



**CONSOLIDATED REPORT OF
AUGSTSPRIEGUMA TĪKLS GROUP AND
ANNUAL REPORT OF JSC AUGSTSPRIEGUMA TĪKLS**

FOR 2020

Prepared in accordance with the International Financial
Reporting Standards, approved in the European Union

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INFORMATION ABOUT THE GROUP AND THE COMPANY



Name of the parent company	JSC Augstsprieguma tīkls
Legal status of the parent company	Joint Stock Company
Registration number, place and date of the parent company	000357556 Rīga, 28 December 2001 Re-registration in the Commercial Register is performed On 13 November 2004 under unified registration number 40003575567
Type of principal activity of the parent company	Electricity supply, NACE code 35.12
Type of principal activity of the Group	Electricity supply, NACE code 35.12 and Pipeline transport (NACE code 49.50)
Address	Dārzciema iela 86 Rīga, LV-1073, Latvia
Parent company shareholder	From 2 January 2012: Ministry of Finance in the name of the Republic of Latvia (100%) Smilšu iela 1, Rīga, LV-1050, Latvia
Names, surnames and positions held of the board members	Varis Boks – Chairman of the Board (until 31.03.2021) Arnis Staltmanis – Board Member (until 07.04.2021) Imants Zviedris – Board Member Gatis Junghāns – Board Member Mārcis Kauliņš – Board Member
Names, surnames and positions held of Supervisory Board members	Kaspars Āboliņš – Council Chairman Olga Bogdanova – Deputy Council Chairwoman Armands Eberhards – Council Member Madara Melne – Council Member Aigars Čērmanis – Council Member
Reporting year	1 January 2020 – 31 December 2020
Previous accounting year	1 January 2019 – 31 December 2019
Participation in other companies	JSC Conexus Baltic Grid (34.36% until 20.07.2020, 68.46% from 21.07.2020) JSC Latvijas elektriskie tīkli 100% (From 16.06.2020 to 25.11.2020)
Name and address of the auditor and the responsible certified auditor	SIA Deloitte Audits Latvia Commercial Company of Certified Auditors Licence No. 43 Unified registration number: 40003606960 Grēdu iela 4a, Rīga, LV-1019, Latvia
Responsible certified auditor:	Inguna Staša Certificate No. 145

KEY FINANCIAL AND PERFORMANCE INDICATORS

	Group	JSC Augstsprieguma tīkls				
	2020	2020	2019	2018	2017	2016
FINANCIAL INDICATORS						
Revenue, thous. EUR*	144 886	147 348	184 742	193 866	158 862	116 789
EBITDA, thous. EUR	55 028	42 343	40 515	1 642	1 843	1 159
Profit, thous. EUR	64 051	9 999	7 067	4 677	309	352
Balance sheet total, thous. EUR	1 213 515	905 527	221 934	193 000	188 722	114 697
Equity, thous. EUR	639 203	384 809	69 956	70 344	8 499	8 661
Loans, thous. EUR	224 747	202 872	-	-	57 394	-
Net cash flow from operating activities, thous. EUR	103 053	48 591	20 423	7 236	38 645	5 613
Cash and its equivalents, thous. EUR**	72 388	57 225	48 216	106 637	33 113	86 233
FINANCIAL COEFFICIENTS						
Liquidity ratio	3.1	4.7	1.1	3.8	1.3	5.3
EBITDA Profitability	38.0%	28.7%	21.9%	0.8%	1.2%	1.0%
Equity ratio (≥35%)	53%	42%	32%	36%	5%	8%
NetDEBT to EBITDA, (≤5.0)	2.8	3.4				
PERFORMANCE INDICATORS						
Electricity transmitted to users in Latvia, GWh		5 961	6 012	6 051	5 807	5 822
Average number of employees	887	546	552	548	539	525

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

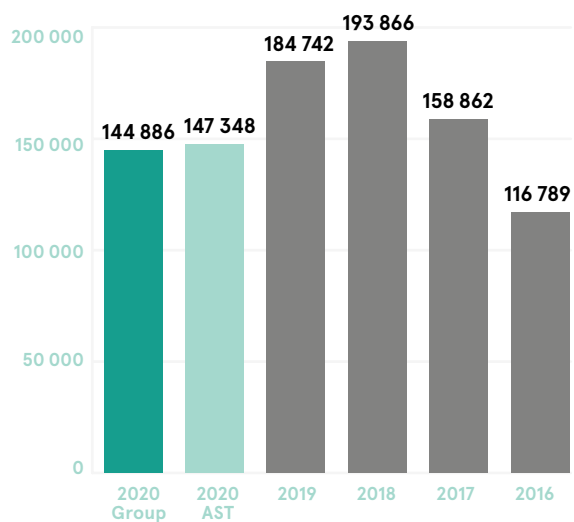
Equity ratio = equity/balance sheet total

NetDEBT = borrowings – cash and cash equivalents (including short-term deposits with original maturity of less than 3 months)

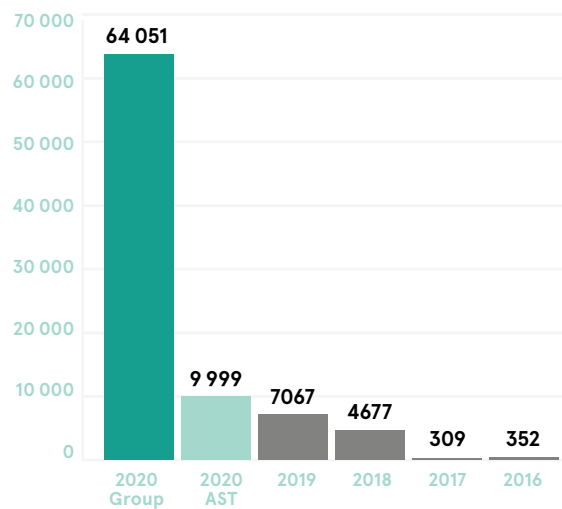
* The amount of the Group's revenue in 2020 is affected by the exclusion of mutual services between JSC Augstsprieguma tīkls and JSC Latvijas elektriskie tīkli (see also Appendix 3, section "Transmission system asset ownership reform")

