AUGSTSPRIEGUMA TĪKLS CONSOLIDATED AND JSC "AUGSTSPRIEGUMA TĪKLS" UNAUDITED CONDENSED FINANCIAL STATEMENTS FOR 2021

FINANCIAL STATEMENTS

PREPARED IN ACCORDANCE WITH THE 34. INTERNATIONAL ACCOUNTING STANDARD

AST

CONTENTS

INFORMATION ABOUT THE GROUP AND THE COMPANY

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Name of the parent company	Akciju sabiedrība *"Augstsprieguma tīkls"*
Legal status of the parent company	Joint Stock Company
Registration number, place and date of the parent company	000357556 Riga, 28 December 2001 Re-registration in the Commercial Register was performed on 13 November 2004 under unified registration number 40003575567
Address	Dārzciema iela 86 Riga, LV-1073 Latvia
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 Pipeline transport (NACE code 49.50)
Parent company shareholder	From 2 January 2012: Ministry of Finance in the name of the Republic of Latvia (100%) Smilšu iela 1, Riga, LV-1050, Latvia
Names, surnames and positions held of the board members	Gunta Jēkabsone – Chairperson of the Board (from 15.07.2021) Imants Zviedris — Board Member Gatis Junghāns — Board Member Mārcis Kauliņš — Board Member Arnis Daugulis — Member of the Board (from 15.07.2021.) Varis Boks — Chairperson of the Board (until 31.03.2021) Arnis Staltmanis — Board Member (until 07.04.2021)
Names, surnames and positions held of Supervisory Board members	Kaspars Āboliņš — Council Chairperson Olga Bogdanova — Deputy Council Chairperson Armands Eberhards — Council Member Madara Melne — Council Member (until 26.01.2022.) Aigars Ģērmanis — Council Member
Participation in other companies	JSC "Conexus Baltic Grid" (68.46% from 21.07.2020; 34.36% until 20.07.2020.)
Accounting period	1 January 2021 – 31 December 2021
Name and address of the auditor and the responsible certified auditor	"PricewaterhouseCoopers" LTD Krišjāņa Valdemāra iela 21, LV-1010
Responsible certified auditor	Ilandra Lejiņa Certificate No. 168

KEY FINANCIAL AND OPERATIONAL INDICATORS

	Group		Parent Company				
	2021	2020	2021	2020	2019	2018	2017
FINANCIAL INDICATORS							
Revenue, thous. EUR*	183,290	144,886	126,851	147,348	184,742	193,866	158,862
EBITDA, thous. EUR	69,508	55,028	35,943	42,343	40,515	1,642	1,843
Profit, thous. EUR	12,441	64,051	59,122	9,999	7,067	4,677	309
	31.12.2021	**31.12.2020**	**31.12.2021**	**31.12.2020**	**31.12.2019**	**31.12.2018**	**31.12.2017**
Balance sheet total, thous. EUR	1,201,826	1,213,515	878,859	905,527	221,934	193,000	188,722
Equity, thous. EUR	616,469	639,203	435,932	384,809	69,956	70,344	8,499
Loans, thous. EUR	198,022	224,747	99,966	202,872	–	–	57,394
Net cash flows from operating activities, thous. EUR	74,573	101,206	44,308	48,314	20,423	7,236	38,645
Cash and its equivalents, thous. EUR**	63,190	72,388	48,514	57,225	48 216	106,637	33,113
FINANCIAL COEFFICIENTS							
Liquidity ratio	1.0	3.1	1.8	4.7	1.1	3.8	1.3
EBITDA Profitability	38%	38%	28%	29%	22%	1%	1%
Equity ratio (≥35%)	51%	53%	50%	42%	32%	36%	5%
PERFORMANCE INDICATORS							
Electricity transmitted to users in Latvia, GWh	6,312	5,961	6,312	5,961	6,012	6,051	5,807
Average number of employees	868	887	534	546	552	548	539

EBITDA – earnings before interest, financial income, taxes, depreciation and amortisation

LIQUIDITY RATIO = current assets/current liabilities (excluding the part of the short-term loan to be refinanced)

EBITDA profitability = EBITDA/revenue

Equity ratio = equity/balance sheet total

* The amount of the Group's revenue in 2020 is affected by the exclusion of mutual services between JSC *Augstsprieguma tīkls* and JSC *Latvijas elektriskie tīkli* (see also Appendix 3, section "Transmission system asset ownership reform")

** including short-term time deposits with a maturity of less than 3 months

MANAGEMENT REPORT

SIGNIFICANT FACTS AND EVENTS

JSC "AUGSTSPRIEGUMA TĪKLS" MADE A SUCCESSFUL DEBUT IN THE CAPITAL MARKETS BY ISSUING A GREEN BOND IN THE AMOUNT OF EUR 100 MILLION

On October 2021, Latvian transmission system operator (TSO) *"Augstsprieguma tīkls"* (AST) made a successful debut in the capital markets by issuing a Green Bond in the amount of EUR 100 million. With the transaction, AST becomes the first Baltic transmission system operator to issue a green bond. The successful placement is in line with AST's mission to ensure continuous, secure, and sustainably efficient electricity transmission throughout Latvia. The issue will also facilitate transition towards zero emission power system and will contribute to Baltic market development.

THE POWER TRANSMISSION SYSTEM DEVELOPMENT PLAN 2022 – 2031 HAS BEEN APPROVED BY RESOLUTION OF THE PUBLIC UTILITIES COMMISSION COUNCIL OF 14 OCTOBER 2021

The Public Utilities Commission (PUC) has approved the transmission system development plan for 2022-2031 developed by JSC *Augstsprieguma tīkls*. In total, it is planned to invest almost 401 million euros over 10 years, a large part of which is intended to strengthen the security of the system and synchronize it with European networks. Synchronization of the Baltic States with the European electricity transmission networks is not only a strategic goal of Latvia, but also of Europe, which is confirmed by the granted co-financing in the amount of 75% from the European Union funds.

EU GRANTS EUR 170 MILLION FOR THE FINAL PHASE OF THE BALTIC SYNCHRONIZATION PROJECT

The coordinating committee of the key EU fund for infrastructure Connecting Europe Facility (CEF) approved the proposal submitted by the Baltic and Polish transmission system operators, granting EUR 170 million financial assistance to a range of projects as part of the synchronisation of the Baltic States with the Continental European Synchronous Area.

The required EUR 37 million or the maximum possible co-financing in the amount of 75% has been granted to the Latvian transmission system operator JSC *Augstsprieguma tīkls*.

The additional infrastructure in the second stage of the synchronisation will increase the security of supply in the region, foster renewable energy project development and contribute to the development of the internal European energy market by helping to sustain the economic growth and creating new business opportunities.

THE PRICE OF ELECTRICITY IS RISING SIGNIFICANTLY

In 2021, the average electricity price on the Nord Pool (NP) stock exchange in the Latvian trading area was 88.78 EUR/MWh and, compared to 2020 when the average electricity price was 34.05 EUR/MWh, the price increased by 161%. One of the most important factors in the rise in electricity prices is the growing prices for energy resources, incl. prices for natural gas and carbon allowances.

THE AMOUNT OF ELECTRICITY TRANSMITTED TO CONSUMERS IN LATVIA IS 6% HIGHER THAN IN THE PREVIOUS YEAR

In 2021, the amount of electricity transmitted to the users of JSC *"Augstsprieguma tīkls"* in Latvia was 6 312 GWh, which is 6% more than in the corresponding period of the previous year (5 961 GWh).

THE VOLUME OF NATURAL GAS TRANSPORTED IS 5% HIGHER THAN A YEAR EARLIER

In 2021 a subsidiary of the *Augstsprieguma tīkls* group, the natural gas transmission operator JSC "Conexus Baltic Grid", ensured a continuous supply of natural gas for the needs of Latvia, Lithuania, Estonia, Finland and Russia. The total amount of natural gas transported reached 39.3 TWh, exceeding the previous year by 5%.

ABOUT THE *AUGSTSPRIEGUMA* TĪKLS 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.

As of 31 December 2021, the *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).

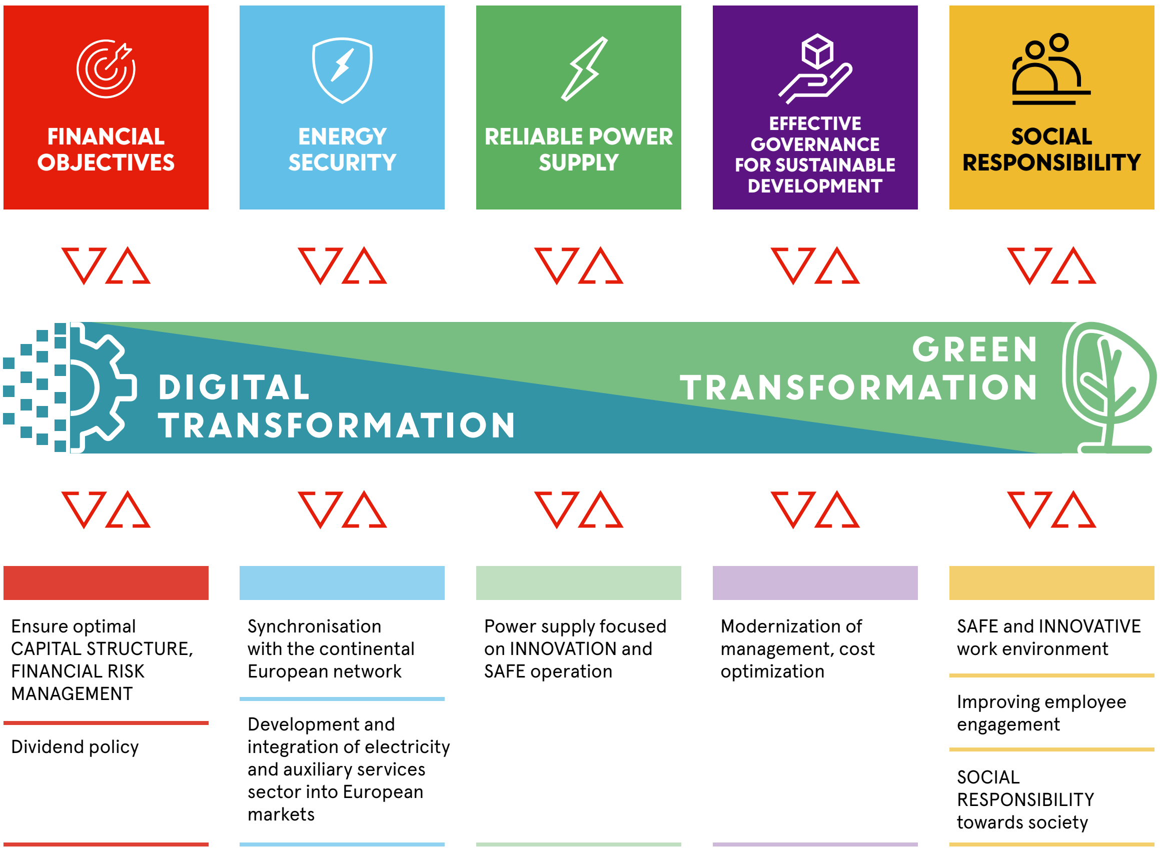
All shares of JSC *"Augstsprieguma tīkls"* are owned by the state and their holder is the Ministry of Finance of the Republic of Latvia.

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 the energy supply of Latvia, provide a continuous, high-quality and affordable energy transmission service, as well as to implement sustainable management of the 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 continuous, secure and sustainably efficient electricity transmission throughout Latvia.

Augstsprieguma tīkls group's STRATEGIC DEVELOPMENT IS FOCUSED ON:



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. JSC *"Augstsprieguma tīkls"* ensures continuous, secure and sustainably efficient electricity transmission throughout 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 being represented by the Ministry of Finance (100%).

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 defines the following AST core values based on the Energy Law, the Electricity Market Law and the Network Code:

TRUST

HONESTY

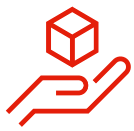
Independent, ethical and transparent action towards anyone and everyone

GROWTH

WISDOM

Effectively. Looking forward. Long-term thinking

SAFETY



RESPONSIBILITY

Deliberate action. With high responsibility towards work, people and nature

TEAM

TOGETHER

We join forces to achieve more. Strong team that encourages and challenges

Corporate and Social Responsibility

The strategic direction of the parent company is focused on sustainable development. The company participates in the annual Sustainability Index organized by the Institute of Corporate Sustainability and Responsibility, where in 2021, FOR THE THIRD TIME, A HIGH PLATINUM RATING WAS OBTAINED, which confirms compliance with the strictest standards of corporate responsibility and shows that the company cares about the welfare its employees and clients. The title of the Ministry of Welfare "Family-friendly merchant " has also been received.

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 *Augstsprieguma tīkls* is available on the *Augstsprieguma tīkls* website at www.ast.lv.

The Parent Company has developed and approved a CORPORATE 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.

TRANSMISSION AND STORAGE OF NATURAL GAS

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' VISION is to promote the development of the transmission system and use the potential of the underground gas storage to become the most reliable energy source in the region.

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 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.

