,873** | **303,164,025** | **297,855,539** |

## 18. AVANSA MAKSĀJUMI UN PĀRĒJIE KREDITORI

| | JSC Augstsprieguma tīkls | | Group | |
|---|---|---|---|---|
| | **31.03.2021.** EUR | **31.12.2020.** EUR | **31.03.2021.** EUR | **31.12.2020.** EUR |
| Settlements with employees | 695,627 | 641,702 | 695,627 | 641,702 |
| Advance payments received from customers | - | - | 616,566 | - |
| Connection fee advances received * | 295,959 | 602,252 | 295,959 | 602,252 |
| Advance payments from EC co-financing | 162,277 | 162,277 | 162,277 | 162,277 |
| Other creditors | 1,633,147 | 1,591,210 | 2,339,732 | 2,975,189 |
| **ADVANCE PAYMENTS AND OTHER CREDITORS** | **2,787,010** | **2,997,441** | **4,110,161** | **4,381,420** |

** JSC Augstsprieguma tīkls provides system participants with necessary connections to the transmission system or an increase of the permitted load of existing connections in accordance with the connection rules regarding the fee for system participants, issued by PUC, which is determined by the transmission system operator, according to the PUC calculation method for the calculation of the connection fee.

## 19. ACCRUED LIABILITIES

| | JSC Augstsprieguma tīkls | | Group | |
|---|---|---|---|---|
| | 31.03.2021. EUR | 31.12.2020. EUR | 31.03.2021. EUR | 31.12.2020. EUR |
| **Accrued liabilities for expenses for services received** | | | | |
| Purchase of balancing electricity | 665,077 | 695,079 | 665,077 | 695,079 |
| Mandatory procurement component | 406,936 | 627,107 | 406,936 | 627,107 |
| Electricity capacity reserve maintenance costs | 345,495 | 363,974 | 345,495 | 363,974 |
| Expenses for telecommunications | 244,291 | 242,629 | 244,291 | 242,629 |
| Purchase of regulatory electricity | 165,086 | 284,267 | 165,086 | 284,267 |
| Savings to ensure the availability of natural gas | – | – | 90,000 | 640,973 |
| Transmission asset reconstruction and renovation works | 79,178 | 662,390 | 79,178 | 662,390 |
| Use of synchronous compensators | 49,040 | 117,762 | 49,040 | 117,762 |
| Information technology services | 25,809 | 27,586 | 25,809 | 27,586 |
| Repairs of power transmission poles | – | 63,375 | – | 63,375 |
| Electricity for own consumption | 13,543 | 15,956 | 13,543 | 15,956 |
| Annual report, accounting audit expenses | 8,387 | – | 19,112 | 16,140 |
| Provisions for other services | 237,596 | 78,105 | 252,853 | 78,104 |
| **Total accrued liabilities for expenses for services received** | **2,240,438** | **3,178,230** | **2,356,420** | **3,835,342** |
| Accrued bonus costs for previous year's results | 333,008 | 333,008 | 1,549,607 | 2,072,258 |
| Accrued cost of unused holidays | 911,884 | 745,304 | 1,428,305 | 1,261,725 |
| Accrued interest liabilities | 61,634 | 412,174 | 61,634 | 412,174 |
| Accrued benefit costs and pension plan contributions | 37,874 | 42,728 | 37,874 | 42,728 |
| Accrued liabilities to compensate the transit losses | 958,000 | 598,000 | 958,000 | 598,000 |
| **ACCRUED LIABILITIES** | **4,542,838** | **5,309,444** | **6,391,840** | **8,222,227** |

## 20. LOANS

As a result of the reorganisation of the ownership rights of the transmission system assets and the successive investment of JSC Latvijas elektriskie tīkli in the share capital of JSC Augstsprieguma tīkls on 16 June 2020 and its addition on 25 January 2020, JSC Augstsprieguma tīkls took over the loans of JSC Latvijas elektriskie tīkli in 2020.

Until 11 June 2020, the shares of JSC Latvijas elektriskie tīkli were 100% owned by JSC Latvenergo. JSC Latvijas elektriskie tīkli received and issued loans to the parent company JSC Latvenergo in accordance with the agreement "On provision of mutual financial resources" concluded within the Latvenergo Group to ensure the functions of the owner of transmission system assets until the change of the Shareholder.