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

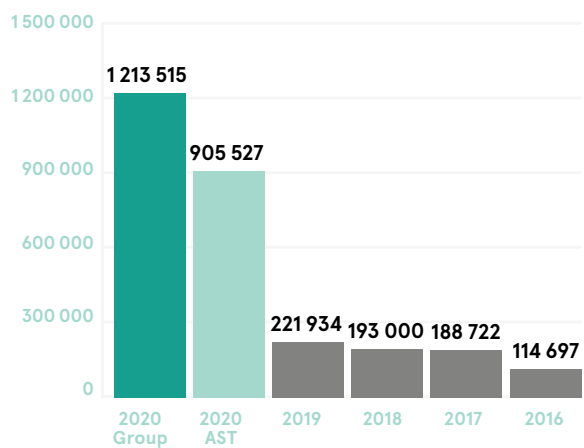
REVENUE, THOUS. EUR



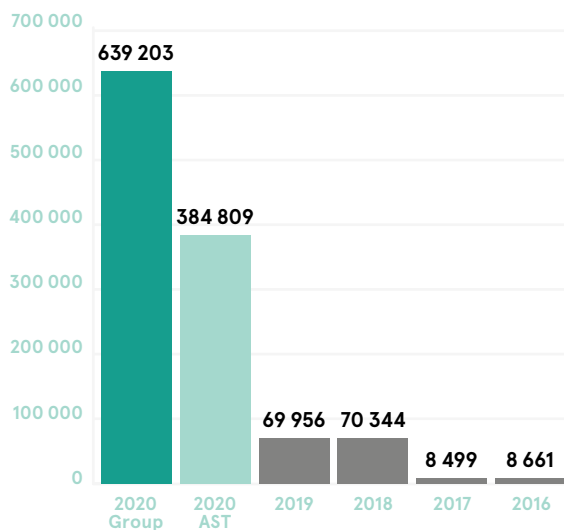
PROFIT, THOUS. EUR



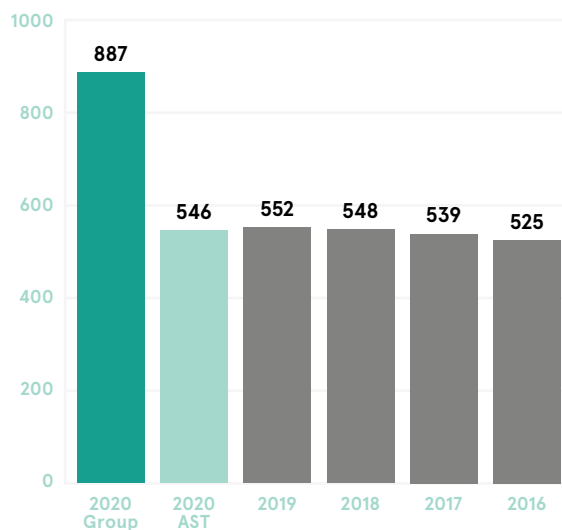
BALANCE SHEET TOTAL, THOUS. EUR



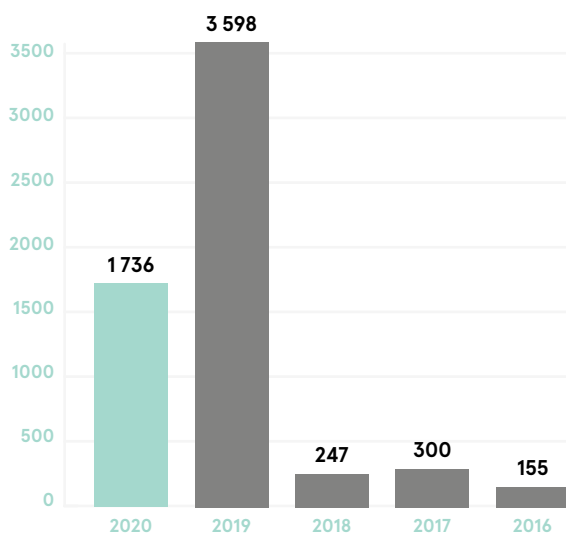
EQUITY, THOUS. EUR



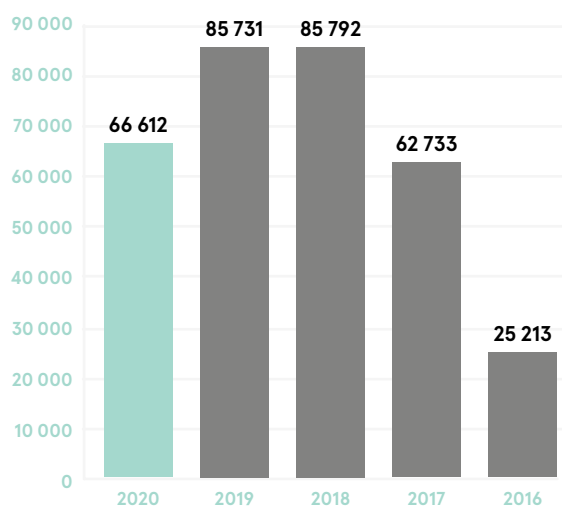
NUMBER OF EMPLOYEES



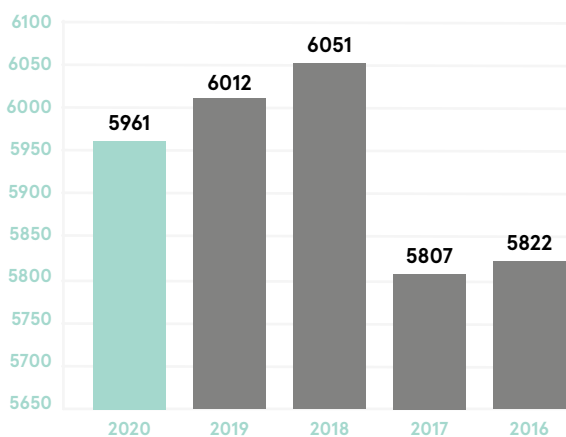
DIVIDENDS PAID FROM PREVIOUS PERIOD PROFIT, THOUS. EUR



CAPITAL INVESTMENTS IN ELECTRICITY TRANSMISSION SYSTEM, THOUS. EUR



ELECTRICITY TRANSMITTED TO USERS, GWH



KEY EVENTS IN 2020.



Obtained investment grade credit rating of BBB+.

For the first time, the international credit rating agency S&P Global Ratings has assessed and assigned the long-term credit rating BBB+ to the Latvian transmission system operator JSC Augstsprieguma tīkls.

The reform of the ownership of the transmission system assets has been implemented

by adding the transmission asset owner JSC Latvijas elektriskie tīkli to JSC Augstsprieguma tīkls on 25 November 2020. As part of the reorganisation, JSC Augstsprieguma tīkls took over all assets and liabilities of JSC Latvijas elektriskie tīkli.

Decisive influence in JSC Conexus Baltic Grid gained.

Fulfilling the task given by the Cabinet of Ministers, JSC Augstsprieguma tīkls has acquired 34.10% of JSC Conexus Baltic Grid shares from PAS Gazprom, thus increasing control over the company to 68.46%. Along with this transaction, the state has full control over the gas transmission system in the country, promoting the strengthening of state energy security and promoting the further development of the gas system in accordance with the set energy policy objectives.

The project “Construction of the Power Transmission Line “Riga TEC-2 – Riga HPP”” has been completed.

Within the framework of the project, a new 330 kV overhead/cable line with an indicative length of 15 km has been put into operation, and the 330 kV distribution of the substation “Rīgas TEC-2” has been expanded. 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).

Kurzemes loks has been recognised as the best engineering structure in 2019.

The implemented project “Kurzemes loks” was recognised as the best engineering structure last year in the exhibition “The Best Building in Latvia of the Year”.

TOP 101 most valuable companies in Latvia.

In 2020, JSC Augstsprieguma tīkls was for the first time included in the TOP 101 of the most valuable companies in Latvia, created by Nasdaq Riga and

Prudentia, ranking 21st. Evaluating the Corporate Governance Ratio of JSC Augstsprieguma tīkls, experts have evaluated it with 92 points, which is the highest indicator of all companies included in the TOP 101.

The issuance of European standard guarantees of origin for electricity has started.

In accordance with the requirements of the Electricity Market Law, as of 1 December 2020, JSC Augstsprieguma tīkls has joined the European Unified Energy Origin Certification System. JSC Augstsprieguma tīkls issues certificates of origin of electricity, which serve as proof that the electricity is produced from renewable energy or an efficient cogeneration process.

The new Estonia–Latvia interconnection has been put into operation.

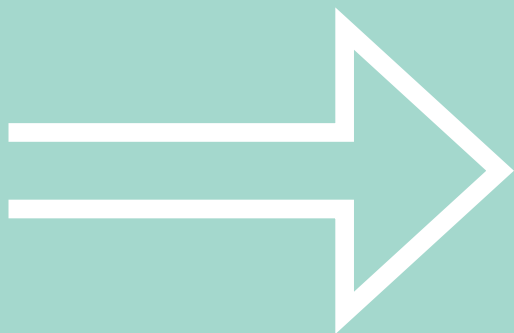
All construction works have been completed in the development project “Estonia–Latvia third 330 kV interconnection”, and the newly built 330 kV line from Estonia to Riga TEC-2 in Latvia has been put into operation. From 1 January 2021, the line shall be taken into account when calculating the transmission capacity allocated to the electricity market. 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).

Latvia has reached the lowest average price of electricity in history since the opening of the market.

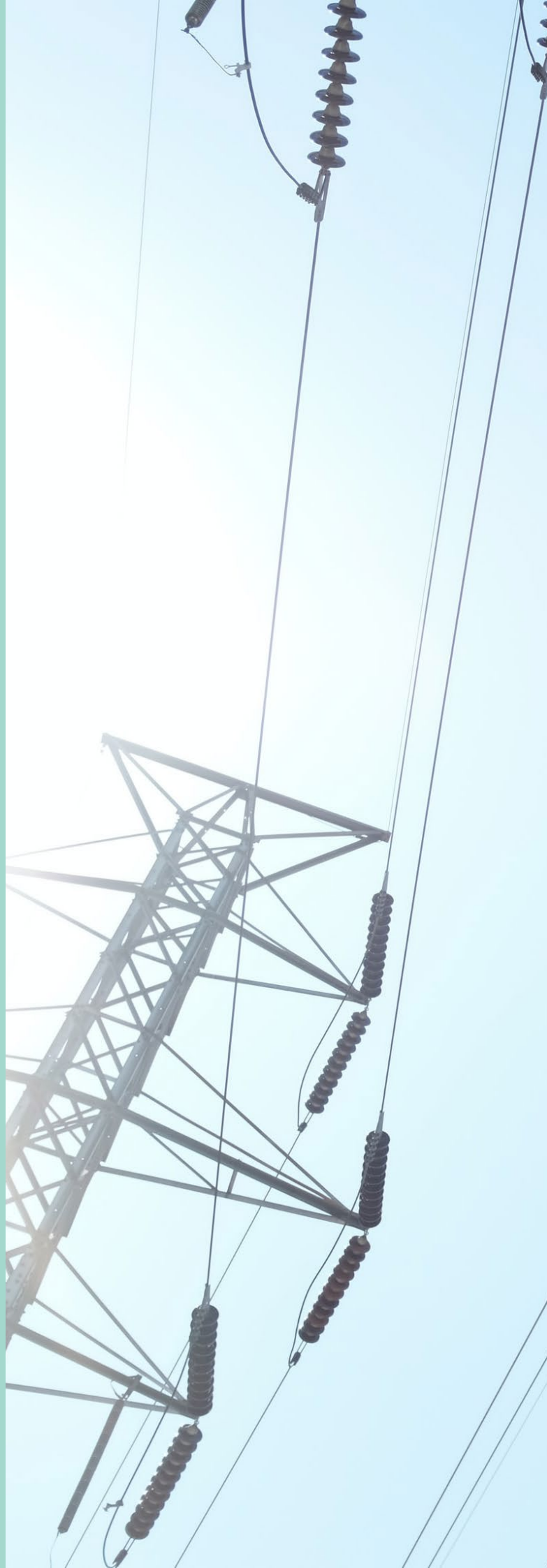
In February, the price of electricity in Latvia continued to decrease, reaching a historically low level since the opening of the electricity market in July 2013 – the average price per megawatt hour in February was EUR 28.05. The price of electricity reached its lowest level in April 2020, when it was EUR 23.53/MWh.

Joins the memorandum on sustainable energy development and energy efficiency.

JSC Augstsprieguma tīkls, as a socially responsible and sustainable development company, has joined the Memorandum of Cooperation between the Ministry of Economics, public administration institutions, non-governmental organisations and state capital companies. The memorandum envisages joint cooperation in achieving the goals of sustainable development and energy efficiency, construction and housing accessibility, promoting the growth of the Latvian economy and the well-being of each of its inhabitants.