The investment of AST in Conexus is managed in accordance with the Company's Corporate Governance Policy, subject to good governance practices. The Corporate governance policy of AST is based on the principles of global best practice set out in the OECD Guidelines on Corporate Governance of State-Owned Enterprises.
Conexus is managed by AST exercising its set of shareholder rights and obligations under the Law on Governance of Capital Shares of a Public Person and Capital Companies (hereinafter – PPKPL) and the Commercial Law, including appointing members of the supervisory board to represent shareholders' interests between shareholders' meetings and oversee the board.

Electricity Transmission

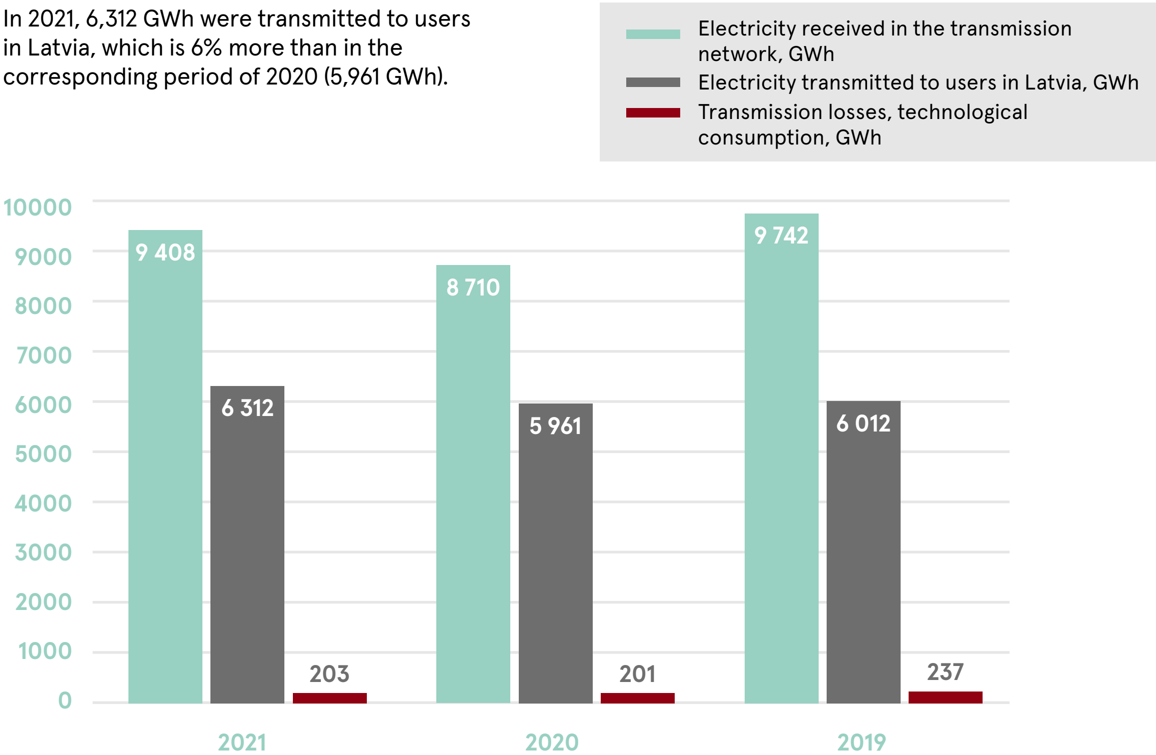
Electricity transmission is carried out by the transmission system operator through a transmission system that includes interconnected networks and equipment, including cross-border connections, with a voltage of 110 kilovolts or more, that are used for transmission to the relevant distribution system 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)	Transmission lines (km)
330 kV	17	27	4,000	1,742
110 kV	123	246	5,231	3,871
TOTAL	**140**	**273**	**9,231**	**5,613**

In 2021, 6,312 GWh were transmitted to users in Latvia, which is 6% more than in the corresponding period of 2020 (5,961 GWh).



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 1 190 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 2021, the total amount of gas transported reached 39.3 TWh, which is an increase of 5% compared to the same period a year ago. During the reporting period, the volumes of transported gas for the needs of Latvian users increased by 8%, reaching 12.5 TWh.

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).

SEGMENT PERFORMANCE RESULTS

During the reporting period, *Augstsprieguma tīkls* group's net turnover was 183,290 thousand EUR, net profit was 12,441 thousand EUR.

SEGMENT INFORMATION

	Parent Company		Group	
	2021 or 31.12.2021 thous. EUR	2020 or 31.12.2020 thous. EUR	2021 or 31.12.2021 thous. EUR	2020 or 31.12.2020 thous. EUR
NET TURNOVER				
Electricity Transmission	126,851	147,348	126,851	123,421
Gas transmission	-	-	32,443	12,528
Gas storage	-	-	23,996	8,886
EBITDA				
Electricity Transmission	35,943	43,366	35,943	44,812
Gas transmission	-	-	18,787	6,394
Gas storage	-	-	14,778	4,867
SEGMENT ASSETS				
Electricity Transmission	671,939	771,131	671,939	771,131
Gas transmission	-	-	239,319	232,042
Gas storage	-	-	214,075	205,886

Electricity transmission segment

The net turnover of the segment was EUR 126,851 thousand, including revenue from electricity transmission network services of EUR 76,145 thousand, which makes up 60% of the segments' net turnover. Segment profit in the reporting period was EUR 836 thousand. Changes in both the net turnover and the amount of profit in 2021, compared to 2020, are related to the reform of the ownership rights of the transmission system assets implemented in 2020.

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.

The amount of profit in 2021 was negatively affected by the sharp increase in the price of electricity. However, according to the "Methodology for Calculating Tariffs for Electricity Transmission System Services", THE INCREASE IN COSTS CAUSED BY FLUCTUATIONS IN THE PRICE OF ELECTRICITY WILL BE RECOVERED IN THE NEXT REGULATORY PERIOD.

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 2021, the total net turnover of the segments was EUR 56 439 thousand, profit before tax EUR 15 473 thousand. Revenues of the natural gas transmission segment in 2021 were EUR 32 443 thousand, of the natural gas storage segment - EUR 23 996 thousand.

In 2021, the revenue of the transmission segment was positively affected by the actual air temperatures, which were lower in the winter months than in the corresponding months of 2020. As a result, the total demand of consumers for gas heating needs was higher than in the corresponding period of the previous year.

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 develop and approve their Financial Risk Management Policies, which are in line with the underlying 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 other Group companies. Trade receivables are presented at their amortised cost.

Only banks and financial institutions with credit rating (or alternatively credit rating of the parent bank) set by an international credit rating agency being at least at the investment grade level are used by the Group and the Parent.

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

Financing and liquidity

Pursuant to the decisions 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 June 2020, the former subsidiary of JSC "*Latvenergo*", the owner of the transmission system assets JSC "Latvijas elektriskie tīkli", was spun-off from the *Latvenergo* group and invested into JSC *"Augstsprieguma tīkls"*. Subsequent to this in November 2020 JSC "Latvijas elektriskie tīkli" was merged into JSC *"Augstsprieguma tīkls"*.

JSC "Latvijas elektriskie tīkli" received loans from its former 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 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 JSC "*Latvenergo*" attracts loans in the external market.

After investing the shares of JSC "Latvijas elektriskie tīkli" into JSC *"Augstsprieguma tīkls"*, the Parent Company 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 June 2020 was 225 232 thousand EUR.

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 plus fixed interest (see also Note 20). The purpose of this loan is to partially refinance the liabilities of JSC "Latvijas elektriskie tīkli" towards 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. AST agreed to repay the remaining part of the loan to *Latvenergo* in the amount of EUR 86 672 thousand in two equal instalments in 2022 and 2023.

In order to ensure efficient management of available funds, an agreement on early repayment of the loan was concluded between AST and JSC "*Latvenergo*" on 18 June 2021, providing for repayment of EUR 46 672 thousand of the loan principal in June 2021 and repayment of the remaining EUR 40 000 thousand in July 2021.

On October 2021 the loan from JSC ''SEB banka'' is partly refinanced by issuing bonds in amount EUR 100 000 thousand and partly repaid.

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 utilise funds available under overdraft facility.

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

The Board of JSC *"Augstsprieguma tīkls"* has approved the Financing Attraction Strategy for 2021–2025.

The international credit rating agency S&P Global Ratings (S&P) has ASSIGNED THE LONG-TERM CREDIT RATING A-/POSITIVE 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 the 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 five capital investment projects. In addition, in order to minimise the impact on the transmission tariffs, the Company redistributes the accumulated transmission congestion income to finance the capital investments.

In 2022, it is planned to continue the activities for improving the efficiency of the Parent Company's business processes and optimising costs.

As a result of AST's activities, 84% OF THE FINANCING REQUIRED FOR THE IMPLEMENTATION OF THE DEVELOPMENT PROJECTS INCLUDED IN THE EUROPEAN TEN-YEAR DEVELOPMENT PLAN IS COVERED BY EU CO-FINANCING AND TRANSMISSION CONGESTION INCOME, THUS REDUCING THE IMPACT ON THE ELECTRICITY TRANSMISSION SYSTEM SERVICE TARIFFS.

FURTHER DEVELOPMENT

Synchronization of the Baltic States with Continental Europe

The main challenges for the upcoming years will be related to THE SYNCHRONISATION OF THE BALTIC COUNTRIES' TRANSMISSION NETWORK WITH CONTINENTAL EUROPE.

On 22 May 2019, AST signed the Agreement on the conditions of the future interconnection of the power system of the Baltic States and continental Europe. The annexes to the concluded connection agreement to the continental European electricity system set out the technical requirements to be met by the Baltic TSOs before and after the start of the synchronization process. These requirements are related to changes in settings in the transmission system, investments in infrastructure development, and the obligations of TSOs to maintain a certain amount of frequency maintenance, frequency renewal reserves, as well as to ensure system inertia.

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.

Development of the Electricity Transmission System

The decision of the PUC Council of 14 October 2021 "On the Development Plan of the Electricity Transmission System" approved the development plan of the electricity transmission system for the period from 2022 to 2031 (hereinafter also - the Development Plan).

THE DEVELOPMENT PLAN IN ALIGNED WITH THE STRATEGIC GOAL OF AST – strengthening Latvia's energy security by synchronising the Latvian electricity transmission network with the continental European network, observing compliance with the principles of security and cost-effectiveness.

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 401 MILLION IN THE DEVELOPMENT OF THE ELECTRICITY TRANSMISSION SYSTEM. Detailed Development Plan is available at: https://www.ast.lv/sites/default/files/AST_Attistibas_plans_2022-2031.pdf

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:

- The third Estonia – Latvia 330 kV interconnection – EU co-financing of up to 65% of eligible costs, or EUR 51 198 thousand has been 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 thousand.
- Project "Synchronisation of the Baltic Electricity Transmission System with the European Network, Phase 2" - in 2020 EU co-financing of 75% of the eligible costs or EUR 55 500 thousand has been attracted for urgent projects of Phase 2. On October 2021, application for EU co-financing for the remaining part of the project in amount EUR 49 500 thousand was submitted. Expected CEF co-financing is up to 75% of the total costs of the second phase of the synchronization project.

During the reporting period, the project "Third Estonia-Latvia 330 kV interconnection" was put into operation investing EUR 82 784 thousand. Implementation of the project in the amount of 50% was co-financed by the European Union from the funds of the Connecting Europe Facility (CEF). To reduce the impact of the project on the electricity transmission tariff, the additional financing was received from congestion charge revenues of 30 508 thousand EUR.

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 service 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. This will include new opportunities for participants in the European Union's 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, like 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.

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.

EVENTS AFTER THE END OF THE REPORTING PERIOD

In October 2021, the revaluation of the electricity transmission system assets (transmission lines and technological equipment) was started. The results of the revaluation will be included in the audited annual report for 2021.

After the end of the reporting period there have been no others events or circumstances that would have a material effect on the Group's or Company's financial position at 31 December 2021.

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Māra Grava
Head of the Finance and Accounting Department

Riga, 16 February 2022

STATEMENT OF THE BOARD'S RESPONSIBILITY

STATEMENT OF THE BOARD'S RESPONSIBILITY

Based on the information available to the Management Board of *Augstsprieguma tīkls* JSC, the *Augstsprieguma tīkls* Consolidated and JSC "Augstsprieguma tīkls" Unaudited Condensed Interim Financial Statements for the year ended 31 December 2021 have been prepared in accordance with the International Financial Reporting Standards as adopted by the European Union and in all material aspects present a true and fair view of the assets, liabilities, financial position, profit and loss and respective cash flows. Information provided in the Management Report is accurate.

The *Augstsprieguma tīkls* Consolidated and JSC "Augstsprieguma tīkls" Unaudited Condensed Interim Financial Statements for 2021 were approved by the Board of JSC "Augstsprieguma tīkls"on 16 February 2022.