After the investment of JSC Latvijas elektriskie tīkli shares in JSC Augstsprieguma tīkls on 16 June 2020, JSC Augstsprieguma tīkls ensures the attraction of the borrowed capital necessary for financing capital investments. On 18 June 2020, a loan agreement was concluded with JSC SEB banka for EUR 116,200 thousand with a maturity of 18 months (repayment date of the principal amount on 18 December 2021), a base interest rate of 3 months EURIBOR and an added interest rate of 0.74%. The purpose of this loan is to partially refinance the liabilities of JSC Latvijas elektriskie tīkli to JSC Latvenergo. The loan is unsecured. In 2021, it is planned to refinance the loan of JSC Augstsprieguma tīkls against JSC SEB banka by issuing bonds.

As at 31 March 2021, JSC Augstsprieguma tīkls has a loan from JSC Latvenergo in the amount of EUR 86,672,2017 with a fixed borrowing rate of 1.6%, which corresponds to the weighted average interest rate at which Latvenergo JSC attracts borrowings in foreign markets. The loan is unsecured. The repayment terms of the loan principal are 15 March 2022 and 15 March 2023, the loan is repaid in two equal instalments.

For the financing of working capital, an overdraft agreement was concluded between

JSC Augstsprieguma tīkls and JSC SEB banka for up to EUR 20,000 with a maturity until 18 June 2021, a base interest rate of 3 months EURIBOR and an added interest rate of 0.69%. During the reporting period, JSC Augstsprieguma tīkls did not receive any loans within the framework of the overdraft agreement. In 2021, it is planned to organise a procurement procedure for overdraft to finance working capital for future periods.

The natural gas operator JSC Conexus Baltic Grid attracts external financing with its own resources. JSC Conexus Baltic Grid has a valid loan agreement with a payment term until 30 November 2021. The interest rate of the loan agreement is 0.60% plus 6-month EURIBOR. The loan is unsecured. JSC Conexus Baltic Grid plans to refinance the loan in 2021, and the management is currently considering alternative refinancing offers from credit institutions.

**Loans from credit institutions and related parties:**

| | JSC Augstsprieguma tīkls | | Group | |
|---|---|---|---|---|
| | **31.03.2021.** EUR | **31.12.2020.** EUR | **31.03.2021.** EUR | **31.12.2020.** EUR |
| Long-term loans from related parties | 86,672,207 | 86,672,207 | 86,672,207 | 86,672,207 |
| Long-term loans from credit institutions | - | - | 15,525,173 | 116,200,000 |
| Short-term loans from credit institutions | 116,200,000 | 116,200,000 | 116,200,000 | - |
| Short-term share of long-term loans | - | - | 30,322,917 | - |
| Accrued liabilities for borrowing costs from related parties | 61,634 | 412,174 | 61,634 | 412,174 |
| **TOTAL LOANS** | **202,933,841** | **203,284,381** | **248,781,931** | **203,284,381** |

## 21. TAXES AND MANDATORY STATE SOCIAL INSURANCE CONTRIBUTIONS

| | JSC Augstsprieguma tīkls | | | | Group | |
|---|---|---|---|---|---|---|
| | 31.12.2020. EUR | Aprēķināts EUR | Samaksāts/ (atmaksāts) EUR | 31.03.2021. EUR | 31.03.2021. EUR | 31.12.2020. EUR |
| **Corporate income tax** | – | – | – | – | 350 | 3,539 |
| Value added tax | 1,025,328 | 6,633,752 | (6,634,910) | 1,024,170 | 1,710,249 | 1,637,290 |
| Mandatory State social insurance contributions | 474,949 | 1,066,832 | (1,091,636) | 450,145 | 811,674 | 742,095 |
| Personal income tax | 253,700 | 537,750 | (561,153) | 230,297 | 425,269 | 385,067 |
| Entrepreneurship risk state fee | 194 | 577 | (578) | 193 | 193 | 194 |
| Electricity tax | 278 | 942 | (934) | 286 | 286 | 278 |
| Natural resource tax | – | – | – | – | 3,590 | 43,237 |
| Real estate tax | – | – | – | – | 28,162 | 10 |
| PUC fee | – | – | – | – | 29,671 | – |
| Excise tax | – | – | – | – | 1,238 | – |
| **TOTAL TAXES** | **1,754,449** | **8,239,853** | **(8,289,211)** | **1,705,091** | **3,010,682** | **2,811,710** |

## 22. FAIR VALUE CONSIDERATIONS

Financial Risk Management of the Augstsprieguma tīkls Group is implemented in accordance with the Financial Risk Management Policy and its subordinate Financial Risk Management Regulations.