MANAGEMENT REPORT



REFORM OF OWNERSHIP OF TRANSMISSION SYSTEM ASSETS



Pursuant to Paragraph 38 of protocol decision No. 46 of the meeting of the Cabinet of Ministers of 8 October 2019, the implementation of the complete separation model of property rights of the electricity transmission system operator was supported and it was assigned to the Ministry of Economics and the Ministry of Finance to ensure that JSC Latvenergo and JSC Augstsprieguma tīkls fulfils the provisions determined by regulatory enactments regarding the introduction of the model of complete separation of property rights until 1 July 2020.

By the protocol decision of the sitting of the Cabinet of Ministers of 17 December 2019 (No. 59, § 75), it was determined that after the investment of the state-owned shares in JSC Latvijas elektriskie tīkli (hereinafter – LET), the reorganisation of JSC Augstsprieguma tīkls and JSC Latvijas elektriskie tīkli must be carried out by adding JSC Latvijas elektriskie tīkli to JSC Augstsprieguma tīkls by 31 December 2020.

Executing the protocol decision 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) on 10 June 2020, the current subsidiary of JSC Latvenergo, the owner of transmission system assets JSC Latvijas elektriskie tīkli was separated from the Latvenergo Group, and was invested in JSC Augstsprieguma tīkls on 15 June 2020”.

According to the Register of Shareholders, as of 16 June 2020, the sole shareholder of LET is JSC Augstsprieguma tīkls.



According to the decision of the Enterprise Register of the Republic of Latvia of 25 November 2020, on 25 November 2020, JSC Latvijas elektriskie tīkli was excluded from the Register of Enterprises and was added to JSC Augstsprieguma tīkls.

After the Reorganisation, in accordance with the provisions of Section 335, Paragraph four of the Commercial Law, JSC Latvijas elektriskie tīkli ceased to exist without a liquidation process; JSC Latvijas elektriskie tīkli (merged company) transferred all its property, rights and obligations to JSC Augstsprieguma tīkls (acquiring company).

After the Reorganisation, the acquiring company will continue the commercial activities of the company to be merged.

INVESTMENT IN SUBSIDIARY



When executing the protocol decision of the Cabinet of Ministers of the Republic of Latvia of 26 May 2020 (Protocol No. 36, Paragraph 38)

“Regarding the Use of the Pre-emption Right in the Transaction of the Alienation of Shares of JSC Conexus Baltic Grid, on 21 July 2020, JSC Augstsprieguma tīkls acquired 34.1% of the shares of JSC Conexus Baltic Grid, and accordingly as of 21 July 2020, the Company owns 68.46% of the shares of JSC Conexus Baltic Grid and has a decisive influence in the company.

TYPE OF ACTIVITY AND CHARACTERISTICS



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.

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

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

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



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

Our mission is to ensure continuous, secure and sustainably efficient electricity transmission throughout Latvia.

Electricity Transmission

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

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

Activities of AST as an electricity transmission system operator are characterised by three directions:



Provision of electricity transmission system services



Maintaining and developing the electricity market



Management, development, and integration of the electricity transmission system into the European power system

Quality Management System and Values

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

The implemented Integrated Management System ensures the efficient operation of AST in accordance with internationally agreed operating mechanisms for quality, energy management, environmental

protection, the work environment and occupational health management, ensuring the correct fulfilment of the laws and regulations, promoting the identification of the context of AST's activities, looking at developments in the company through the prism of company risks and processes.

The Parent Company has a quality policy, which, based on the Energy Law, the Electricity Market Law and the Network Code, defines the following **AST core values**:

OVERALL STRATEGIC OBJECTIVE

- Implement the sustainable management of energy supply assets of strategic importance to the country
- Promote their integration into the European Union's internal energy market
- Ensure the security of Latvia's energy supply
- Provide a continuous, high-quality and affordable energy transmission service

VISION

To become the leading transmission system operator in the region, which operatively and successfully implements development-orientated changes.



AST



MISSION

Ensure a continuous, secure and sustainably efficient energy supply throughout Latvia.

CORE VALUES

A quality policy has been developed in the Company, that, based on the Energy Law, the Electricity Market Law and the Network Code, defines the Company's core values:

TRUST



HONESTLY

Independent, ethical, and transparent action towards anyone and everyone

GROWTH



WISELY

Effectively. Looking forward. Long-term thinking

SAFETY



RESPONSIBLY

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" managed by the Corporate Responsibility and Sustainability Institute, where **in 2020 the Company received the top Platinum award** (as an assessment of its work in 2019). The title of the Ministry of Welfare **"Family-friendly merchant"** has also been received.

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

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

The Sustainability Report covers corporate social responsibility, economic responsibility, responsibility to society, employees and the work environment, environmental protection and other relevant aspects.

The Sustainability Report 2020 of JSC Augstsprieguma tīkls is available on the Augstsprieguma tīkls website at www.ast.lv.

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

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

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

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

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 underground gas storage facility (hereinafter – the Inčukalns UGS, storage facility) and the main natural gas transmission system directly connecting the Latvian natural gas market with Lithuania, Estonia and the North-West region of Russia.

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

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

Conexus' **vision** is to 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 inhabitants 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.

CHARACTERISATION OF THE OPERATING ENVIRONMENT

Electricity Transmission

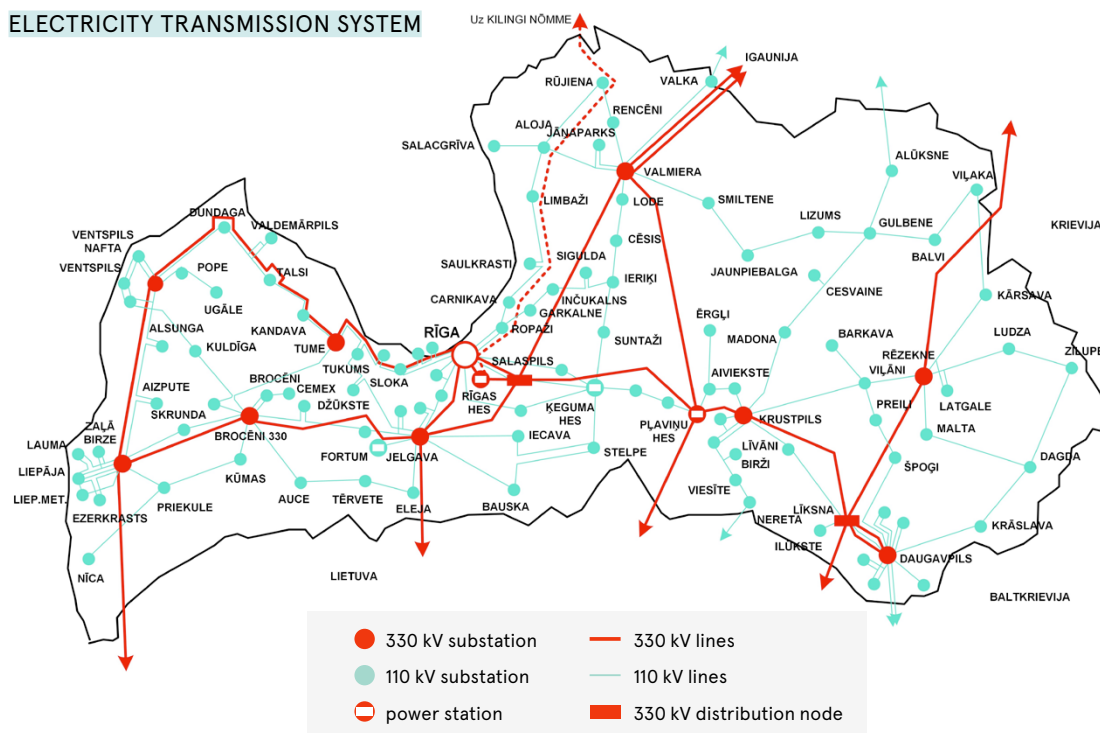
Electricity transmission is carried out by the transmission system operator through a transmission system that includes interconnected networks and equipment, including cross-border connections, with a voltage of 110 kilovolts or more, that are used for transmission to the relevant distribution system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

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

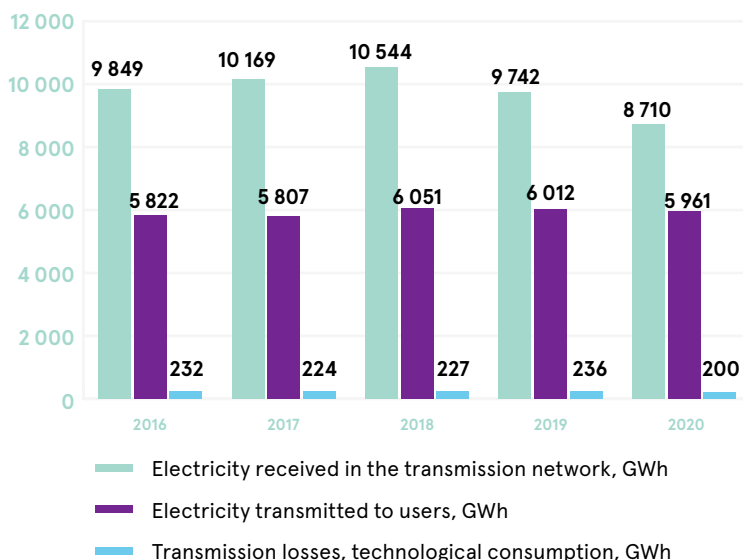
During the reporting period, the obligations imposed on the Transmission System Operator were implemented through the following transmission network (31.12.2020):