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Riga, 16 February 2022

CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

STATEMENT OF PROFIT OR LOSS

	Notes	Parent Company		Group	
		2021 EUR	2020 EUR	2021 EUR	2020 EUR
Revenue	3	126,850,861	147,348,276	183,289,969	144,886,178
Other income	4	3,961,975	849,007	5,072,989	1,809,530
Raw materials and consumables used	5	(60,704,933)	(22,634,111)	(67,865,639)	(26,166,763)
Personnel expenses	6	(16,420,347)	(16,710,622)	(28,604,305)	(21,876,121)
Other operating expenses	7	(17,744,357)	(66,509,417)	(22,384,637)	(43,624,394)
EBITDA		**35,943,199**	**42,343,133**	**69,508,377**	**55,028,430**
Depreciation and amortization	9.1, 9.2, 21	(32,993,240)	(37,153,607)	(50,798,989)	(40,626,860)
OPERATING PROFIT		**2,949,959**	**5,189,526**	**18,709,388**	**14,401,570**
Dividends from subsidiaries	10	58,286,236	5,604,642	-	3,080,996
incl. income from investments using the equity method		-	-	-	3,080,996
Net gain on acquisition of a controlling interest		-	-	-	50,326,017
Finance income	8a	6,905	352,270	7,607	578,817
Finance costs	8b	(2,121,135)	(1,147,046)	(2,407,894)	(2,175,859)
PROFIT BEFORE TAX		**59,121,965**	**9,999,392**	**16,309,101**	**66,211,541**
Income tax		-	-	(3,868,343)	(853,056)
PROFIT FOR THE YEAR		**59,121,965**	**9,999,392**	**12,440,758**	**65,358,485**
Profit attributable to:					
Equity holder of the Parent Company		59,121,965	9,999,392	9,492,276	64,051,311
Non-controlling interests		-	-	2,948,482	1,307,174

Notes from page 28 to 68 are an integral part of these financial statements.

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Riga, 16 February 2022

STATEMENT OF COMPREHENSIVE INCOME

	Notes	Parent Company		Group	
		2021 EUR	2020 EUR	2021 EUR	2020 EUR
PROFIT FOR THE YEAR		**59,121,965**	**9,999,392**	**12,440,758**	**65,358,485**
Other comprehensive income not to be reclassified to profit or loss in subsequent periods					
share of the group in other comprehensive income of the associates		-	-	-	28,120,629
income as a result of re-measurement on defined post-employment benefit plan		-	384,250	(328,222)	389,738
Other comprehensive income for the year		-	384,250	(328,222)	28,510,367
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**59,121,965**	**10,383,642**	**12,112,536**	**93,868,852**
Comprehensive income attributable to:					
Equity holder of the Parent Company		59,121,965	10,383,642	8,047,500	92,553,403
Non-controlling interests		-	-	4,065,036	1,315,449

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Riga, 16 February 2022

STATEMENT OF FINANCIAL POSITION

	Notes	Parent Company		Group	
		31.12.2021 EUR	Adjusted* 31.12.2020 EUR	31.12.2021 EUR	Adjusted* 31.12.2020 EUR
ASSETS					
NON-CURRENT ASSETS					
Intangible assets	9.1	2,121,767	1,435,210	4,169,736	3,307,881
Property, plant and equipment	9.2	655,181,817	654,359,778	1,077,477,441	1,067,674,394
Right-of-use assets	21a	14,635,417	14,212,293	15,086,525	14,715,877
Non-current financial investments	10	134,396,393	134,396,393	1,422	1,422
Non-current prepaid costs		-		1,108,651	1,209,438
TOTAL NON-CURRENT ASSETS		**806,335,394**	**804,403,674**	**1,097,843,775**	**1,086,909,012**
CURRENT ASSETS					
Inventories	11	517,327	514,087	3,113,815	3,535,090
Advances paid for inventories				30,051	
Receivables from contracts with customers	12	21,106,564	10,802,142	34,479,698	17,656,836
Deposits	13	-	25,000,000	-	25,000,000
Other current assets	13	1,443,217	31,647,751	1,808,403	31,740,753
Corporate income tax	13	11,512	11,512	11,512	11,512
Deferred expenses		528,957	629,093	946,096	979,586
Accrued income	14	402,308	294,358	402,308	294,358
Cash	15	48,513,943	32,224,560	63,190,053	47,388,296
TOTAL CURRENT ASSETS		**72,523,828**	**101,123,503**	**103,981,936**	**126,606,431**
TOTAL ASSETS		**878,859,222**	**905,527,177**	**1,201,825,711**	**1,213,515,443**

Notes from page 28 to 68 are an integral part of these financial statements.
*Note 2.19

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Riga, 16 February 2022

STATEMENT OF FINANCIAL POSITION

(continued)

	Notes	Parent Company		Group	
		31.12.2021 EUR	Adjusted* 31.12.2020 EUR	31.12.2021 EUR	Adjusted* 31.12.2020 EUR
EQUITY AND LIABILITIES					
EQUITY					
Share capital	16a	365,895,957	363,896,079	365,895,957	363,896,079
Reserves	16b	3,489,066	4,172,258	(2,802,771)	6,304,575
Retained earnings		66,546,790	16,741,025	155,149,273	146,773,744
Equity attributable to equity holder of the Parent Company		**435 931 813**	**384 809 362**	**518,242,459**	**516 974 398**
Non-controlling interests		-	-	**98 226 464**	**122,228,140**
TOTAL EQUITY		**435,931,813**	**384,809,362**	**616,468,923**	**639,202,537**
NON-CURRENT LIABILITIES					
Employee benefit obligations		2,310,709	2,636,255	3,684,844	3,664,749
Lease liabilities	21b	14,199,182	13,761,561	14,647,122	14,215,413
Borrowings	20	99,966,288	86,672,207	160,249,274	86,672,207
Deferred income	17	286,253,272	279,847,333	304,386,395	290,629,069
TOTAL NON-CURRENT LIABILITIES		**402,729,451**	**382,917,356**	**482,967,635**	**395,181,438**
CURRENT LIABILITIES					
Borrowings	20	-	116,200,000	37,772,866	138,075,000
Lease liabilities	21b	739,800	657,434	759,197	717,652
Deferred income	17	7,064,361	6,135,817	7,864,185	7,388,747
Trade payables		25,603,376	8,086,381	32,893,211	15,722,857
Taxes and mandatory state social insurance contributions	22	299,459	1,754,449	1,733,638	2,811,710
Deferred corporate income tax liabilities		-	-	6,764,063	5,152,360
Advance payments received	18	1,248,081	602,252	2,204,892	1,255,537
Other creditors	18	3,654,892	2,232,912	4,679,504	2,963,606
Accrued liabilities	19	1,587,989	2,131,214	7,717,597	5,043,999
TOTAL CURRENT LIABILITIES		**40,197,958**	**137,800,459**	**102,389,153**	**179,131,468**
TOTAL EQUITY AND LIABILITIES		**878,859,222**	**905,527,177**	**1,201,825,711**	**1,213,515,443**

Notes from page 28 to 68 are an integral part of these financial statements.
*Note 2.19

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Riga, 16 February 2022

STATEMENT OF CHANGES IN EQUITY

	Notes	Share capital EUR	Retained earnings EUR	Other reserves EUR	Noncurrent assets revaluation reserve EUR	Post-Employment benefit plan revaluation reserve EUR	Reorganisation reserves EUR	Total EUR
		Parent Company						
AS AT 31 DECEMBER 2019		**64,218,079**	**2,951,011**	**2,680,615**	–	**106,006**	–	**69,955,711**
Profit for the year		–	9,999,392	–	–	–	–	9,999,392
Other comprehensive income for the year		–	–	–	–	384,250	–	384,250
Total comprehensive income for the year		–	**9,999,392**	–	–	**384,250**	–	**10,383,642**
Dividends paid for 2019		–	(1,735,958)	–	–	–	–	(1,735,958)
Disposal of non-current assets revaluation reserve		–	315,146	–	(315,146)	–	–	–
Increase of share capital		299,678,000	–	–	–	–	–	299,678,000
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
Total transactions with owners and other changes in equity		299,678,000	3 790 622	–	28 338 091	–	(27,336,704)	304 470 009
AS AT 31 DECEMBER 2020		**363,896,079**	**16,741,025**	**2,680,615**	**28,338,091**	**490,256**	**(27,336,704)**	**384,809,362**
Profit for the reporting period		–	59,121,965	–	–	–	–	59,121,965
Total comprehensive income for the reporting year		–	**59,121,965**	–	–	–	–	**59,121,965**
Dividends paid for 2020		–	(7,999,514)	–	–	–	–	(7,999,514)
Disposal of non-current assets revaluation reserve		–	683,192	–	(683,192)	–	–	–
Increase of share capital		1,999,878	(1,999,878)	–	–	–	–	–
Total transactions with owners and other changes in equity		1 999 878	**(9 316 200)**	–	(683 192)	–	–	**(7 999 514)**
AS AT 31 DECEMBER 2021		**365,895,957**	**66,546,790**	**2,680,615**	**27,654,899**	**490,256**	**(27,336,704)**	**435,931,813**

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Riga, 16 February 2022

STATEMENT OF CHANGES IN EQUITY

(continued)

	Group								
	Notes	Share capital EUR	Retained earnings EUR	Other reserves EUR	Non-current assets revaluation reserve EUR	Post-Employment benefit plan revaluation reserve EUR	Reorganisation reserves EUR	Non-controlling interests EUR	Total EUR
AS AT 31 DECEMBER 2019		**64,218,079**	**56,367,925**	**2,680,615**	–	**75,844**	–	–	**123,342,463**
Profit for the year		–	64,051,311	–	–	–	–	1,307,174	65,358,485
Other comprehensive income for the year		–	–	–	–	381,463	28,120,629	8,275	28,510,367
Total comprehensive income for the year		–	**64,051,311**	–	–	**381,463**	**28,120,629**	**1,315,449**	**93,868,852**
Dividends paid for 2019		–	(1,735,958)	–	–	–	–	–	(1,735,958)
Transfer of revaluation surplus upon acquisition of control of an associate		–	28,090,467	–	–	–	(28,090,467)	–	–
Increase of share capital		299,678,000	–	–	–	–	–	–	299,678,000
Transaction between companies under joint control – acquisition of revaluation reserve		–	–	–	28,915,196	–	–		28,915,196
Intercompany transaction under single control – net result		–	–	–	–	–	(25,778,705)	–	(25,778,705)
Acquisition of a subsidiary with a non-controlling interest		–	–	–	–	–	–	120,912,690	120,912,690
Total transactions with owners and other changes in equity		**299,678,000**	**26,354,509**	–	**28,915,196**	–	**(53,869,172)**	**120,912,690**	**421,991,223**
AS AT 31 DECEMBER 2020		**363,896,079**	**146,773,744**	**2,680,615**	**28,915,196**	**457,307**	**(25,748,544)**	**122,228,140**	**639,202,537**
Profit for the year		–	9,492,276	–	–	–	–	2,948,482	12,440,758
Other comprehensive income for the year		–	–	–	–	(224,701)	–	(103,521)	(328,222)
Total comprehensive income for the year		–	**9,492,276**	–	–	**(224,701)**	–	**2,844,961**	**12,112,536**
Dividends paid for 2020		–	(7,999,514)	–	–	–	–	(26,846,636)	(34 846 150)
Disposal of non-current assets revaluation reserve		–	8,882,644	–	(8,882,644)	–	–	–	–
Increase of share capital		1,999,878	(1,999,878)	–	–	–	–	–	–
Total transactions with owners and other changes in equity		**1,999,878**	**(1,116,748)**	–	**(8,882,644)**	–	–	**(26,846,636)**	**(34,846,150)**
AS AT 31 DECEMBER 2021		**365,895,957**	**155,149,273**	**2,680,615**	**20,032,552**	**232,606**	**(25,748,544)**	**98,226,464**	**616,468,923**

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Riga, 16 February 2022

STATEMENT OF CASH FLOWS

	Notes	Parent Company		Group	
		2021 EUR	Adjusted* 2020 EUR	2021 EUR	Adjusted* 2020 EUR
I. CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before taxes		**59,121,965**	**9,999,392**	**16,309,101**	**66,211,541**
ADJUSTMENTS:					
- Amortisation, depreciation of intangible assets, fixed assets and rights to use assets	9.1, 9.2, 21	32,993,241	37,153,607	50,798,990	40,626,860
- Loss from disposal of non-current assets		257,965	39,827	257,965	(113,306)
- Increase/(decrease) in provisions		(325,546)	24,511	(325,546)	(70,992)
- Financial adjustment, net		-	431,640	651,230	(1,424,649)
- Interest expense	8b	2,409,909	-	2,409,909	-
- Other		-	-	66,682	-
- Dividends from subsidiaries		(58,286,236)	(5,604,641)	-	(5,604,641)
- Income from participation/Net gain from acquisition of controlling interest		-	-	-	(50,327,298)
- Gain/(loss) on an investment in an associate		-	-	-	(3,080,996)
Operating profit before working capital adjustments		**36,171,298**	**42,044,336**	**70,168,331**	**46,216,518**
ADJUSTMENTS:					
- Decrease/(increase) in trade receivables		21,224,423	45,991,954	14,366,388	31,441,514
- (Increase)/reduction of inventory		(3,240)	(11,378)	387,155	67,284
- Increase/(reduction) in trade payables		(10,674,530)	(39,067,283)	(5,704,838)	25,864,252
Gross cash flows from operating activities		**46,717,951**	**48,957,629**	**79,217,036**	**103,589,568**
- Interest paid		(2,171,939)	(703,115)	(2,433,934)	(2,569,698)
- Interest paid on leases		(237,970)	(145,982)	46,875	(190,275)
- Interest received		-	206,289	-	376,164
- Corporate income tax payments		-	-	(2,256,640)	-
Net cash flows from operating activities		**44,308,042**	**48,314,821**	**74,573,337**	**101,205,759**