Group companies, in which the participation of JSC Augstsprieguma tīkls is less than 100%, however, it has a direct decisive influence on the basis of participation within the meaning of the Group Law, develop and approve their Financial Risk Management Policies, if necessary, which are in line with the basic principles of the Group's policy.

The management of financial resources is focused on ensuring the financing of its business activities and financial stability by implementing conservative financial risk management. Within the framework of financial risk management, the Company uses financial risk controls and implements risk mitigation measures to reduce the risk on open positions.

The Company complies with prudential liquidity risk management, ensuring that appropriate financial resources are available to it for the settlement of liabilities within the set time periods.

**Liquidity risk**

Liquidity risk is related to the Company's ability to meet its obligations within the set deadlines. In the case of unpredictable cash flow fluctuations caused by operational risk and hedging of short-term liquidity risk, the Company provides a reserve in the form of cash or subscribed and irrevocably available credit funds for the next 24 months.

The Company observes prudent liquidity risk management, ensuring constant monitoring of cash flow, forecasting short-term and long-term cash flow, ensuring the availability of sufficient financial resources to settle liabilities within the set deadlines.

As at 31 March 2021, the Company's current liabilities exceed current assets, as current liabilities include a loan agreement in the amount of EUR 116,200,000 with a maturity date of 18 December 2021 (see Annex 20). The Company intends to refinance this loan in 2021, thus it does not pose a risk of going concern.

In order to refinance the liabilities taken over as a result of the reorganisation, to ensure the availability of capital, the Company's management has approved the Fundraising Strategy for 2021–2025, a decision has been made and a procurement procedure for selecting the lead bank for the bond issue has been initiated. After refinancing, the Company's current assets will exceed current liabilities.

The Company's management believes that the Company will have sufficient financial resources to ensure its liquidity is not compromised.

**Interest rate risk**

Interest rate risk arises primarily from borrowings with a fixed interest rate, with the risk that an increase in interest rates will result in a significant increase in finance costs. To limit the risk, the Company's Financial Risk Management Regulations stipulate that the share of fixed rate or rate with limited increase in the loan portfolio may not be less than 35%.

As at 31 March 2021, 43% of JSC Augstsprieguma tīkls loans have a fixed interest rate.

The Company regularly analyses interest rate positions. Different scenarios are modelled taking into account possible refinancing of loans, renewal of existing positions and hedging activities. Based on these scenarios, the effect of changes in interest rates on profit or loss items as well as cash flow is calculated.

Over the next twelve months, if interest rates on euro loans at floating base rates are 50 basis points higher than interest rates on 31 March 2021, assuming that other variables remain constant, the Company's profit would be EUR 0.6 thousand lower. The Company's fixed interest rate borrowings do not give rise to fair value interest rate risk.

**Credit risk**

Credit risk arises if the Company's partner is unable to meet its contractual obligations, as a result of which the Company incurs losses. Credit risk arises from the Company's cash, deposits in commercial banks, and overdue receivables within the terms specified in the agreement. Credit risk may be related to financial counterparty risk and counterparty risk.

In carrying out its economic activities, the Company cooperates with local and foreign financial institutions. Consequently, there is a **risk of financial counterparties** – in the case of insolvency or suspension of cooperation partners, the Company may suffer losses. In the case of attracted external financing, the risk exists until the loan is withdrawn and transferred to one of the Company's partner banks.

Credit risk arising from the Company's cash in current accounts is managed in accordance with the Company's Financial Risk Management Policy and Financial Risk Management Regulations, balancing the allocation of financial resources.

In accordance with the Financial Risk Management Policy, counterparties with a minimum credit rating of at least investment grade set by the international credit rating agency itself or the parent bank are accepted in cooperation with banks and financial institutions.