Highest voltage (kV)	Number of substations	Number of autotransformers and transformers	Installed power (MVA)	Overhead cable and cable EPL (km)
330 kV	17	27	4 000	1 742.13
110 kV	123	246	5 231	3 870.78
TOTAL	140	273	9 231	5 612.1

ELECTRICITY TRANSMISSION SYSTEM



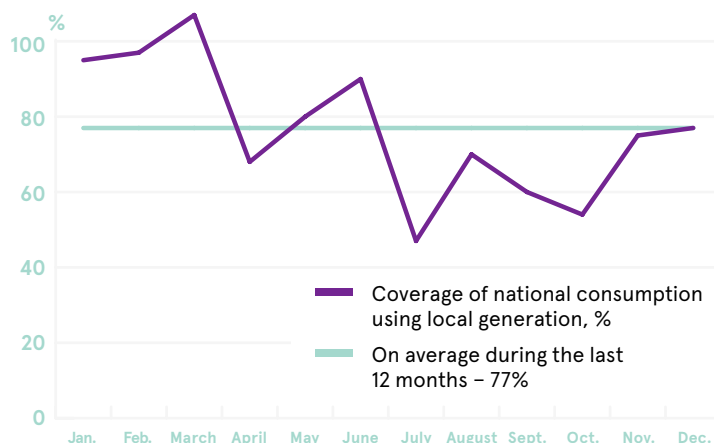
5 961 GWh were transmitted to users within 2020, which is 1% less than in the corresponding period of 2019 (6 012 GWh). The impact of the reduction in the amount of electricity transmitted to consumers on the revenues from the provision of transmission services is insignificant.



The total electricity consumption of Latvia in 2020 was 7 135 GWh, and compared to 2019 it decreased by 2.2%.

Using local generation, Latvia covered 77% of electricity consumption, which is a decrease of 7.46 percentage points compared to 2019.

SECURING PUBLIC CONSUMPTION WITH LOCAL GENERATION 2020. %



Maintaining and developing the electricity market

In Latvia, the legal basis for the operation of the electricity market is the Electricity Market Law, which stipulates that the transmission system operator must promote the operation of the internal electricity market and cross-border trade by performing its functions, including supporting the development of electricity exchanges.

In addition, the development of the electricity market in Latvia is facilitated by the European Commission Regulation resulting from 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.

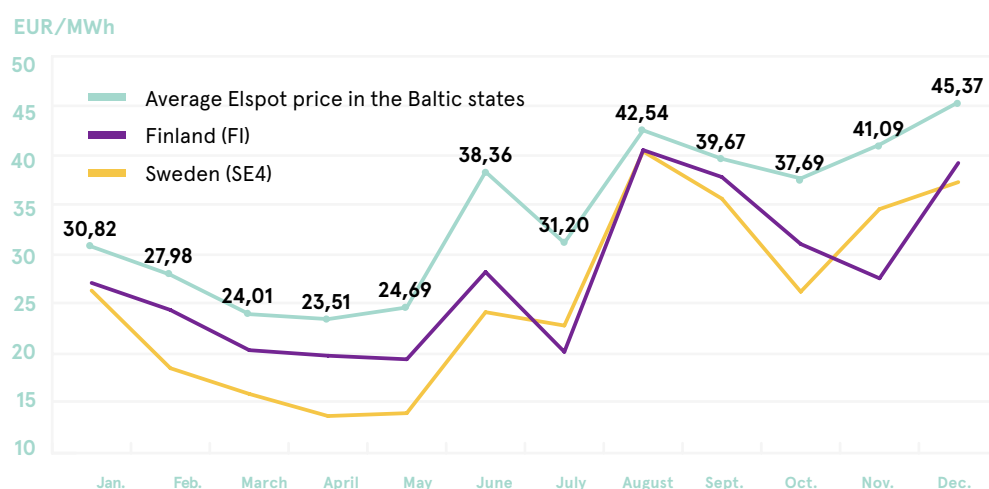
Taking into account the fact that the Baltic states are integrated into the common European electricity market, Latvia, like any other European country, is not able to significantly influence the wholesale market electricity prices, as prices are based on the principles of a free, transparent electricity market.

Integration into the single European electricity market not only provides access to cheaper Nordic electricity, but also contributes to greater price volatility caused by weather conditions in other European countries.



In 2020, the average electricity exchange price in the Latvian area decreased to 34.05 EUR/MWh, and in comparison to 2019, the price decreased by 26%.

**AVERAGE ELECTRICITY PRICES OF THE BALTIC STATES AND THE NORDIC
ELSPOT TRADE AREAS IN 2020. EUR/MWh**



FINANCIAL PERFORMANCE AND FINANCIAL RISK MANAGEMENT

During the reporting period, Augstsprieguma tīkls Group's revenue is EUR 144,886,178, the profit attributable to the Parent Company's Shareholders is EUR 64 051 311.

The consolidated financial statements of the Group include the financial results of the subsidiary JSC Latvijas elektriskie tīkli from 1 June 2020 until the merger on 30 September 2020 and the financial results of the subsidiary JSC Conexus Baltic Grid from 1 August 2020 to 31 December 2020.

SEGMENT INFORMATION

	JSC Augstsprieguma tīkls		Group
	2020 or 31.12.2020 thous. EUR	2019 or 31.12.2019 thous. EUR	2020 or 31.12.2020 thous. EUR
NET TURNOVER			
Electricity Transmission	147 348	184 742	123 421
Gas transmission	-	-	12 528
Gas storage	-	-	8 886
EBITDA			
Electricity Transmission	43 366	40 515	44 812
Gas transmission	-	-	6 394
Gas storage	-	-	4 867
SEGMENT NET PROFIT			
Electricity Transmission	9 606	2 966	13 871
Gas transmission	-	-	2 268
Gas storage	-	-	1 893
SEGMENT ASSETS			
Electricity Transmission	771 131	221 875	771 131
Gas transmission	-	-	232 042
Gas storage	-	-	205 886

Electricity transmission segment

The net turnover of JSC Augstsprieguma tīkls in 2020 is EUR 147,348,276, including revenue from electricity transmission network services of EUR 73,377,414, which makes up 50% of the Parent Company's net turnover. The parent company's profit for the reporting period is EUR 9,999,392, including the profit from electricity transmission EUR 9,606,184.

When evaluating the Parent Company's financial performance indicators, economic performance, it should be taken into account that in accordance with Section 5 of the Energy Law, electricity transmission is a regulated sector; PUC determines the Parent Company's allowable profit, determining the rate of return on capital by approving the tariffs for electricity transmission system services.

The profitability of the parent company from the provision of electricity transmission services in 2020 complies with the provisions of the Electricity Transmission System Service Tariff Methodology.

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 August–December 2020, the total net turnover of the segments is EUR 21,413,256, profit EUR 4,161,231. Revenues of the natural gas transmission segment in August–December 2020 are EUR 12,527,640, and of the natural gas storage segment – EUR 8,885,616.

Natural gas transmission and storage is a regulated operating segment. Revenues of the transmission segment are calculated in accordance with the methodology, return on capital approved by the PUC.

Financial risk management

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

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

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

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

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

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

The management forecasts that it will not have liquidity problems and the Augstsprieguma tīkls Group will be able to settle with creditors within the set deadlines. The management believes that the Augstsprieguma tīkls Group will have sufficient cash resources 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, the reorganisation of transmission system asset ownership rights was implemented in 2020 (detailed information on the reorganisation is provided in the section “Transmission system asset ownership rights reform”).

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

After investing the shares of JSC “Latvijas elektriskie tīkli” in JSC “Augstsprieguma tīkls”, the 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 16 June 2020, the shares of which were invested in JSC Augstsprieguma tīkls, was EUR 225,232 thousand.

On 18 June 2020, JSC Augstsprieguma tīkls signed a loan agreement with AS SEB banka for the amount of EUR 116,200 thousand with a maturity of 18 months and an interest rate of 3 months EURIBOR and the added interest rate (see also Note 22). The purpose of this loan is to partially refinance the liabilities of JSC “Latvijas

elektriskie tīkli” to JSC “Latvenergo”. Using a JSC SEB banka loan and the own funds available to AS Augstsprieguma tīkls, on 19 June 2020 the loan from AS Latvenergo was refinanced in the amount of EUR 138,560 thousand.

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

For the financing of working capital, an overdraft agreement was concluded between JSC Augstsprieguma tīkls and JSC SEB banka for up to EUR 20,000 thousand. During the reporting period, JSC Augstsprieguma tīkls did not receive any loans within the framework of the overdraft agreement.

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

In October 2020, the Company initiated the credit rating procedure by concluding an agreement with the international credit rating agency S&P Global Ratings.



The international credit rating agency S&P Global Ratings (S&P) has for the first time assessed and assigned the long-term credit rating BBB+/Stable to the Latvian transmission system operator JSC Augstsprieguma tīkls.

ELECTRICITY TRANSMISSION SYSTEM SERVICES TARIFF

The electricity transmission services tariffs are determined in accordance with the “Methodology for calculating tariffs for electricity transmission system services” approved by the PUC. In 2020, transmission system services were provided at tariffs that were approved by the decision of the PUC Council on 4 April 2017.

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

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

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

In 2020, activities started in 2017 to improve the efficiency of the Company’s business processes and cost optimisation were continued.