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Riga, 16 February 2022

CASH FLOW STATEMENT

(continued)

	Notes	PARENT COMPANY		Group	
		2021 EUR	Adjusted* 2020 EUR	2021 EUR	Adjusted* 2020 EUR
II. CASH FLOWS FROM INVESTING ACTIVITIES					
Acquisition and creation of fixed assets and intangible assets	9.1, 9.2	(32,205,483)	(13,010,361)	(62,433,663)	(57,470,246)
Sales of fixed assets	9.2	95,963	283,386	166,453	283,386
Investment in subsidiary, net of cash acquired		-	(77,000,000)	-	(63,004,135)
Increase of share capital		(1,999,878)	-	(1,999,878)	-
Placed deposits		-	(25,000,000)	-	(25,000,000)
Repaid deposits		25,000,000	20,000,000	25,000,000	20,000,000
Dividends received		58,286,236	5,604,642	-	5,604,642
Proceeds from the sale of shares		-	1,729,072	-	1,729,072
Cash taken over from JSC Latvijas elektriskie tīkli		-	15,054,455	-	132,046
Net cash flows from/ (used in) investing activities		**49,176,838**	**(72,338 806)**	**(39,267,088)**	**(117,725,235)**
III. CASH FLOWS FROM FINANCING ACTIVITIES					
Asset lease payments		(683,173)	(27,906,863)	(793 733)	(18,789,303)
European Union funding received		32,393,231	3,035,039	40 210 739	3,035,039
Borrowings from credit institutions received	20	-	116,200,000	76 180 853	116,200,000
Borrowings from credit institutions, repaid	20	(116,200,000)	-	(116 200 000)	(1,458,333)
Repayment of borrowings from an associate	20	(86,672,207)	(138,560,000)	(86 672 207)	(138,560,000)
Issued debt securities (bonds)		99,966,288	-	99 966 288	
Increase of share capital		1,999,878	77,000,000	1 999 878	77,000,000
Dividends paid to shareholders		(7,999,514)	(1,735,958)	(34 196 310)	(1,735,958)
Net cash flows (used in)/ from financing activities		**(77,195,497)**	**28,032,218**	**(19 504 492)**	**35,691,445**
Net increase in cash		**16,289,383**	**4,008,233**	**15 801 757**	**19,171,969**
Cash at the beginning of the year		32,224,560	28,216,327	47 388 296	28,216,327
Cash at the end of the year		**48,513,943**	**32,224,560**	**63 190 053**	**47,388,296**

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NOTES TO THE 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.

The JSC "*Augstsprieguma tīkls*" heads the *Augstsprieguma tīkls* group (hereinafter – the Group) group that includes the subsidiary JSC "Conexus Baltic Grid".

All shares of JSC *"Augstsprieguma tīkls"* are owned by the state and their holder is the Ministry of Finance of the Republic of Latvia. The registered address of the Company is Dārzciema iela 86, Riga, LV-1073, Latvia.

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 the operational management of the transmission system and ensures secure and reliable electric power transmission. The Company as a transmission system operator operates in a relatively non-cyclical or late-cyclical industry. However, an unexpected downturn in the economy may have an impact on the Group's customers and negatively affect its growth and results of operations through reduced electricity consumption.

In 2021, restrictions related to the spread of the coronavirus continued in the Republic of Latvia and many other countries and are expected to continue in 2022 as well, which is expected to further significantly reduce economic development in the country and in the world. It is not possible to foresee the situation's development in the future, and thus there is uncertainty about economic development. The Company's management continuously evaluates the situation; at the time of approval of the annual report the Company has not encountered significant disruptions in business operations, no significant or potentially significant debt losses have been identified, the Company continues to cover liabilities in a timely manner. However, this conclusion is based on the information available at the time of preparation of the document; as influencing circumstances change, the impact on the Company's operations may differ from the current assessment.

The financial statements were approved by the Board of the Company on 16 February 2022 composed of: Gunta Jēkabsone (Chairwoman of the Board), Imants Zviedris (Member of the Board), Mārcis Kauliņš (Member of the Board), Gatis Junghāns (Member of the Board), Arnis Daugulis (Member of the Board).

The auditor of the Company is the certified audit company "PricewaterhouseCoopers" LTD, and the responsible certified auditor is Ilandra Lejiņa.

2. SIGNIFICANT ACCOUNTING PRINCIPLES

This section of the notes specifies the key accounting principles that are used in the preparation of these financial statements. These principles are applied consistently, reflecting data for all periods presented in the report. The basic accounting and valuation principles set out in this section have been applied consistently throughout the reporting period, except when mentioned otherwise.

The consolidated and separate financial statements have been prepared in accordance with the International Financial Reporting Standards, approved in the European Union. Taking the European Union approval process into account, standards and interpretations that have not been approved for application in the European Union are also presented, as those standards and interpretations may have an impact on the 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 nature of expense. The cash flow statement has been prepared using the indirect method.

Non-IFRS measure EBITDA is presented on the face of profit or loss statement. Such presentation is enforced by industry practise and enables better comparison with other companies operating in this sector of the economy. EBITDA is calculated as earnings before interest, financial income, taxes, depreciation and amortisation.

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

Correction of prior period errors made in the presentation of the statement of cash flows was made in 2021 with corresponding adjustments made to comparatives for 2020. Adjustments made are disclosed in Note 2.19.

Financial statements cover the time period from 1 January to 31 December 2021.

The consolidated financial statements of the Group include the financial results of the subsidiary JSC "Latvijas elektriskie tīkli" and the subsidiary JSC "Conexus Baltic Grid" from the moment of acquisition of these subsidiaries. After the merger that took its place in 2020 AS Latvijas elektriskie tīkli transferred all its assets and liabilities to the Company and ceased to exist as a separate legal with all of its operations being included into results of the Company.

As at 31 December 2021 and 31 December 2020, 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%

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 on 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 "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 Group's 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):

- 14. IFRS "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;
- 17. 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* tīkls 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* tīkls 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. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as a capital transaction directly in equity. The Group recognises the difference between sales consideration and the carrying amount of non-controlling interest sold as a capital transaction in the statement of changes in equity.

c) Associated undertakings

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.

Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and subsequently adjusted to recognise the Group's share of the associate's profit or loss and other comprehensive income. If the Group's share of losses of an associate exceeds the Group's interest in that associate (including long-term interests that are substantially part of the Group's net investment in the associate), the Group derecognises its share of future losses. Additional losses are only recognised to the extent that the Group has a present legal or constructive obligation or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investment becomes an associate. When an investment in an associate is acquired, any excess of the cost of the investment over the fair value of the Group's share of the net identifiable assets and liabilities of the associate is recognised as goodwill, which is included in the carrying amount. Any excess of the fair value of the Group's share of the identifiable net assets and liabilities of the associate after the cost of revaluation is recognised immediately in profit or loss in the period in which the investment is made.

36. The requirements of IAS are applied to determine whether an impairment loss needs to be recognised in respect of the Group's investment in an associate. If necessary, the entire carrying amount of the investment (including goodwill) is reviewed in accordance with IAS 36 as a single asset by comparing its recoverable amount (the higher of value in use and fair value less costs to sell) with its carrying amount. Any reversal of an impairment loss is recognised in accordance with IAS 36.

The Group ceases to use the equity method from the date on which the investment ceases to be an associate. The difference between the carrying amount of the associate at the date of termination of the equity method and the fair value of the retained interest and the gain on disposal of the interest in the associate is included in determining the gain or loss on disposal. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in respect of that associate, as would be the case if the associate had disposed of the related assets or liabilities directly.

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 value on 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 from the acquisition of a company is stated at cost, determined on 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.

Business combinations involving companies under common control

The Group accounts for a business combination involving companies under common control in accordance with the business combination method, with the acquiring company taking over the carrying amounts of the assets and liabilities of the other company.

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 recorded at fair value. All other financial instruments are initially recorded at fair value adjusted for transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

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 select (for each instrument separately) certain equity instruments at fair value recognised in 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 income 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) during 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 estinguished, 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 income statement for the relevant period.

2.3. INTANGIBLE AND FIXED ASSETS

All intangible investments are capitalised on the basis of the costs incurred to acquire and bring them to use. 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 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. The balance of the revaluation reserve written off in the financial statements is included in retained earnings. During the period of use of the revalued asset in each reporting period, a portion of the revaluation reserve, calculated as the difference between the depreciation on the revalued carrying amount of the asset and the depreciation on the asset's original cost, is recognized in retained earnings.

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 related to 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. THE FAIR VALUE

IFRS13 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 data at each level 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, is observable from the asset or liability side. The model uses market data that is not the quoted prices at Level 1, but that is 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) is classified in Level 3. Non-observable market data is data that is not easily available in an active market due to the illiquidity of the market or the complexity of the financial instrument. Level 3 data is determined mainly on the basis of observable market data of a similar nature, historical observations or analytical approaches.

Assets measured at fair value

The revaluation of the Group's property, plant and equipment is performed by independent externally certified appraisers using the depreciated replacement cost method. Revaluations of property, plant and equipment are performed with sufficient regularity to ensure that the carrying amount of property, plant and equipment subject to revaluation does not differ materially from that which would be determined using fair value at the end of the reporting period.

Fixed assets of the electricity transmission system

The following transmission system assets (fixed assets) are re-evaluated regularly, but no less than once in 5 years:

- electricity transmission networks,
- transformer substation electrical equipment.

The valuation is performed according to the property valuation standards and is based on the existing use of fixed assets, which is considered to be the best and most efficient. As a result of revaluation, the residual replacement value of each fixed asset is determined. The residual replacement value is the difference between the replacement or replacement cost of an analogue asset at the time of valuation and the accumulated total physical, functional, economic impairment.

The assets of the Parent Company's electricity transmission system (power lines and electrical equipment) were revalued in 2016. The revaluation was performed by an external valuer estimating the cost of replacing or renewing each fixed asset based on the actual cost of creating or acquiring analogue or similar fixed assets shortly before the revaluation in accordance with the Company's records. With regard to fixed assets, which in 2011 were invested in the share capital of JSC "Latvijas elektriskie tīkli" as a property investment, the external valuer performed a revaluation to assess how the components of replacement or renewal costs of these fixed assets have changed, since they were invested in fixed capital, adjusting the values of certain subgroups of fixed assets for changes in material costs, and the wage component was indexed on the basis of publicly available national statistics on wage growth over the period. For each item of property, plant and equipment, the external valuer estimated its functional and physical depreciation, which reduced the estimated replacement or replacement value. Management has assessed changes in the criteria used in the valuation since the revaluation and has estimated that these changes do not have a material effect on the value of the revalued groups of property, plant and equipment.

Fixed assets of the natural gas transmission and storage segment

The Group's buildings, structures, including gas pipeline infrastructure, and technological equipment are stated at revalued amounts that approximate their fair values. The revaluation of fixed assets in the natural gas transmission and storage segment was performed in 2020. Due to the unique nature and use of the assets, Level 3 data was used for the revaluation, which means that the data is not freely observable for the respective type of assets. This was a revaluation (the previous one took place in 2016, when the assets were still owned by JSC Latvijas Gāze), and the level of data of the used assumptions was not changed. The revaluation was performed by an external expert using the amortised replacement cost method. Under this method, the initial value of assets is determined according to the current prices and requirements as well as the materials used. The main assumptions in the revaluation process relate to the cost of materials used and average construction prices at the time of the revaluation. To determine the values, data available from JSC Conexus Baltic Grid on the construction of similar objects in recent years were also used. An important part of the revaluation was the revaluation of underground gas pipelines. The total length of the natural gas transmission pipelines is 1,190 kilometres. If the average construction costs in the country increase or the cost of materials used increases significantly, the value of the assets will also increase. If, as a result, construction costs fall or material costs fall, the value of the assets will also fall. Along with the initial value, the accumulated depreciation of each asset was also determined, taking the physical, functional and technical depreciation of the asset into account as the main factors. If revalued assets are used significantly differently or are functionally depreciated, the value of the revalued assets may decrease significantly. Management has assessed the price level of the pipelines and general construction as of 31 December 2021 and has not identified any material changes since the assessment. In the absence of any other significant changes, the management concluded that the carrying amount of revalued property, plants and equipment does not differ materially from the amount that would have been determined using fair value at the end of the reporting year.

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 parent company's financial statements, investments in associates are stated at cost less impairment losses, if any.

In the consolidated financial statements, investments in equity of an associate are accounted for in accordance with International Accounting Standard (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. LEASE

At the time of concluding the agreement, the Group and the Parent Company assess whether the agreement is a lease or includes a lease. An agreement is a lease or includes a lease if it gives the right to control the use of an identifiable asset for a specified period of time in exchange for consideration.