In carrying out economic activities, the Company cooperates with local and foreign merchants. As a result, there is a **risk of business partners or debtors** – in the case of insolvency or suspension of business partners, the Company may suffer losses. The Law on International and National Sanctions of the Republic of Latvia imposes a number of financial and civil law restrictions on entities included in the list of sanctions, including the freezing of funds. In view of the above, cooperation with an entity included on the list of sanctions poses a risk of default to the Company, as well as legal and reputational risks.

Although the Company has a significant concentration of receivables risk in relation to one counterparty or a group of similar counterparties, this risk is assessed as limited, taking into account the fact that the most important Cooperation counterparty is a state-owned company – the Joint Stock Company "Latvenergo", as well as its group companies.

Credit risk related to receivables is managed in accordance with the risk management measures specified in the Financial Risk Management Regulations, on a monthly basis, but not less than once a quarter, by performing an analysis of receivables.

**Business Risk Management**

The shareholder of the Company is the Ministry of Finance in the name of the Republic of Latvia (100%) The purpose of capital risk management is to ensure the sustainable operation and development of the Company, the financing necessary for the implementation of the development plan in transmission assets, and the fulfilment of the restrictive conditions specified in the loan agreements. The restrictive conditions set out in the loan agreements have not been violated. In order to ensure the fulfilment of the restrictive conditions specified in the loan agreements, a regular analysis of the equity ratio is performed.

According to the Augstsprieguma tīkls Group's Financial Risk Management Policy, equity must be maintained at a level of at least 35% (the restrictive condition specified in the loan agreements – at a level of at least 25%). As at 31 March 2021, the share of JSC Augstsprieguma tīkls equity in the balance sheet is 43%, of the Group – 53%.

**Currency risk**

The Company's operations are focused on transactions, assets and liabilities in the Company's functional currency, which is the Euro. The Company's currency risk is assessed as insignificant, the Company has no balances in foreign currencies.

## 23. 23 TRANSACTIONS WITH RELATED PARTIES

Related parties are state-owned entities that are controlled, jointly controlled, or substantially influenced by the state. The Company has no significant transactions and other transactions which together, but not separately, are material with the Government of the Republic of Latvia, government agencies, and similar local, national, or international institutions that fall within the scope of the standard, except for the capital company JSC Latvenergo and its subsidiaries – the owner of transmission assets JSC Latvijas elektriskie tīkli, the energy supply service provider JSC Latvenergo, the distribution system operator JSC Sadales tīkls, the public electricity trader JSC Enerģijas publiskais tirgotājs.

***a) Revenue and expenses from transactions with related parties***

| | JSC Augstsprieguma tīkls | |
|---|---|---|
| | **3 months of 2021**<br>EUR | **3 months of 2020**<br>EUR |
| | | **State controlled companies** |
| **Revenue** | | |
| Transport system service | 19,010,453 | 18,298,399 |
| Revenue from the sale of electricity, electric capacity maintenance services | 1,134,730 | 1,065,300 |
| Mandatory procurement component | 705,821 | 931,123 |
| Transmission asset reconstruction and renovation works | – | 18,557,439 |
| Revenue from other services | 407,431 | 190,594 |
| **Total revenue from transactions with related companies** | **21,258,435** | **39,042,854** |
| | | **State controlled companies** |
| **Distributions** | | |
| Electricity purchase | 3,210,851 | 2,228,867 |
| Mandatory procurement component | 1,115,779 | 1,371,914 |
| Communication expenses | 777,197 | 784,035 |
| Long-term loan % payments | 346,689 | – |
| Lease of fixed assets and land | 205,121 | – |
| Other costs | 45,955 | 245,770 |
| **Total expenses of transactions with related companies** | **5,701,591** | **4,630,585** |

***b) Balances at the end of the year arising from related company transactions***

| | JSC Augstsprieguma tīkls | |
|---|---|---|
| | **3 months of 2021**<br>EUR | **3 months of 2020**<br>EUR |
| **Accounts receivable:** | | |
| state controlled companies * | 7,172,168 | 14,157,745 |
| **Liabilities of creditors:** | | |
| state controlled companies * | 3,763,439 | 4,765,852 |

## 24. EVENTS AFTER THE END OF THE REPORTING YEAR

After the end of the reporting period there were no other material circumstances or events that could affect the future development of the Company.