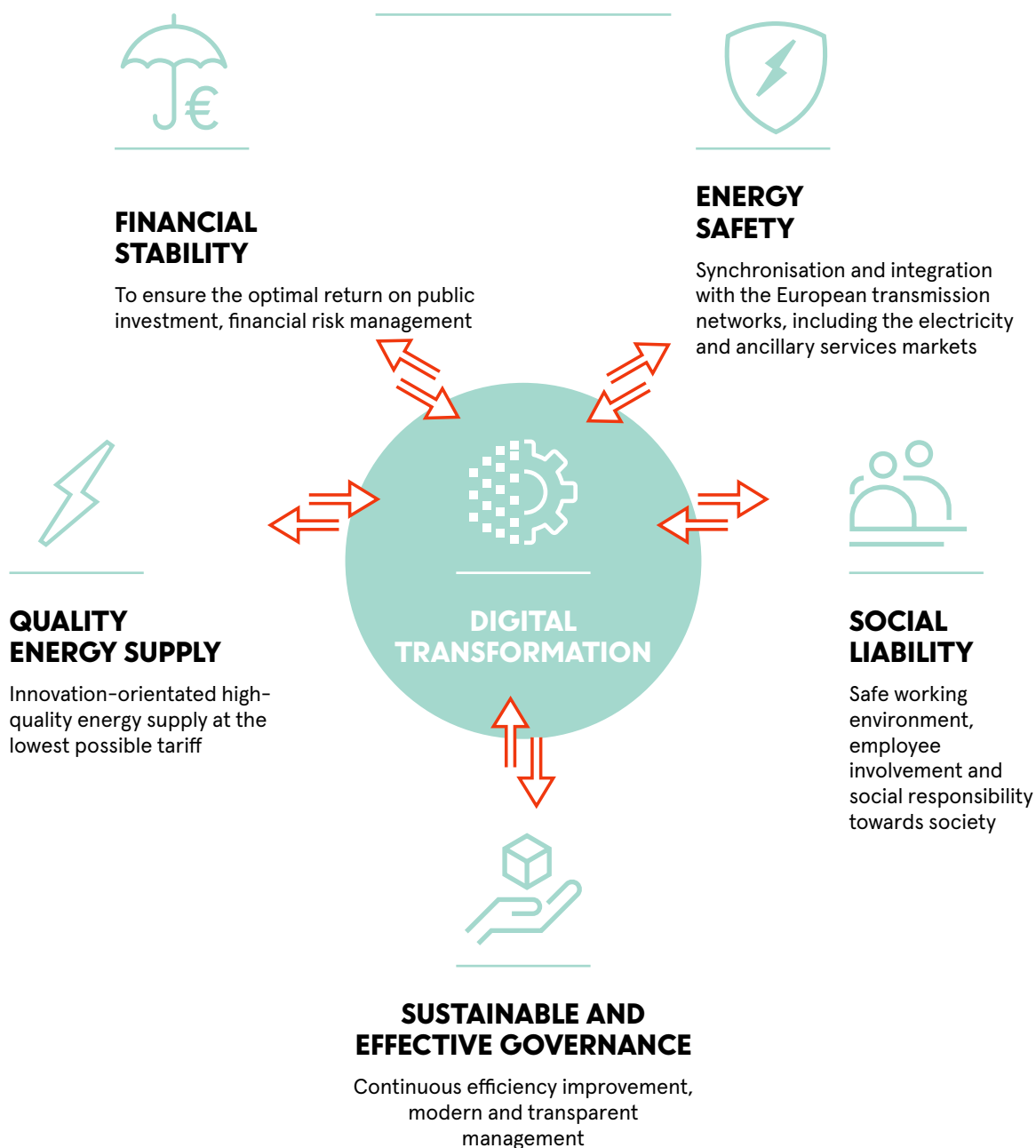


As a result of the AST activities, 80% of the financing required for the implementation of the development projects included in the European ten-year development plan is covered by EU co-financing and overload charge revenues, thus reducing the impact on the electricity transmission system service tariffs.

FURTHER DEVELOPMENT

The parent company's main focus is on sustainable growth in order to improve the services provided to Latvian and Baltic electricity market participants.

STRATEGIC DIRECTION OF THE PARENT COMPANY IS FOCUSED ON



Development of the Electricity Transmission System

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

The development plan has been developed in accordance with AST's strategic goal -

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.

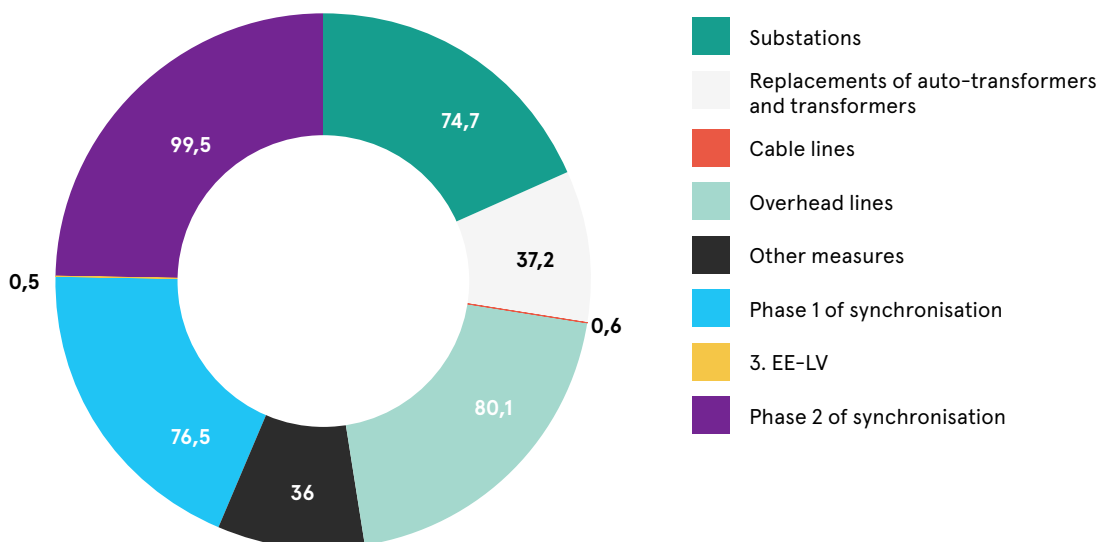
The approved Development Plan determines the development of the transmission system and the necessary financial investments in the transmission infrastructure for the next 10 years, envisaging the investment of **EUR 405 million** in the development of the electricity transmission system, including EU co-financing of EUR 177 million and EUR 37 million revenue from congestion charges. Both of the above sources of capital investment financing, which together account for 53% of the planned investments over the next 10 years, reduce the impact of realised capital investments on the electricity transmission tariff, as assets financed from

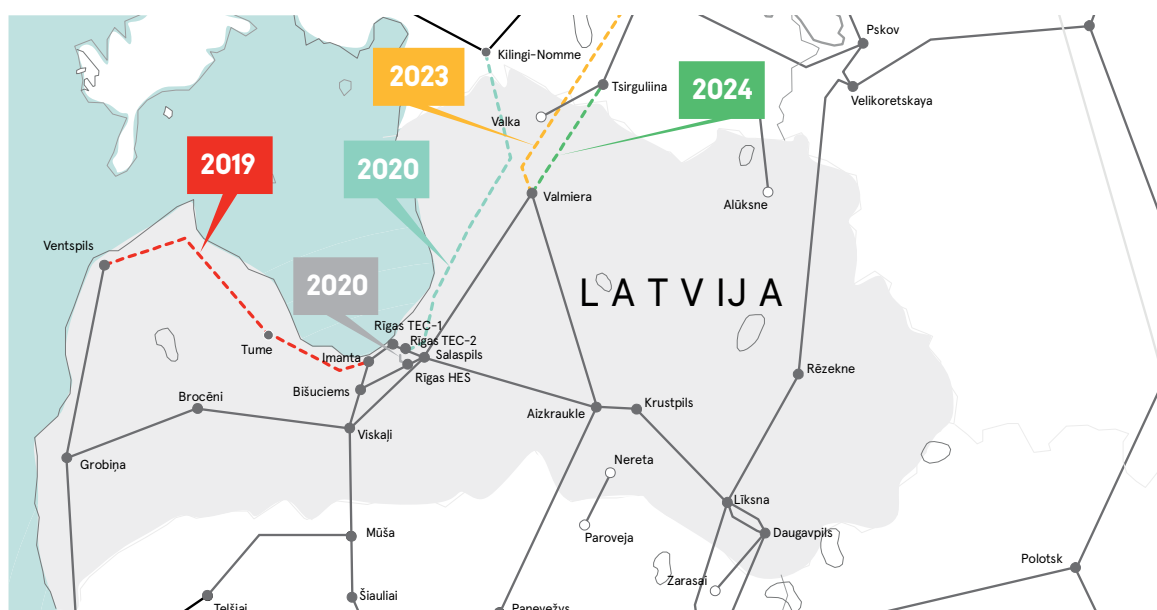
EU co-financing or congestion fee revenues are not included in the calculation of electricity transmission tariffs.

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

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

INVESTMENTS ENVISAGED IN THE DEVELOPMENT PLAN, MILLION 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 services markets and integration into European markets.

Over the coming years, **it is planned to continue working on the development and improvement of the single European day-ahead and intraday market**. 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, similar to the current day-ahead market.

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

To join the platform, a number of changes will have to be made to the operation of the pan-Baltic balancing model, the most important of which is to ensure the transition to the 15-minute balancing market period, which will allow electricity market

participants to plan their operations more accurately and control system imbalances more effectively.

The main challenges for the upcoming years will be related to the **synchronisation of the Baltic states with continental Europe**.