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 leases (the lease term being 12 months or less) and leases 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 leases 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 assets 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" 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.

2.7. INVENTORIES

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 European Union funding and 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.

Connection fees to transmission system are non-refundable upfront fees paid by customers to secure connection to the transmission network, such fees are not distinct performance obligations as are highly interrelated with transmission system services. Connection fees partly reimburses for the cost of infrastructure to be built needed to connect the respective customer to the network. Connection fees to transmission system fee is calculated in accordance with Latvian regulatory authority (Public Utilities Commission) stated methodology. Revenue from connection fees to transmission system are initially recognised as deferred income and recognised over the estimated customer relationship period of 20 years.

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 to 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.

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 to 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. PROVISIONS

Provisions are recognised when the Company has legal or other construction obligations 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 the 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 significant 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 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 Article 13, Section 4 and Article 13[1], Section 6 of the Electricity Market Law, and receives a fee for 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 - MPC) from all electricity end-users or their traders, if the end-user has delegated settlements to the trader with the Company for system 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 renewal 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, the Company with its personnel resources 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) Fee 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 transmission of natural gas

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 the storage of natural gas

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 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 which 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 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. USE 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 on 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:

- *Expenditure related to 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 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 loss measurements per month and the loss price.

The amount of accrued expenses on 31 December 2021 is 508,539 EUR. Provisions are made on the basis of settlement statements for period January – September accepted by the Company (total amount 196,180 EUR), which are not invoiced on 31 December 2021. 312,359 EUR have been estimated, taking into account the losses caused by transit flows. Below the assessment of the sensitivity of the revenue estimate at December 2021 is provided.

	Transit loss price		WWT amount	
	A decrease of 20%	A increase of 20%	A decrease of 20%	A increase of 20%
The provision of transit expenses changes	(19,306)	19,306	(25,812)	25,812

- *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 Annex 2.8.

- *Book value of intangible assets and property, plants 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.

In accordance with the Group's accounting policy, the Group companies make estimates regarding the useful lives and residual values of property, plants and equipment. These estimates are based on past experience as well as industry practice and are reviewed at the end of each reporting year.

The Company tests property, plants and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. According to the valuation, if necessary, the value of assets is written down to their recoverable amount.

In assessing impairment, management uses various estimates of cash flows arising from the use, sale, maintenance and repair of property, plants and equipment, as well as increases in inflation and interest rates.

Estimates are based on forecasts of the general economic environment, consumption and electricity sales prices. Should the actual situation change in the future, an additional impairment loss would be recognised or the recognised impairment loss could be partially or fully reduced.

Impairment losses are recognised in the respective reporting period.

Revaluation of property, plants and equipment at a revalued amount is performed by external, certified appraisers in accordance with property valuation standards, based on the existing use of the property, plants and equipment that are considered to be the best and most efficient. As a result of revaluation, the fair value of each fixed asset is determined. The Group's management assesses annually whether the carrying amount of revalued property, plants and equipment differs materially from its fair value on the balance sheet date.

The Group's companies make estimates regarding the useful lives of emergency repair spare parts and, based on past experience, including an assessment of future events, this is determined based on the useful life of the original equipment.

- *Deferred income tax*

Deferred tax liabilities are recognised in the consolidated financial statements for the retained earnings of subsidiaries, from which tax will be calculated at the time of distribution in the foreseeable future. Other deferred tax assets and liabilities are not recognised. In cases where the total result of the deferred tax calculation would be reflected in the balance sheet asset, it is recognised in the balance sheet when it is probable that the relevant enterprise will have sufficient taxable income to cover temporary differences.

Deferred income tax liabilities are recognised in the consolidated financial statements for the pre-tax profit of the subsidiaries to the extent that the parent company, as a shareholder, will decide on the distribution of these profits in dividends in the near future.

- *Investment into a subsidiary*

An investment in a subsidiary is initially recognised in accordance with IFRS 3 Business Combinations. At the time of investment, the fair value of identifiable assets and liabilities is assessed. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at their fair values on the acquisition date, irrespective of the extent of any minority interest. Goodwill/gain on a bargain is measured as the excess of the total of acquisition value and value of the non-controlling interest part and the amount of the identified acquired assets and assumed liabilities.

- *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 December 2020. The accounting policies relevant to IFRS 16 "Leases" are described in Note 21.

2.19. RECONCILIATION BETWEEN THE FINANCIAL STATEMENTS

a) STATEMENT OF FINANCIAL POSITION

	Parent Company			Group		
	31.12.2020 EUR	Adjustments EUR	Adjusted 31.12.2020 EUR	31.12.2020 EUR	Adjustments EUR	Adjusted 31.12.2020 EUR
ASSETS						
NON-CURRENT ASSETS						
Intangible assets	1,435,210	–	1,435,210	3,307,881	–	3,307,881
Fixed assets	654,359,778	–	654,359,778	1,067,674,394	–	1,067,674,394
Right-of-use assets	14,212,293	–	14,212,293	14,715,877	–	14,715,877
Non-current financial investments	134,396,393	–	134,396,393	1,210,860	(1,209,438)	1,422
Non-current prepaid costs	–	–	–	–	1,209,438	1,209,438
TOTAL NON-CURRENT ASSETS	**804,403,674**	–	**804,403,674**	**1,086,909,012**	–	**1,086,909,012**
CURRENT ASSETS						
Inventories	514,087	–	514,087	3,535,090	–	3,535,090
Trade receivables	1,673,797	9,128,345	10,802,142	8,528,491	9,128,345	17,656,836
Deposits	25,000,000	–	25,000,000	25,000,000	–	25,000,000
Other current assets	31,647,751	–	31,647,751	31,740,753	–	31,740,753
Corporate income tax	11,512	–	11,512	11,512	–	11,512
Deferred expenses	629,093	–	629,093	979,586	–	979,586
Accrued income	9,422,703	(9,128,345)	294,358	9,422,703	(9,128,345)	294,358
Cash	32,224,560	–	32,224,560	47,388,296	–	47,388,296
TOTAL CURRENT ASSETS	**101,123,503**	–	**101,123,503**	**126,606,431**	–	**126,606,431**
TOTAL ASSETS	**905,527,177**	–	**905,527,177**	**1,213,515,443**	–	**1,213,515,443**
EQUITY AND LIABILITIES						
EQUITY						
Share capital	363,896,079	–	363,896,079	363,896,079	–	363,896,079
Reserves	4,172,258	–	4,172,258	6,304,575	–	6,304,575
Retained earnings	6,741,633	–	6,741,633	82,722,433	–	82,722,433
Profit for the reporting year	9,999,392	–	9,999,392	64,051,311	–	64,051,311
Non-controlling interest	-	–	–	122,228,140	–	122,228,140
TOTAL EQUITY	**384,809,362**	–	**384,809,362**	**639,202,537**	–	**639,202,537**
NON-CURRENT LIABILITIES						
Employee benefit obligations	2,636,255	–	2,636,255	3,664,749	–	3,664,749
Lease liabilities	13,761,561	–	13,761,561	14,215,413	–	14,215,413
Loans	86,672,207	–	86,672,207	86,672,207	–	86,672,207
Deferred revenue	279,847,333	–	279,847,333	290,629,069	–	290,629,069
Advance payments received	162,277	(162,277)	–	162,277	(162,277)	–
TOTAL NON-CURRENT LIABILITIES	**383,079,633**	**(162,277)**	**382,917,356**	**395,343,715**	**(162,277)**	**395,181,438**
CURRENT LIABILITIES						
Loans	116,200,000	–	116,200,000	138,075,000	–	138,075,000
Lease liabilities	657,434	–	657,434	717,652	–	717,652
Deferred revenue	5,973,540	162,277	6,135,817	7,226,470	162,277	7,388,747
Trade payables	4,908,151	3,178,230	8,086,381	12,544,628	3,178,230	15,722,857
Taxes and mandatory state social insurance contributions	1,754,449	–	1,754,449	2,811,710	–	2,811,710
Deferred corporate income tax liabilities	–	–	–	5,152,360	–	5,152,360
Advance payments received	602,252	–	602,252	1,255,537	–	1,255,537
Other creditors	2,232,912	–	2,232,912	2,963,606	–	2,963,606
Accrued liabilities	5,309,444	(3,178,230)	2,131,214	8,222,228	(3,178,230)	5,043,999
TOTAL CURRENT LIABILITIES	**137,638,182**	**162,277**	**137,800,459**	**179,131,468**	**162,277**	**179,131,468**
TOTAL EQUITY AND LIABILITIES	**905,527,177**	–	**905,527,177**	**1,213,515,443**	–	**1,213,515,443**

b) STATEMENT OF CASH FLOWS

	Parent Company			Group		
	2020	Adjustments	Adjusted 2020	2020	Adjustments	Adjusted 2020
	EUR	EUR	EUR	EUR	EUR	EUR
I. CASH FLOWS FROM OPERATING ACTIVITIES						
Profit before taxes	**9,999,392**	–	**9,999,392**	**66,211,541**	–	**66,211,541**
ADJUSTMENTS:						
Amortisation, depreciation and impairment in value of intangible assets, fixed assets and rights to use assets	37,193,434	–	37,193,434	(40,626,860)	81,253,720	40,626,860
Increase/(decrease) in provisions	24,511	–	24,511	(70,992)	–	(70,992)
Financial adjustment, net	259,247	–	259,247	(1,597,042)	–	(1,597,042)
Gains/losses on disposal of property, plant and equipment	–	–	–	(113,306)	–	(113,306)
Expenditure on disposal of shares in associates or associates	172,393	–	172,393	172,393	–	172,393
Income from dividends	(5,604,641)	–	(5,604,641)	(5,604,641)	–	(5,604,641)
Income from participation/ Net gain from acquisition of controlling interest	–	–	–	(50,327,298)	–	(50,327,298)
Gain/(loss) on an investment in an associate	–	–	–	(3,080,996)	–	(3,080,996)
ADJUSTMENTS:						
Decrease/(increase) in trade receivables	45,991,954	–	45,991,954	112,695,234	(81,253,720)	31,441,514
(Increase)/reduction of inventory	(11,378)	–	(11,378)	67,284	–	67,284
Increase/(reduction) in trade payables	(39,067,283)	–	(39,067,283)	25,864,252	–	25,864,252
Gross cash flows from operating activities	**48,957,629**	–	**48,957,629**	**103,589,568**	–	**103,589,568**
Interest paid	(19,668)	(683,447)	(703,115)	(189,543)	(2,380,155)	(2,569,698)
Interest paid on leases	–	(145,982)	(145,982)	–	(190,275)	(190,275)
Interest received	–	206,289	206,289	–	376,164	376,164
Corporate income tax payments	(347,192)	347,192	–	(347,192)	347,192	–
Net cash flows from operating activities	**48,590,769**	**(275,948)**	**48,314,821**	**103,052,833**	**(1,847,074)**	**101,205,759**

b) STATEMENT OF CASH FLOWS (continued)

	Parent Company			Group		
	2020 EUR	Adjustments EUR	Adjusted 2020 EUR	2020 EUR	Adjustments EUR	Adjusted 2020 EUR
II. CASH FLOWS FROM INVESTING ACTIVITIES						
Acquisition and creation of fixed assets and intangible assets	(13,010,361)	-	(13,010,361)	(57,470,246)	-	(57,470,246)
Sales of fixed assets and intangible assets	283,386	-	283,386	283,386	-	283,386
Investment in subsidiary, net of cash acquired	(77,000,000)	-	(77,000,000)	(63,004,135)	-	(63,004,135)
Interest income	18,200	(18,200)	-	18,200	(18,200)	-
Placed deposits	(25,000,000)	-	(25,000,000)	(25,000,000)	-	(25,000,000)
Repaid deposits	20,000,000	-	20,000,000	20,000,000	-	20,000,000
Dividends received	5,604,642	-	5,604,642	5,604,642	-	5,604,642
Proceeds from the sale of shares	1,729,072	-	1,729,072	1,729,072	-	1,729,072
Money taken over from JSC Latvijas elektriskie tīkli	-	15,054,455	15,054,455	-	132,046	132,046
Net cash flows from/ (used in) investing activities	**(87,375,061)**	**15,036,255**	**(72,338,806)**	**(117,839,081)**	**113,846**	**(117,725,235)**
III. CASH FLOWS FROM FINANCING ACTIVITIES						
Asset lease payments	(27,906,863)	-	(27,906,863)	(18,789,303)	-	(18,789,303)
Interest paid on asset leases	(145,981)	145,981	-	(145,981)	145,981	-
European Union funding received	3,035,039	-	3,035,039	3,035,039	-	3,035,039
Loans from credit institutions, net	116,200,000	-	116,200,000	116,200,000	-	116,200,000
Loans from credit institutions, repaid	-	-	-	(1,458,333)	-	(1,458,333)
Repayment of loans from an associate	(138,560,000)	-	(138,560,000)	(138,560,000)	-	(138,560,000)
Expenses for repayment of loans	(796,276)	796,276	-	(1,611,035)	1,611,035	-
Interest payments, net	300,917	(300,917)	-	(455,450)	455,450	-
Share capital increase	77,000,000	-	77,000,000	77,000,000	-	77,000,000
Dividends paid to shareholders	(1,388,766)	(347,192)	(1,735,958)	(1,388,766)	(347,192)	(1,735,958)
Net cash flows (used in)/ from financing activities	**27,738,070**	**294,148**	**28,032,218**	**33,826,171**	**1,865,274**	**35,691,445**
Increase/(decrease) in net cash and cash equivalents during the reporting period	**(11,046,222)**	**15,054,455**	**4,008,233**	**19,039,923**	**132,046**	**19,171,969**
Cash taken over from JSC Latvijas elektriskie tīkli	15,054,455	(15,054,455)	-	132,046	(132,046)	
Cash and cash equivalents at the beginning of the reporting period	**28,216,327**	-	**28,216,327**	**28,216,327**	-	**28,216,327**
Cash and cash equivalents at the end of the reporting period	**32,224,560**	-	**32,224,560**	**47,388,296**	-	**47,388,296**

3. REVENUE

	IFRS applied	Parent Company		Group	
		2021 EUR	2020 EUR	2021 EUR	2020 EUR
Revenue from contracts with customers recognised over time:					
Electricity transmission service	IFRS 15	76,145,380	73,377,414	76,145,380	73,377,414
Sale of balancing electricity	IFRS 15	36,928,136	12,549,323	36,928,136	12,549,323
Revenues from transmission of natural gas*	IFRS 15	–	–	32,442,743	12,579,249
Revenues from storage of natural gas*	IFRS 15	–	–	23,996,365	8,885,617
Revenues from connection fee	IFRS 15	3,352,978	829,478	3,352,978	1,952,340
Congestion management at borders (auction)	IFRS 15	3,309,834	1,007,197	3,309,834	1,007,197
Cross-border electricity perimeter charges	IFRS 15	1,717,020	211,132	1,717,020	211,132
Liquidation of electrical capacity overload	IFRS 15	1,621,402	411,844	1,621,402	411,844
Revenue from reactive electricity	IFRS 15	655,931	615,362	655,931	615,362
Sale of regulatory electricity	IFRS 15	631,946	287,556	631,946	287,556
Electricity transit service	IFRS 15	88,241	698,230	88,241	698,230
Transmission asset reconstruction and renovation works**	IFRS 15	–	53,968,536	–	28,485,159
Other services	IFRS 15	1,262,448	3,165,619	1,262,448	3,599,170
TOTAL revenue from contracts with customers		**125,713,316**	**147,121,691**	**188,152,424**	**144,659,593**
Other revenue:					
Lease of other assets	IFRS 16	1,137,545	226,585	1,137,545	226,585
TOTAL other revenue		**1,137,545**	**226,585**	**1,137,545**	**226,585**
TOTAL revenue		**126,850,861**	**147,348,276**	**183,289,969**	**144,886,178**

* *As of 21 July 2020, the Company owns 68.46 per-cent of the shares in AS Conexus Baltic Grid and has a decisive influence in the company. JSC "Conexus Baltic Grid" is the unified natural gas transmission and storage operator in Latvia. Conexus offers its customers natural gas transmission and storage services in accordance with the tariffs set by the Public Utilities Commission.*

** *Pursuant to Decision No. 18 of the PUC Council of 30 January 2013 "On the Certification of the Electricity Transmission System Operator", from 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 21² 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 on 25 November 2020 and JSC "Augstsprieguma tīkls" was added.*

4. OTHER INCOME

	Parent Company		Group	
	2021 EUR	2020 EUR	2021 EUR	2020 EUR
EU financial support, investment	3,447,957	586,687	3,831,771	1,473,717
Sale of current assets and fixed assets, net	365,548	211,073	365,548	217,913
EU financial support, training	840	–	840	–
Revenue from balancing, net	–	–	(1,232,555)	–
Other revenue	147,630	51,247	2,107,385	117,900
TOTAL other income	**3,961,975**	**849,007**	**5,072,989**	**1,809,530**

5. RAW MATERIALS AND CONSUMABLES USED

	Parent Company		Group	
	2021 EUR	2020 EUR	2021 EUR	2020 EUR
Purchase of balancing electricity	27,923,270	8,859,783	27,923,270	8,859,783
Transmission electricity losses and technological consumption	16,395,882	5,751,676	16,395,882	5,751,676
Purchase of regulatory electricity	9,573,605	3,663,722	9,573,605	3,663,722
Natural gas transmission and storage system maintenance services	–	–	5,172,301	2,135,367
Electricity transit losses	4,211,314	1,663,322	4,211,314	1,663,322
Costs of materials used and repairs	2,227,539	2,482,690	3,446,915	3,323,864
Natural gas costs	–	–	769,029	556,111
Electricity for own consumption	373,323	212,918	373,323	212,918
TOTAL used raw materials and materials, repair costs	**60,704,933**	**22,634,111**	**67,865,639**	**26,166,763**

6. PERSONNEL EXPENSES

	Parent Company		Group	
	2021 EUR	2020 EUR	2021 EUR	2020 EUR
Remuneration for work	12,656,479	12,474,088	22,078,406	16,439,638
State social insurance contributions	2,931,715	2,988,061	5,158,784	3,973,460
Contributions to the pension plan determined by the collective agreement	657,497	636,661	1,178,216	843,075
Benefits determined by the collective agreement	174,656	611,811	174,656	611,811
Other personnel expenses	–	–	14,243	8,137
TOTAL personnel expenses	**16,420,347**	**16,710,622**	**28,604,305**	**21,876,121**
including Remuneration to the company's management (board, council)				
Remuneration for work	671,290	698,723	1,228,776	969,101
State social insurance contributions and benefits determined by the collective agreement	157,908	170,928	294,007	240,466
Contributions to the pension plan determined by the collective agreement	–	–	45,097	18,404
Other personnel expenses	–	–	–	20,430
TOTAL remuneration to the management of the company	829,198	869,651	1,567,880	1,248,401
Number of employees at the end of the reporting year	529	539	881	888
Average number of employees in the reporting year	**534**	**546**	**868**	**887**

7. OTHER OPERATING EXPENSES

	Parent Company		Group	
	2021 EUR	2020 EUR	2021 EUR	2020 EUR
Power reserve costs	4,088,585	4,209,747	4,088,585	4,209,747
Telecommunication services	2,871,898	2,878,023	2,871,898	2,878,023
Elimination of capacity congestion	3,781,610	1,094,939	3,781,610	1,094,939
IT system maintenance costs	1,274,929	844,508	1,999,851	849,791
Local taxes and fees	187,937	210,290	1,522,873	819,765
Premises and territory maintenance costs	1,046,644	935,908	1,046,644	1,562,906
Transportation costs	72, 158	778,999	934,786	778,999
Nature and labour protection costs	120,482	121,587	120,482	121,587
Electricity transmission asset reconstruction and renovation works*	–	53,952,908	–	28,469,531
Various business costs	3,651,114	1,482,508	6,017,908	2,839,106
TOTAL other operating expenses	**17,744,357**	**66,509,417**	**22,384,637**	**43,624,394**

* *In accordance with the decision of the Register of Enterprises of the Republic of Latvia of 25 November 2020, the owner of electricity transmission assets JSC "Latvijas elektriskie tīkli" was excluded from the Register of Enterprises on 25 November 2020 and JSC "Augstsprieguma tīkls" was added. Since November 2020 JSC "Augstsprieguma tīkls" owns electricity transmission assets and costs of reconstruction and renovation are capitalized (see note 9.2.)*

8. FINANCE INCOME AND COSTS

	Parent Company		Group	
	2021 EUR	2020 EUR	2021 EUR	2020 EUR
a) Finance income				
Interest income from loans	–	334,070	–	334,070
Interest income from credit institutions	–	18,200	–	18,200
Other finance income	6,905	–	7,607	226,547
TOTAL finance income	**6,905**	**352,270**	**7,607**	**578,817**
b) Finance costs				
Interest expenses on borrowing	(2,066,651)	(829,429)	(2,328,646)	(1,871,028)
Interest expense on issued debt securities (bonds)	(100,000)	–	(100,000)	–
Loss on issued debt securities (bonds)	(5,288)	–	(5,288)	–
Expense on issued debt securities (bonds)	(2,630)	–	(2,630)	–
Capitalized borrowing interest	301,502	–	301,502	–
Interest expense on asset leases IFRS 16	(237,971)	(145,982)	(260,822)	(133,196)
Other finance costs	(10,097)	(171,635)	(12,010)	(171,635)
TOTAL finance costs	**(2,121,135)**	**(1,147,046)**	**(2,407,894)**	**(2,175,859)**

9. INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

9.1. INTANGIBLE ASSETS

	Parent Company				
	Computer software	Transmission usage rights	Costs of creating intangible investments	Advance payment for rights of use	Total
	EUR	EUR	EUR	EUR	EUR
31 December, 2019					
Cost	1,163,497	11,493,000	382,708	38,028,090	51,067,295
Accumulated amortisation	(640,782)	(13,095)	–	–	(653,877)
Closing net book amount as at 31 December 2019	**522,715**	**11,479,905**	**382,708**	**38,028,090**	**50,413,419**
2020					
Additions	298,526	–	456,164	–	754,690
Obtained as a result of reorganisation	–	1,080	–	–	1,080
Regrouped	639,372	–	(639,372)	–	–
Disposals	–	(11,048,917)	–	(38,028,090)	(49,077,008)
Amortisation charge	(225,960)	(431,011)	–	–	(656,971)
Closing net book amount as at 31 December 2020	**1,234,653**	**1,057**	**199,500**	–	**1,435,210**
31 December 2020					
Cost	2,108,318	1,892	199,500	–	2,309,710
Accumulated amortisation	(873,665)	(835)	-	–	(874,500)
Closing net book amount as at 31 December 2020	**1,234,653**	**1,057**	**199,500**	–	**1,435,210**
2021					
Additions	887,557	–	256,992	–	1,144,549
Regrouped	135,000	–	(135,000)	–	–
Amortisation charge	(457,897)	(95)	–	–	(457,992)
Closing net book amount as at 31 December 2021	**1,799,313**	**962**	**321,492**	–	**2,121,767**
31 December 2021					
Cost	3,126,796	1,892	321,492	–	3,450,180
Accumulated amortisation	(1,327,483)	(930)	–	–	(1,328,413)
Closing net book amount as at 31 December 2021	**1,799,313**	**962**	**321,492**	–	**2,121,767**

* *In accordance with the Transmission System Development Plan approved by the Public Utilities Commission, the Company directs the accumulated congestion fee revenue to the capital financing of the capital investment transmission system. Following the transmission system operator unbundling model introduced in Latvia, according to which the transmission assets are owned by JSC Latvijas elektriskie tīkli, the Company recognises the right to use the transmission assets in the amount of the investments made. On 25 November 2020, JSC Latvijas elektriskie tīkli was excluded from the Register of Enterprises and JSC Augstsprieguma tīkls was added. As a result of the said addition, JSC Augstsprieguma tīkls has acquired the ownership rights of the transmission system assets, respectively the right to use the transmission assets has been excluded.*

	Group				
	Computer software	Transmission usage rights	Assets under development	Advance payment for rights of use	TOTAL
	EUR	EUR	EUR	EUR	EUR
31 December, 2019					
Cost	1,163,497	11,493,000	382,708	38,028,090	51,067,295
Accumulated amortisation	(640,782)	(13,095)	–	–	(653,877)
Closing net book amount as at 31 December 2019	**522,715**	**11,479,905**	**382,708**	**38,028,090**	**50,413,419**
2020					
Balances of JSC Conexus Baltic Grid on 31 July 2020	1,320,926	–	206,999	–	1,527,925
Additions	298,526	–	1,042,403	–	1,340,929
Balances of JSC Latvijas elektriskie tīkli	–	1,080	–	–	1,080
Regrouped	1,372,573	–	(1,426,240)	–	(53,667)
Disposals	(281)	(11,048,917)	–	(38,028,090)	(49,077,288)
Amortisation charge	(413,505)	(431,011)	–	–	(844,516)
Closing net book amount as at 31 December 2020	**3,100,954**	**1,057**	**205,870**	–	**3,307,881**
31 December 2020					
Cost	2,108,318	1,892	199,500	–	2,309,710
As a result of the control, JSC Conexus Baltic Grid 31.12.2020	7,698,983	–	6,370	–	7,705,353
Accumulated amortisation	(873,665)	(835)	–	–	(874,500)
As a result of the control, JSC Conexus Baltic Grid 31.12.2020	(5,832,682)	–	–	–	(5,832,682)
Closing net book amount as at 31 December 2020	**3,100,954**	**1,057**	**205,870**	–	**3,307,881**
2021					
Additions	887,557	–	1 107 607	–	1 995 164
Regrouped	924,210	–	(924 210)	–	0
Disposals	(6,357)	–	–	–	(6 357)
Amortisation charge	(1,126,856)	(95)	–	–	(1 126 951)
Closing net book amount as at 31 December 2021	**3,779,508**	**962**	**389 267**	–	**4 169 736**
31 December 2021					
Cost	11,316,084	1,892	389,267	–	11,707,242
Accumulated amortisation	(7,536,576)	(930)	–	–	(7,506)
Closing net book amount as at 31 December 2021	**3,779,508**	**962**	**389,267**	–	**4,169,736**