On 28 June 2018, the Prime Ministers of the Baltic states and the President of the European Commission signed a synchronisation roadmap with the recommended next steps for synchronisation with continental Europe and desynchronisation with the Russian unified electricity system.

On 14 September 2018, the European Commission supported the synchronisation of the Baltic states at the political level and recommended the initiation of the procedure for the synchronisation of the Baltic states with continental Europe.

On 22 May 2019, JSC Augstsprieguma tīkls **signed the Agreement on the conditions of the future interconnection of the power system of the Baltic states and power system of continental Europe**.

Synchronisation of the Baltic states with continental Europe is expected by 2025.

Synchronisation will result in the Baltic electric power transmission system becoming part of the European system, meaning more independence from Russia and a more reliable electric power supply.

Transmission and Storage of Natural Gas

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

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

CIRCUMSTANCES AND EVENTS AFTER THE END OF THE REPORTING YEAR

According to the audited annual report of JSC Conexus Baltic Grid for 2020, the profit of JSC Conexus Baltic Grid in 2020 is EUR 13,111,806. In accordance with the announcement of JSC Conexus Baltic Grid of 12 April 2021 on convening the regular shareholders' meeting of JSC Conexus Baltic Grid in 2021, it is planned to pay dividends of EUR 2.14 per share from the profit of previous years. Considering the number of shares of JSC Conexus Baltic Grid owned by the Company, the Company will receive EUR 58,286 thousand. JSC Conexus Baltic Grid Shareholders' Meeting was convened on 12 May 2021.

On 26 February 2021, JSC Conexus Baltic Grid entered into a loan agreement with Nordic Investment Bank in the amount of EUR 30 mln, with the payment term until 4 March 2038.

In 2021, restrictions related to the spread of the coronavirus will continue in the Republic of Latvia and many other countries, which will 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.

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

PROFIT DISTRIBUTION PROPOSALS

The management of JSC Augstsprieguma tīkls, fulfilling the provisions of Section 28 of the Law on the Management of Capital Shares of Public Entities and Capital Companies, in accordance with Section 35 of the Law on the State Budget for 2021, proposes to pay EUR 2,715,775 in dividends to the state (including corporate income tax).

The profit distribution for 2020 is decided by the shareholders' meeting of JSC Augstsprieguma tīkls.



Imants Zviedris
Board Member



Mārcis Kauliņš
Board Member



Gatis Junghāns
Board Member



Māra Grava,
Head of the Finance and
Accounting Department

Rīga, 20 May 2021



STATEMENT OF BOARD'S RESPONSIBILITY



The Board of the Parent Company is responsible for the preparation of the financial statements.

Financial statements of Augstsprieguma tīkls Group and JSC Augstsprieguma tīkls are prepared on the basis of accounting records and source documents and fairly present the financial position of the Company as of 31 December 2020, results of operations and cash flows for the year 2020.

The Board confirms that the separate financial statements included on pages 38 to 81 for the year ended on 31 December 2020 were prepared using appropriate accounting policies that have been consistently applied and that the Board has provided reasonable and prudent conclusions and estimates. The Board also confirms that the financial statements have been prepared in accordance with the relevant International Financial Reporting Standards as adopted by the European Union. The Financial statements are prepared on the principles of the continuation of activities.



Imants Zviedris
Board Member



Mārcis Kauliņš
Board Member



Gatis Junghāns
Board Member



Māra Grava,
Head of the Finance and
Accounting Department

Rīga, 20 May 2021



CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

PROFIT OR LOSS STATEMENT FOR 2020

		JSC Augstsprieguma tīkls		Group	
		2020 EUR	2019 EUR	2020 EUR	2019 EUR
Revenue	3	147 348 276	184 742 077	144 886 178	184 742 077
Other income from business activities	4	849 007	251 390	1 809 530	251 390
Used raw materials and materials, repair costs	5	(22 634 111)	(28 640 577)	(26 166 763)	(28 640 577)
Staff costs	6	(16 710 622)	(16 230 471)	(21 876 121)	(16 230 471)
Other business costs	7	(66 509 417)	(99 607 516)	(43 624 394)	(99 607 516)
EBITDA		42 343 133	40 514 903	55 028 430	40 514 903
Depreciation and amortisation	2.6, 9	(37 153 607)	(36 002 386)	(40 626 860)	(36 002 386)
OPERATING PROFIT		5 189 526	4 512 517	14 401 570	4 512 517
Income from participation	10	5 604 642	4 193 864	3 080 996	5 955 579
<i>incl. income from investments using the equity method</i>		-	-	3 080 996	5 862 636
Net gain on acquisition of a controlling interest	25	-	-	50 326 017	-
Financial income, net	8	(794 776)	(1 639 407)	(1 597 042)	(1 639 407)
PROFIT BEFORE TAX		9 999 392	7 066 974	66 211 541	8 828 689
Corporate income tax				(853 056)	
PROFIT FOR THE ACCOUNTING YEAR		9 999 392	7 066 974	65 358 485	8 828 689
Applicable to:					
Non-controlling interest				1 307 174	-
PARENT COMPANY SHAREHOLDERS		9 999 392	7 066 974	64 051 311	8 828 689

Annexes from page 38 to 81 are an integral part of these financial statements.



Imants Zviedris
Board Member



Mārcis Kauliņš
Board Member



Gatis Junghāns
Board Member



Māra Grava,
Head of the Finance and
Accounting Department

Riga, 20 May 2021

STATEMENT OF COMPREHENSIVE INCOME FOR 2020

	Annex	JSC Augstsprieguma tīkls		Group	
		2020 EUR	2019 EUR	2020 EUR	2019 EUR
PROFIT/(LOSS) FOR THE YEAR		9 999 392	7 066 974	65 358 485	8 828 689
<i>Items that will not be reclassified to profit or loss statement</i>					
Other income:					
Eligible portion of other income of the associate		-	-	28 120 629	-
Actuarial gains/losses		384 250	259 393	389 738	259 393
Other income for the reporting year		384 250	259 393	28 510 367	259 393
CONSOLIDATED INCOME FOR THE YEAR		10 383 642	7 326 367	93 868 852	9 088 082
Applicable to:					
Non-controlling interest		-	-	1 315 449	-
PARENT COMPANY SHAREHOLDERS		10 383 642	7 326 367	92 553 403	9 088 082

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Gatis Junghāns
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Māra Grava,
Head of the Finance and
Accounting Department

Riga, 20 May 2021

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2020

	Annex	JSC Augstsprieguma tīkls		Group	
		31.12.2020	31.12.2019	31.12.2020.	31.12.2019
		EUR	EUR	EUR	EUR
ASSETS					
LONG-TERM INVESTMENTS					
Intangible investments	9	1 435 210	50 413 419	3 307 881	50 413 419
Fixed assets	9	654 359 778	5 491 202	1 067 674 394	5 491 202
Right-of-use assets	2.6	14 212 293	35 920 323	14 715 877	35 920 323
Long-term prepaid expenses		-	-	1 209 438	-
Long-term financial investments	10	134 396 393	59 297 858	1 422	112 684 610
<i>including investments valued according to the equity method</i>		-	-	-	110 780 752
TOTAL LONG-TERM INVESTMENTS		804 403 674	151 122 802	1 086 909 012	204 509 554
CURRENT ASSETS					
INVENTORIES	11	514 087	480 112	3 535 090	480 112
DEBTORS					
Net Trade receivables	12	1 673 797	7 966 220	8 528 491	7 966 220
Deposits	13	25 000 000	20 000 000	25 000 000	20 000 000
Other debtors	13	31 647 751	22 722	31 740 753	22 722
Corporate income tax	13	11 512	11 512	11 512	11 512
Deferred expenses		629 093	337 584	979 586	337 584
Accrued revenue	14	9 422 703	13 777 092	9 422 703	13 777 092
TOTAL DEBTORS		68 384 856	42 115 130	75 683 045	42 115 130
CASH		32 224 560	28 216 327	47 388 296	28 216 327
TOTAL CURRENT ASSETS		101 123 503	70 811 569	126 606 431	70 811 569
TOTAL ASSETS		905 527 177	221 934 371	1 213 515 443	275 321 123

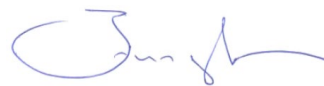
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Imants Zviedris
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Gatis Junghāns
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Māra Grava,
Head of the Finance and
Accounting Department

Riga, 20 May 2021

STATEMENT OF FINANCIAL POSITION ON 31 DECEMBER 2020

(continued)

	Annex	JSC Augstsprieguma tīkls		Group	
		31.12.2020	31.12.2019	31.12.2020.	31.12.2019
		EUR	EUR	EUR	EUR
LIABILITIES AND EQUITY					
EQUITY					
Share capital		363 896 079	64 218 079	363 896 079	64 218 079
Reserves	16	4 172 258	2 786 621	6 304 575	2 756 459
Retained earnings (accumulated losses)		6 741 633	(4 115 963)	82 722 433	47 539 236
Profit for the reporting year		9 999 392	7 066 974	64 051 311	8 828 689
Non-controlling interest		-	-	122 228 140	
TOTAL EQUITY		384 809 362	69 955 711	639 202 537	123 342 463
LONG-TERM LIABILITIES					
Employee benefit obligations		2 636 255	2 966 213	3 664 749	2 966 213
Lease liabilities	2.6.	13 761 561	-	14 215 413	-
Loans	20	86 672 207	-	86 672 207	-
Deferred revenue	17	279 847 333	89 963 992	290 629 069	89 963 992
Advance payments received	18	162 277	-	162 277	-
TOTAL LONG-TERM LIABILITIES		383 079 633	92 930 205	395 343 715	92 930 205
SHORT-TERM LIABILITIES					
Loans	20	116 200 000	-	138 075 000	-
Lease liabilities	2.6.	657 434	37 475 766	717 652	37 475 766
Deferred revenue	17	5 973 540	4 946 387	7 226 470	4 946 387
Trade payables		4 908 151	6 099 120	12 544 628	6 099 120
Taxes and mandatory state social insurance contributions	21	1 754 449	864 001	2 811 710	864 001
Deferred corporate income tax liabilities	25	-	-	5 152 360	-
Advance payments received	18	602 252	82 723	1 255 537	82 723
Other creditors	18	2 232 912	3 218 170	2 963 606	3 218 170
Accrued liabilities	19	5 309 444	6 362 288	8 222 228	6 362 288
TOTAL SHORT-TERM LIABILITIES		137 638 182	59 048 455	178 969 191	59 048 455
TOTAL LIABILITIES AND EQUITY		905 527 177	221 934 371	1 213 515 443	275 321 123

Annexes from page 38 to 81 are an integral part of these financial statements.



Imants Zviedris
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Māra Grava,
Head of the Finance and
Accounting Department

Riga, 20 May 2021

STATEMENT OF CHANGES IN EQUITY FOR 2020

	JSC Augstsprieguma tīkls			
	Share capital	Profit for the reporting year	Reserves	Total
	EUR	EUR	EUR	EUR
BALANCE ON 31 DECEMBER 2018	63 139 313	4 677 118	2 527 228	70 343 659
Profit for the reporting period	-	7 066 974	-	7 066 974
Other income for the reporting period	-	-	259 393	259 393
<i>Total consolidated income for the reporting year</i>	-	<i>7 066 974</i>	<i>259 393</i>	<i>7 326 367</i>
Dividends paid for 2018	-	(3 598 352)	-	(3 598 352)
Share capital increase	1 078 766	(1 078 766)	-	-
Implementation of IFRS16	-	(4 115 963)	-	(4 115 963)
BALANCE ON 31 DECEMBER 2019	64 218 079	2 951 011	2 786 621	69 955 711
Profit for the reporting period	-	9 999 392	-	9 999 392
Other income for the reporting year	-	-	384 250	384 250
<i>Total consolidated income for the reporting year</i>	-	<i>9 999 392</i>	<i>384 250</i>	<i>10 383 642</i>
Dividends paid for 2019	-	(1 735 958)	-	(1 735 958)
Transfer of retained earnings	-	315 146	(315 146)	-
Share capital increase	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
BALANCE ON 31 DECEMBER 2020	363 896 079	16 741 025	4 172 258	384 809 362

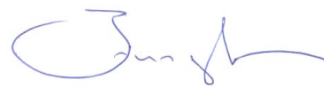
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Gatis Junghāns
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Māra Grava,
Head of the Finance and
Accounting Department

Riga, 20 May 2021

STATEMENT OF CHANGES IN EQUITY FOR 2020

(continued)

	Group				
	Share capital	Retained profit	Reserves	Non-controlling interest	Total
	EUR	EUR	EUR	EUR	EUR
BALANCE ON 31 DECEMBER 2018	63 139 313	56 332 317	2 527 227	-	121 998 858
Profit for the reporting period	-	8 828 689	-	-	8 828 689
Other income for the reporting period	-	-	259 393	-	259 393
<i>Total comprehensive income for the reporting year</i>	-	<i>8 828 689</i>	<i>259 393</i>	-	<i>9 088 082</i>
Dividends paid for 2018	-	(3 598 352)	-	-	(3 598 352)
Share capital increase	1 078 766	(1 078 766)	-	-	-
Changes in reserves	-	-	(30 162)	-	(30 162)
Implementation of IFRS16	-	(4 115 963)	-	-	(4 115 963)
BALANCE ON 31 DECEMBER 2019	64 218 079	56 367 925	2 756 459	-	123 342 463
Profit for the reporting period	-	64 051 311	-	1 307 174	65 358 485
Other income for the reporting year	-	-	28 502 092	8 275	28 510 367
<i>Total comprehensive income for the reporting year</i>	-	<i>64 051 311</i>	<i>28 502 092</i>	<i>1 315 449</i>	<i>93 868 852</i>
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)	-	-
Share capital increase	299 678 000	-	-	-	299 678 000
Transaction between companies under common control – acquisition of revaluation reserve (see Annex 25)	-	-	28 915 196	-	28 915 196
Transaction between companies under common control – net result (see Annex 25)	-	-	(25 778 705)	-	(25 778 705)
Acquisition of a subsidiary with a non-controlling interest (see Annex 25)	-	-	-	120 912 690	120 912 690
BALANCE ON 31 DECEMBER 2020	363 896 079	146 773 745	6 304 575	122 228 140	639 202 537

Annexes from page 38 to 81 are an integral part of these financial statements.



Imants Zviedris
Board Member



Mārcis Kauliņš
Board Member



Gatis Junghāns
Board Member



Māra Grava,
Head of the Finance and
Accounting Department

Riga, 20 May 2021

CASH FLOW STATEMENT FOR 2020

	JSC Augstsprieguma tīkls		GROUP	
	2020	2019	2020	2019
	EUR	EUR	EUR	EUR
I. CASH FLOW FROM OPERATING ACTIVITIES				
Profit or loss before taxes	9 999 392	7 066 974	66 211 541	8 828 689
ADJUSTMENTS:				
Amortisation, depreciation and impairment in value of intangible assets, fixed assets and rights to use assets	37 193 434	34 876 365	(40 626 860)	34 876 365
Increase/(decrease) in provisions	24 511	307 322	(70 992)	307 322
Financial adjustment, net	259 247	1 640 012	(1 597 042)	1 640 012
Gains/losses on disposal of property, plant and equipment	-	-	(113 306)	-
Expenditure on disposal of shares in associates or associates	172 393	-	172 393	
Income from dividends	(5 604 641)	(4 193 864)	(5 604 642)	(92 943)
Income from participation/Net gain from acquisition of controlling interest			(50 327 298)	
Gain/(loss) on an investment in an associate			(3 080 996)	(5 862 636)
ADJUSTMENTS:				
Decrease/(increase) in trade receivables	45 991 954	(6 120 731)	112 695 234	(6 120 731)
(Increase)/decrease of stocks	(11 378)	11 655	67 284	11 655
(Decrease)/increase of debts to suppliers and other creditors	(39 067 283)	(12 443 962)	25 864 252	(12 443 962)
Gross cash flow from operating activities	48 957 629	21 143 771	103 589 568	21 143 771
Interest payments	(19 668)	(1 336)	(189 543)	(1 336)
Corporate income tax payments	(347 192)	(719 670)	(347 192)	(719 670)
Net cash flow from operating activities	48 590 769	20 422 765	103 052 833	20 422 765

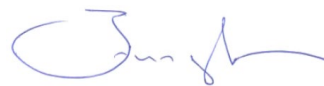
Annexes from page 38 to 81 are an integral part of these financial statements.



Imants Zviedris
Board Member



Mārcis Kauliņš
Board Member



Gatis Junghāns
Board Member



Māra Grava,
Head of the Finance and
Accounting Department

Riga, 20 May 2021

CASH FLOW STATEMENT FOR 2020

(continued)

	JSC Augstsprieguma tīkls		GROUP	
	2020 EUR	2019 EUR	2020 EUR	2019 EUR
II. CASH FLOW FROM INVESTING ACTIVITIES				
Acquisition and creation of fixed assets and intangible investments	(13 010 361)	(48 038 787)	(57 470 246)	(48 038 787)
Income from the sale of fixed assets and intangible investments	283 386	-	283 386	-
Investment in subsidiary, net of cash acquired	(77 000 000)	-	(63 004 135)	-
Interest income	18 200	44 224	18 200	44 224
Placed deposits, Net	(5 000 000)	30 000 000	(5 000 000)	30 000 000
Dividends received	5 604 642	4 193 864	5 604 642	4 193 864
Proceeds from the sale of shares	1 729 072	-	1 729 072	-
Net cash flow from investing activities	(87 375 061)	(13 800 699)	(117 839 081)	(13 800 699)
III. CASH FLOW FROM FINANCING ACTIVITIES				
Asset lease payments	(27 906 863)	(34 447 033)	(18 789 303)	(34 447 033)
Asset lease interest payments	(145 981)	-	(145 981)	-
Received EU funding	3 035 039	2 283 076	3 035 039	2 283 076
Loans from credit institutions, net	116 200 000	-	116 200 000	-
Loans from credit institutions, repaid	-	-	(1 458 333)	-
Repayment of loans from an associate	(138 560 000)	-	(138 560 000)	-
Loan repayment expenses	(796 276)	-	(1 611 035)	-
Interest payments, net	300 917	-	(455 450)	-
Equity capital increase	77 000 000	-	77 000 000	-
Dividends paid	(1 388 766)	(2 878 682)	(1 388 766)	(2 878 682)
Net cash flow from financing activities	27 738 070	(35 042 639)	33 826 171	(35 042 639)
Net increase/(decrease) in net cash and cash equivalents during the reporting period	(11 046 222)	(28 420 573)	19 039 923	(28 420 573)
Money taken over from JSC Latvijas elektriskie tīkli	15 054 455	-	132 046	-
Balance of cash and equivalents thereof at the beginning of the reporting year	28 216 327	56 636 900	28 216 327	56 636 900
Balance of cash and equivalents thereof at the end of the reporting year	32 224 560	28 216 327	47 388 296	28 216 327

Annexes from page 38 to 81 are an integral part of these financial statements.