9.2. PROPERTY, PLANT AND EQUIPMENT

	Parent Company				
	Land, buildings and facilities	Power transmission lines and technological equipment	Other fixed assets	Assets under construction	TOTAL
	EUR	EUR	EUR	EUR	EUR
31 December, 2019					
Cost	–	6,815	9,933,969	1,000,165	10,940,949
Accumulated depreciation and impairment	–	(6 815)	(5,442,932)	–	(5,449,747)
Net book amount	–	–	**4,491,037**	**1,000,165**	**5,491,202**
2020					
Balances of JSC Latvijas elektriskie tīkli 30.09.2020	39,058,031	495,601,436	1,723,011	106,605,514	642,987,992
Additions	35,100	–	1,635,979	13,343,718	15,014,797
Regrouped	1,467,941	27,540,385	538,839	(29,547,165)	–
Sold	–	–	–	(283,386)	(283,386)
Disposals	(60)	(34,175)	(1,973)	–	(36,208)
Depreciation	(555,509)	(6,280,342)	(1,869,224)	–	(8,705,075)
Adjustment	–	–	–	(109,544)	(109,544)
Closing net book amount as at 31 December 2020	**40,005,503**	**516,827,304**	**6,517,669**	**91,009,302**	**654,359,778**
31 December 2020					
Cost or revalued amount	47,694,860	1,065,211,783	21,072,775	91,009,302	1,224,988,720
Accumulated depreciation and impairment	(7,689,357)	(548,384,479)	(14,555,106)	–	(570,628,942)
Net book amount	**40,005,503**	**516,827,304**	**6,517,669**	**91,009,302**	**654,359,778**
2021					
Additions	–	7,729	5,281,672	27,641,779	32,931,180
Regrouped	2,267,260	93,107,280	2,546,619	(97,921,159)	–
Sold	–	(3,676)	–	(92,287)	(95,963)
Disposals	–	(256,871)	(1,094)	–	(257,965)
Depreciation	(1,990,648)	(26,173,507)	(3,591,058)	–	(31,755,213)
Closing net book amount as at 31 December 2021	**40,282,115**	**583,508,259**	**10 753 808**	**20,637,635**	**655,181,817**
31 December 2021					
Cost or revalued amount	49,938,470	1,144,797,465	28,773,885	20,637,635	1,244,147,455
Accumulated depreciation and impairment	(9,656,355)	(561,289,206)	(18,020,077)	–	(588,965,638)
Net book amount	**40,282,115**	**583,508,259**	**10,753,808**	**20,637,635**	**655,181,817**

The revaluation of electricity transmission assets (transmission lines and technological equipment) was performed in 2016. The revaluation was performed by an independent external certified valuer, estimating the cost of replacing or renewing each item of property, plant and equipment based on the actual cost of creating or acquiring analogue or similar property, plant and equipment shortly before the revaluation. Management has assessed changes in the criteria used in the valuation since the revaluation. In October 2021, the revaluation of the electricity transmission system assets (transmission lines and technological equipment) has started. The results of the revaluation will be included in the audited annual report for 2021.

	Group					
	Land, buildings and facilities	Power lines and Technological equipment	Other fixed assets	Spare parts emergency reserve	Assets under construction	TOTAL
	EUR	EUR	EUR	EUR	EUR	EUR
31 December 2019						
Cost or revalued amount	–	6,815	9,933,969	–	1,000,165	10,940,949
Accumulated depreciation and impairment	–	(6 815)	(5,442,932)	–	–	(5,449,747)
Net book amount	–	–	**4,491,037**	–	**1,000,165**	**5,491,202**
2020						
Balances of JSC Conexus Baltic Grid on 31.07.2020	318,876,576	73,193,452	2,118,839	1,404,726	10,683,906	406,277,499
Balances of JSC Latvijas elektriskie tīkli on 31.05.2020	41,393,506	504,246,362	197,790	–	80,976,728	626 814 386
Additions	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)
Disposals	(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
Closing net book amount 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						
Cost or revalued amount	47,694,860	1,065,211,783	21,072,775	–	91,009,302	1,224,988,720
As a result of control JSC Conexus Baltic Grid on 31.12.2020	761,944,987	130,919,337	7,367,348	1,404,727	4,657,656	906,294,055
Accumulated depreciation and impairment	(7,689,357)	(548,384,479)	(14,555,106)	–	–	(570,628,942)
As a result of control JSC Conexus Baltic Grid on 31.12.2020	(438,591,735)	(57,778,659)	(4,861,210)	158,461	8,093,704	(492,979,439)
Net book amount	**363,358,755**	**589,967,982**	**9,023,807**	**1,563,188**	**103,760,662**	**1,067,674,394**
2021						
Additions	–	405,796	5,791,118	–	53,511,832	59,708,746
Regrouped	15,556,279	95,996,256	2,546,619	–	(114,099,154)	–
Sold	–	(3,676)	–	–	(92,287)	(95,963)
Disposals	(426,188)	(473,460)	(3,190)	–	–	(902,838)
Transfers	(385,593)	253,661	131,932	(24,409)	(83,938)	(108,347)
Depreciation	(13,396,616)	(31,054,738)	(4,347,197)	–	–	(48,798,551)
Closing net book amount as at 31 December 2021	**356,333,949**	**663,736,747**	**11,617,868**	**1,538,779**	**44,250,098**	**1,077,477,441**
31 December 2021						
Cost or revalued amount	822,110,513	1,277,908,918	37,497,565	1,538,779	42,997,115	2,182,052,890
Accumulated depreciation and impairment	(457,403,876)	(62, 817,097)	(24,354,476)	–	–	(1,104,575,449)
Net book amount	**364,706,637**	**655,091,821**	**13,143,089**	**1,538,779**	**42,997,115**	**1,077,477,441**

10. NON-CURRENT FINANCIAL INVESTMENTS

	Parent Company		Group	
	31.12.2021 EUR	31.12.2020 EUR	31.12.2021 EUR	31.12.2020 EUR
Participation in the capital of subsidiaries, 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**	**1,422**	**1,422**
JSC Pirmais slēgtais pensiju fonds	1,422	1,422	1,422	1,422
At the end of the year	**134,396,393**	**134,396,393**	**1,422**	**1,422**

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. INVENTORIES

	Parent Company		Group	
	31.12.2021 EUR	31.12.2020 EUR	31.12.2021 EUR	31.12.2020 EUR
Materials and spare parts	517,327	514,087	2,214,542	2,137,535
Natural gas	-	-	983,496	1,477,709
Provisions for slow-moving inventories	-	-	(84,223)	(80,154)
TOTAL inventories	**517,327**	**514,087**	**3,113,815**	**3,535,090**

12. RECEIVABLES FROM CONTRACTS WITH CUSTOMERS

	Parent Company		Group	
	31.12.2021 EUR	31.12.2020 EUR	31.12.2021 EUR	31.12.2020 EUR
Receivables from contracts with customers				
Electricity transmission system service debt	21,083,293	10,338,635	21,083,293	10,338,635
Other receivables	27,621	479,125	13,400,755	7,333,819
TOTAL receivables from contracts with customers	**21,110,914**	**10,817,760**	**34,484,048**	**17,672,454**
Provisions for doubtful and hopeless debts				
For electricity transmission system service debt	-	-		-
For other trade receivables	(4,350)	(15,617)	(4,350)	(15,617)
TOTAL provisions for doubtful and hopeless debts	**(4,350)**	**(15,617)**	**(4,350)**	**(15,617)**
Trade receivables from contracts with customers, net				
Electricity transmission system service debt	21,083,293	10,338,635	21,083,293	10,338,635
Other trade receivables	23,271	463,507	13,396,405	7,318,201
TOTAL trade receivables from contracts with customers, net	**21,106,564**	**10,802,142**	**34,479,698**	**17,656,836**

Impairment of trade receivables	Parent Company		Group	
	31.12.2021 EUR	31.12.2020 EUR	31.12.2021 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	(11,267)	(15,537)	(11,267)	(15,537)
At the end of the reporting year	**4,350**	**15,617**	**4,350**	**15,617**

13. OTHER RECEIVABLES

	Parent Company		Group	
	31.12.2021 EUR	31.12.2020 EUR	31.12.2021 EUR	31.12.2020 EUR
Deposits	-	25,000,000	-	25,000,000
Overpaid taxes (see Note 22), including:	11,512	11,512	11,512	11,512
Corporate income tax	11,512	11,512	11,512	11,512
Financing receivable from European Union funds	1,332,125	31,570,973	1,332,125	31,570,973
The rest of the receivables	111,092	76,778	476,278	169,780
TOTAL other receivables	**1,454,729**	**56,659,263**	**1,819,915**	**56,752,265**

14. ACCRUED INCOME

	Parent Company		Group	
	31.12.2021 EUR	31.12.2020 EUR	31.12.2021 EUR	31.12.2020 EUR
Electricity transit service revenue (ITC)	88,241	68,336	88,241	68,336
Other accrued revenue	314,067	226,022	314,067	226,022
TOTAL accrued income	**402,308**	**294,358**	**402,308**	**294,358**

15. CASH

	Parent Company		Group	
	31.12.2021 EUR	31.12.2020 EUR	31.12.2021 EUR	31.12.2020 EUR
Cash at bank	48,513,943	32,224,560	63,190,053	47,388,296
TOTAL cash	**48,513,943**	**32,224,560**	**63,190,053**	**47,388,296**

16. EQUITY

As of 31 December 2021, the registered share capital of JSC "Augstsprieguma tīkls" is EUR 365 895 957 (31 December 2020 - EUR 363 896 079), consisting of 365 895 957 shares (as of 31 December 2020 - 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 2017 – EUR 299 511;
In 2018 – EUR 247 395;
In 2019 – EUR 3 598 352;
In 2020 – EUR 1 735 958;
In 2021 – EUR 7 999 514.

The 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 INCOME

	Parent Company		Group	
	31.12.2021 EUR	31.12.2020 EUR	31.12.2021 EUR	31.12.2020 EUR
a) Non-current deferred income				
- on financing from European Union funds	140,849,334	112,672,698	158,982,457	123,454,434
- on financing receivable from European Union funds	1,332,125	31,570,973	1,332,125	31,570,973
- from connection fees	38,226,809	39,995,011	38,226,809	39,995,011
- from congestion charge revenue	105,845,004	95,608,651	105,845,004	95,608,651
TOTAL non-current deferred income	**286,253,272**	**279,847,333**	**304,386,395**	**290,629,069**
(b) Current deferred income				
- from European Union funding	3,251,749	2,483,112	3,809,636	2,832,877
- from connection fees	3,375,254	3,379,561	3,375,254	3,379,561
- from congestion charge revenue	437,358	273,144	437,358	273,144
- from IPGK reserved capacity charges	-	-	237,285	903,165
-from another project financing	-	-	4,652	-
TOTAL current deferred income	**7,064,361**	**6,135,817**	**7,864,185**	**7,388,747**

	Parent Company		Group	
	31.12.2021 EUR	31.12.2020 EUR	31.12.2021 EUR	31.12.2020 EUR
Movement of deferred income (non-current and current part):				
At the beginning of the reporting year	**285,983,150**	**289,601,283**	**298,017,816**	**301,033,754**
Received deferred revenues from European Union financing	2,154,383	7,669,503	9,971,891	7,669,503
Deferred revenue from connection fees received	1,660,242	40,667	1,660,242	40,667
Congestion management revenue received	11,954,496	-	11,954,496	-
IPGK reserved capacity charges	-	-	237,284	903,165
Capitalized co-financed project	-	-	130,468	-
Long-term deferred revenue from usage rights is excluded	-	(11,043,332)	-	(11,043,332)
Revenue from congestion charges is included in the profit or loss statement	(1,553,930)	1,141,328	(1,553,930)	1,141,328
Connection fees are included in the profit or loss statement	(3,432,751)	(844,618)	(3,432,751)	(844,618)
European Union funding is included in the profit or loss statement	(3,447,957)	(581,681)	(4,734,936)	(882,651)
At the end of the reporting year	**293,317,633**	**285,983,150**	**312 250 580**	**298,017,816**

18. ADVANCE PAYMENTS RECEIVED AND OTHER CREDITORS

	Parent Company		Group	
	31.12.2021 EUR	31.12.2020 EUR	31.12.2021 EUR	31.12.2020 EUR
Settlements with employees	685,061	641,702	685,061	641,702
Connection fee advances received *	1,247,839	602,252	1,247,839	602,252
Advance payments received from customers	242	–	957,053	–
Other creditors	2,969,831	1,591,210	3,994,443	2,975,189
TOTAL advance payments received and other creditors	**4,902,973**	**2,835,164**	**6,884,396**	**4,219,143**

** 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

	Parent Company		Group	
	31.12.2021 EUR	31.12.2020 EUR	31.12.2021 EUR	31.12.2020 EUR
Savings to ensure the availability of natural gas	–	–	3,895,714	640,974
Accrued bonus costs for previous year's results	376,149	333,008	2,025,381	2,072,258
Accrued cost of unused holidays	738,451	745,304	1,300,613	1,261,725
Accrued liabilities to compensate the transit losses	411,008	598,000	411,008	598,000
Accrued benefit costs and pension plan contributions	46,480	42,728	46,480	42,728
Accrued liabilities for annual audit	15,600	–	38,100	16,140
Others	301	–	301	–
Accrued interest liabilities	–	412,174	–	412,174
TOTAL accrued liabilities	**1,587,989**	**2,131,214**	**7,717,597**	**5,043,999**

20. BORROWINGS

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 resulting from its addition on 25 January 2020, JSC "*Augstsprieguma tīkls*" took over the loans of JSC "*Latvijas elektriskie tīkli*" in 2020.

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

After the investment of JSC "*Latvijas elektriskie tīkli*" shares in JSC "*Augstsprieguma tīkls*" on June 2020, JSC "*Augstsprieguma tīkls*" ensured 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), interest rate of 0.74% plus 3 months EURIBOR. The purpose of this loan was to partially refinance the liabilities of JSC "*Latvijas elektriskie tīkli*" to JSC "*Latvenergo*". The loan was unsecured.

In October 2021, the loan from JSC SEB banka was partly refinanced by issuing unsecured green bonds in the amount of EUR 100 million and partly repaid.

The total amount of the Bond Issue programme is in the amount of up to EUR 160 million EUR within possibility of additional issues once required. The bonds are listed on the Nasdaq Riga stock exchange with a fixed coupon rate of 0.5% per annum and a maturity date of 20 January 2027. The Parent Company is entitled to redeem each series of bonds issued, in whole but not in part, at any time during the period of 3 (three) month prior to their maturity at a price equal to the nominal amount of the notes together with the accrued interest.

In addition to the events of default conditions, the Cross-default condition is included if the outstanding debts of the Parent Company and its subsidiary individually or in total exceed EUR 20 million EUR.

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 with a maturity until 18 June 2023, at interest rate of 0.35% plus 3 months EURIBOR. The overdraft is unsecured. During the reporting period the specified covenants (DEBT/EBITDA ≤ 6 ; DSCR≥ 1,2; Equity ratio ≥ 25%; 100% State owned) of the contract are met. JSC "Augstsprieguma tīkls" did not use the funding available under this facility during the year.

The subsidiary of the Group natural gas operator JSC "Conexus Baltic Grid" attracts external financing with its own resources. During the reporting period, JSC "Conexus Baltic Grid" received loans from the Nordic Investment Bank, JSC "SEB banka", OP Corporate Bank plc Latvia Branch and JSC "Swedbank". At the year end Company has overdraft agreements with JSC "SEB banka", OP Corporate Bank plc Latvia Branch,, however none of these facilities were used during the year. At the end of the reporting period, the weighted average interest rate on long-term loans is 0.37 % (in 2020: 0.6 %). 41% of long-term loans have a fixed loan interest rate. All Conexus loans are denominated in euros and unsecured.

	Parent Company		Group	
	31.12.2021 EUR	31.12.2020 EUR	31.12.2021 EUR	31.12.2020 EUR
Borrowings from credit institutions and related parties:				
Non-current borrowings from related parties	-	86,672,207	-	86,672,207
Non-current borrowings from credit institutions	-		60,282,986	
Non-current portion of issued debt securities (bonds)	99,866,288	-	99,866,288	-
Current borrowings from credit institutions	-	116,200,000	37,772,866	138,075,000
TOTAL borrowings	**99,866,288**	**202,872,207**	**197,922,140**	**224,747,207**
Accrued interest on borrowings from related parties	-	412,174	-	412,174
Accrued interest on borrowings from credit institutions	-	-	37,369	-
Accrued liabilities for coupon interest expenses on issued debt securities (bonds)	100,000	-	100,000	-
TOTAL	**99,966,288**	**203,284,381**	**198,059,509**	**225,159,381**

	Parent Company		Group	
	31.12.2021 EUR	31.12.2020 EUR	31.12.2021 EUR	31.12.2020 EUR
Movement in borrowings				
At the beginning of the reporting year	**203,284,381**	–	**225,159,381**	–
Borrowings received from related parties	–	86,672,207	–	86,672,207
Borrowings received from credit institutions	–	116,200,000	84,949,950	138,075,000
Changes in outstanding value of issued debt securities (bonds)	99,966,288	–	99,966,288	–
Borrowings repaid to related parties	(86,672,207)	–	(86,672,207)	–
Borrowings repaid to credit institutions	(116,200,000)	–	(124,969,097)	–
Calculated borrowing interest rates for related parties	1,340,530	412,174	1,340,530	412,174
Calculated borrowing interest rates for credit institutions	726,121	441,883	988,116	441,883
Paid interest on loans to related parties	(1,752,703)		(1,752,703)	–
Paid interest on loans to credit institutions	(726,121)	(441,883)	(950,748)	(441,883)
Changes in borrowings, net	**(103,318,093)**	203,284,381	**(27,099,872)**	225,159,381
At the end of the reporting year	**99,966,288**	203,284,381	**198,059,509**	225,159,381
incl.:				
Borrowings from related parties	–	86,672,207	–	86,672,207
Borrowings from credit institutions	–	116,200,000	98,055,852	138,075,000
Issued debt securities (bonds)	99,966,288		99,966,288	–
TOTAL borrowings	**99,966,288**	**202,872,207**	**198,022,140**	**224,747,207**

21. LEASE OF ASSETS

	Parent Company		Group	
	31.12.2021 EUR	31.12.2020 EUR	31.12.2021 EUR	31.12.2020 EUR
a) Right-of-use assets				
Residual value at the beginning of the reporting period	14,212,293	35,920,323	14,715,877	36,453,057
Initial recognition value on 01.01.2019.	–	–	–	–
Initial adding value on 10.2020	–	14,398,775	–	14,398,775
Recognised changes in lease contracts	1,203,160	–	1,244,136	57,397
Changes in lease agreements recognised on 01.2020	–	896,288	–	896,288
Recognised changes in lease agreements on 09.2020	–	(9,204,153)	–	(9,204,153)
Depreciation on 09.2020	–	(27,612,458)	–	(27,612,458)
Depreciation	(780,036)	(186,482)	(873,488)	(273,029)
Residual value at the end of the reporting period	**14,635,417**	**14,212,293**	**15,086,525**	**14,715,877**
b) Non-current and current lease liabilities				
Residual value as of 31 December 2019	**14,418,995**	**37,475,766**	**14,933,065**	**38,019,221**
Initial recognition value on 01.01.2019.	–	–	–	–
Initial adding value on 10.2020	–	14,580,829	–	14,580,829
Recognised changes in lease contracts	1,203,160	–	1,244,136	57,397
Changes in lease agreements recognised on 01.2020	–	(659,155)	–	(659,155)
Recognised changes in lease agreements on 09.2020	–	(9,217,564)	–	(9,217,564)
Decrease in lease liabilities on 09.2020	–	(27,687,830)	–	(27,687,830)
Decrease in lease liabilities	(921,143)	(219,033)	(1,031,704)	(330,751)
Asset lease interest expenses on 09.2020	–	(88,783)	–	(88,783)
Asset lease interest expense	237,971	57,199	260,822	82,135
Residual value as of 31 December 2020:	**14,938,982**	**14,418,995**	**15,406,319**	**14,933,065**
Of which are				
Non-current	14,199,182	13,761,561	14,647,122	14,215,413
Current	739,800	657,434	759,197	717,652

22. TAXES AND MANDATORY STATE SOCIAL INSURANCE CONTRIBUTIONS

	Parent Company				Group	
	31.12.2020 EUR	Calculated EUR	Paid EUR	31.12.2021 EUR	31.12.2021 EUR	31.12.2020 EUR
Corporate income tax	–	–	–	–	1,085	3,539
Value added tax	1,025,328	31,960,696	(33,381,154)	(395,130)	682,703	1,637,290
Mandatory State social insurance contributions	474,949	4,474,703	(4,502,648)	447,004	651,737	742,095
Personal income tax	253,700	2,297,519	(2,304,165)	247,054	372,478	385,067
State fee for business risk	194	2,289	(2,294)	189	189	194
Electricity tax	278	2,402	(2,320)	360	360	278
Natural resource tax	–	–	–	–	24,380	43,237
Real estate tax	–	–	–	–	10	10
Public Utilities Commission fee	–	145,938	(145,956)	(18)	(18)	–
Excise tax		–	–	–	714	–
TOTAL TAXES	**1,754,449**	**38,883,547**	**(40,338,537)**	**299,459**	**1,733,638**	**2,811,710**

23. 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 participation of JSC "*Augstsprieguma tīkls*" is less than 100%, but which are controlled by the Parent Company 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 when they fall due.

Liquidity risk

Liquidity risk is related to the Group's and Parent Company's ability to meet their obligations when those are due. 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 flows, forecasting short-term and long-term cash flow, ensuring the availability of sufficient financial resources to settle liabilities within the set deadlines.

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.

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

Interest rate risk

Interest rate risk arises primarily from borrowings with a floating 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%. At the same time, the Financial Risk Management Regulations stipulate that deviations from this indicator are allowed in the process of restructuring the liabilities taken over in the process of reorganization of the ownership rights of transmission assets.

On 31 December 2021, the Parent Company has the loan from JSC "SEB banka" with a variable interest rate (see Note 20). On 31 December 2021, the Company has the bonds in the amount of EUR 100 million with a maturity of 5.25 years, a fixed annual interest rate (coupon) of 0.5% and a yield of 0.527%.

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 **debtor risk** – in 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 – JSC "*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.

Capital Risk Management

The shareholder of the Parent 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 Group and the Parent Company, the financing necessary for the implementation of the development plan in transmission assets, and the fulfilment of covenants specified in the loan agreements. Covenants set out in the loan agreements have not been violated. In order to ensure the fulfilment of covenants 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%. As of 31 December 2021, the share of JSC "Augstsprieguma tīkls" equity in the balance sheet is 50%, of the Group – 51% (as at 31 December 2020 it was 42% and 53% respectively).

Currency risk

The Company's currency risk is assessed as insignificant, the Company has no balances in foreign currencies, all transactions and balances are denominated in EUR.

24. TRANSACTIONS WITH RELATED PARTIES

Related parties are state-owned entities that are controlled, jointly controlled, or substantially influenced by the state.

Trading transactions taking place under normal business activities with the Latvian government including its departments and agencies and transactions between state–controlled entities and providers of public utilities are excluded from the scope of related party quantitative disclosures based on provisions of IAS 24 para 25. The Group and the Parent Company enter into transactions with many of these bodies on an arm's length basis. Transactions with government related entities include taxes and other related services.

Significant transactions are made with JSC "Latvenergo" and its subsidiaries - the transmission assets owner JSC "Latvijas elektriskie tīkli" (until 2020 when it became part of the Group and was merged with the Parent Company), the power supply service provider JSC "Latvenergo", the distribution system operator JSC "Sadales tīkls", and the public electricity trader JSC "Enerģijas publiskais tirgotājs".

Remuneration to the Augstsprieguma tīkls Group's management includes remuneration to the members of the Management Boards the Group entities, the Supervisory Board and the Supervisory body (Audit Committee) of the Parent Company. Remuneration to the Parent Company's management includes remuneration to the members of the Parent Company's Management Board, the Supervisory Board and the Supervisory body (Audit Committee). Information disclosed in Note 6.

a) Revenue and expenses from transactions with related parties

	Parent Company		Group	
	2021 EUR	2020 EUR	2021 EUR	2020 EUR
	state–controlled entities*			
Revenue				
Electricity transmission service	74,971,551	72,255,404	74,971,551	72,255,404
Revenue from the sale of electricity, electric capacity maintenance services	9,777,058	5,718,133	9,777,058	5,718,133
Mandatory procurement component	3,325,574	4,240,315	3,325,574	4,240,315
Revenue from other services	1,895,180	2,425,554	1,895,180	2,425,554
Total revenue from transactions with related companies	**89,969,363**	**84,639,406**	**89,969,363**	**84,639,406**
Expenses				
Electricity purchase	25,893,567	11,225,918	25,893,567	11,225,918
Mandatory procurement component	4,857,584	6,280,984	4,857,584	6,280,984
Communication expenses	3,094,890	3,111,304	3,094,890	3,111,304
Long-term loan interest payments	1,340,530	234,978	1,340,530	234,978
Lease of fixed assets and land	795,693	110,882	795,693	110,882
Other costs	173,905	118,214	173,905	118,214
Total expenses of transactions with related companies	**36,156,169**	**21,082,281**	**36,156,169**	**21,082,281**

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

	Parent Company		Group	
	31.12.2021 EUR	31.12.2020 EUR	31.12.2021 EUR	31.12.2020 EUR
Accounts receivable:				
state–controlled entities	10,827,721	7,823,907	10,827,721	7,823,907
Liabilities of creditors:				
state–controlled entities	12,343,652	2,324,691	12,343,652	2,324,691

25. EVENTS AFTER THE END OF THE REPORTING PERIOD

Since the last day of the reporting year until the date of approval of these financial statement, there are no significant events that need to be reported in these financial statements.