Imants Zviedris
Board Member



Mārcis Kauliņš
Board Member



Gatis Junghāns
Board Member



Māra Grava,
Head of the Finance and
Accounting Department

Riga, 20 May 2021



ANNEXES 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.

As at 31 December 2020, Augstsprieguma tīkls Group structure consists of a group of commercial companies in which the parent company JSC Augstsprieguma tīkls has a decisive influence and which includes the subsidiary JSC Conexus Baltic Grid.

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

availability of the transmission system services on a continuous basis.

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

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 Dārziņi iela 86, Rīga, LV-1073, Latvia.

The financial statements were approved by the Board of the Company on 20 May 2021 as follows: Imants Zviedris (Board Member), Mārcis Kauliņš (Board Member), Gatis Junghāns (Board Member).

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

2. SIGNIFICANT ACCOUNTING PRINCIPLES

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

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

The consolidated and separate financial statements have been prepared under the historical cost convention, except for items carried at fair value.

The profit or loss statement is classified by type of expense. The cash flow statement has been prepared using the indirect method.

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

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

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

As at 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%

Principles of drawing up financial statements

Standards and interpretations applicable during the reporting year

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

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

Application of new or revised standards and interpretations

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

- Amendments to IAS 1 “Financial reporting” and IAS 8 “Accounting Policies, Changes in Accounting Estimates, and Errors” – definition of “material” (effective for reporting periods starting on 1 January 2020 or later);
- Amendments to IFRS 3 “Business Combinations” – definition of a business (effective for business combinations in which the business has been acquired during the first reporting period starting on 1 January 2020 or later, as well as for asset acquisition made at the beginning of this period or later);
- Amendments to IFRS 9 “Financial Instruments”, IAS 39 “Financial Instruments: Recognition and Measurement” and IFRS 7 “Financial Instruments: Disclosures” – The reform of the interest rate benchmark adopted by the EU on 15 January 2020 (effective for annual periods beginning on or after 1 January 2020), issued on 26 January 2019 by the IASB;
- Amendments to IFRS 16 “Leases” – Covid-19 related rental concessions (adopted by the EU on 9 October 2020 and effective no later than 1 June 2020 for financial years beginning on or after 1 January 2020);
- Amendments to references to the conceptual framework of IFRSs adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020).

THE IMPLEMENTATION OF THESE NEW STANDARDS, AMENDMENTS TO EXISTING STANDARDS AND INTERPRETATIONS DID NOT HAVE A SIGNIFICANT 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):

- IFRS 14 “Deferred Items Established by the Regulator” (effective for annual periods beginning on or after 1 January 2016) – the European Commission has decided not to initiate the application process for the interim standard, but to await the final version of the standard;
- IFRS 17 “Insurance Contracts” and amendments to IFRS 17 (effective for reporting periods beginning on 1 January 2023 or after).
- Amendments to IAS 1 “Presentation of Financial Statements” – classification of liabilities as current or non-current (effective for annual periods beginning on or after 1 January 2023);
- Amendments to IAS 1 “Presentation of Financial Statements” – Disclosure of Accounting Policy (effective for annual periods beginning on or after 1 January 2023);
- Amendments to IAS 8 “Accounting Policy, Changes in Accounting Estimates, and Errors” – Definition of Accounting Estimates (effective for reporting periods starting on 1 January 2023 or later);

- Amendments to IAS 16 “Fixed Assets” – Revenue Before Intended Use (effective for annual periods beginning on or after 1 January 2022);
- Amendments to IAS 37 “Provisions, Contingent Liabilities and Contingent Assets” – Onerous Contracts – Contract Performance Costs (effective for annual periods beginning on or after 1 January 2022);
- Amendments to IFRS 3 “Business Combinations” – Reference to the Conceptual Framework with amendments to IFRS 3 (effective for reporting periods beginning on 1 January 2022 or after).
- Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” – asset sales or investment transaction between the investor and its associate or joint venture and further amendments (entry into force pending indefinitely until the completion of the research project on the equity method).
- Amendments to various standards related to “Improvements to IFRSs (2018–2020 Cycle)” resulting from the Annual Improvements to IFRSs (IFRS 1, IFRS 9, IFRS 16, and IAS 41, mainly to eliminate inconsistencies and clarify wording (Amendment to IFRS 1 IFRS 9, and IAS 41, shall be effective for reporting periods beginning on 1 January 2022 or after. Amendment to IFRS 16 is for illustrative purposes only, so the effective date is not specified).

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

Consolidation

(a) Subsidiaries

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

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

All transactions between the companies of the Augstsprieguma 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. Gains or losses on transactions with minority shareholders are recognised in the profit or loss statement or in equity (IFRS).

(c) Associates

Investments in an associate are investments in a company in which the Augstsprieguma tīkls Group has a 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 values at the acquisition date, irrespective of the extent of any minority interest. Goodwill is initially measured as the excess of the

total sum of an acquisition value and the value of the minority interest, and the amount of identified assets acquired and liabilities assumed.

If the amount of the transferred assets is less than the fair value of the net assets acquired, the difference is recognised in the Profit or Loss Statement. Goodwill is presented in the intangible assets section.

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

Business combinations involving companies under common control

The Group accounts for a business combination involving companies under common control in accordance with the pooling of interest 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 recognised at fair value. Transaction costs that are directly attributable to the acquisition or issue of a financial asset and financial liabilities (other than a financial asset and financial liabilities at fair value through the profit or loss statement) are initially recognised or deducted from financial assets or fair values of financial liabilities.

Financial assets

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

Classification of financial assets

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

- the financial asset is held within the framework of a business model, the purpose of which is to hold the financial assets in order to collect the contractual cash flows;

- the terms of a financial asset contract generate cash flows at specified dates that are only principal and interest payments.

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

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

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

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

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

Equity instruments at fair value through other comprehensive income

After initial recognition, the Company may irrevocably 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 profit or loss statement, after initial recognition, are subsequently measured at amortised cost using the effective interest method.

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

Derecognition of financial liabilities

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

2.2. TRANSACTIONS IN FOREIGN CURRENCIES

(a) Functional and presentation currency

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

(b) Transactions and balances

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

2.3. INTANGIBLE INVESTMENTS AND FIXED ASSETS

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

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

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

in transmission pipelines and the emergency reserve for fixed assets spare parts, are stated at cost.

The increase in value resulting from the revaluation of property, plant and equipment is presented in the equity item "Reserves". The revaluation reserve is reduced if the revalued property, plant and equipment is disposed of, liquidated or there is no longer a basis for an increase in value according to management's assessment. The balance of the revaluation reserve written off in the financial statements is included 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 of this item can be credibly determined. Such costs are written off during the remaining period of the service life of the relevant fixed asset.

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

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

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

2.4. FAIR VALUE

IFRS 13 establishes a hierarchy of valuation techniques based on whether observable market data is used in the valuation technique or whether there is any observable market data. Observable market data is obtained from independent sources. If market data is not observable, the valuation technique reflects the Company's management's assumptions about the market situation. This hierarchy requires the use of observable market data, if it is available. When carrying out the revaluation, the Company shall take into account the relevant observable market prices, if it is possible. The objective of measuring the fair value, even if the market is not active, is to determine the transaction price at which market participants would be ready to sell the asset or make a commitment at a given valuation date under current

market conditions. Several methods are used to determine the fair value of a financial instrument:

quoted prices or valuation techniques that incorporate observable market data and are based on internal models. Based on the fair value hierarchy, all valuation techniques are divided into Level 1, Level 2, and Level 3. The level of the fair value hierarchy of a financial instrument should be determined as the lowest level if a significant part of their value consists of lower level data. The classification of a financial instrument in the fair value hierarchy is carried out in two steps: 1. Classify 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, are observable from the asset or liability side. The model uses market data that are not the quoted prices at Level 1, but that are observable directly (i.e., price) or indirectly (i.e., derived from price).

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

Assets that are 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 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 (see also Annexes 9.2 and 25). Due to the unique nature and use of the assets, Level 3 data was used for the revaluation, which means that the data are 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 and 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 are also used. An important part of the revaluation is the revaluation of underground gas pipelines. The total length of the natural gas transmission pipelines is 1,188 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 at 31 December 2020 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, plant 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 Standards

(hereinafter – IAS) 28, and such investments are accounted for using the equity method.

Other long-term financial investments

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

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

2.6. LEASEHOLD

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 lease (the lease term being 12 months or less) and lease of low-value assets (for example, lease of tablets and personal computers, as well as small office furniture and phone accessories). The Company recognises lease payments related to this lease as operating expenses on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern in which the economic benefits of the leased asset are used.

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

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

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

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

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

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

- the lease term has changed or a significant event or change in circumstances has occurred, resulting in a change in the measurement of the

call option, in which case the lease liabilities are reevaluated by discounting the revised lease payments using the revised discount rate;

- the lease payments change due to a change in an index or rate, or expected payments change due to a guaranteed residual value; in such cases, the lease liability is remeasured by discounting the revised lease payments at a constant discount rate (unless the lease payments change due to a change in a variable interest rate, in which case a revised discount rate is used).

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

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

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

Pursuant to the transmission system operator unbundling model introduced in Latvia, on 31

December 2014, the Company entered into a transmission system asset lease agreement with the transmission system asset owner JSC Latvijas elektriskie tīkli. In accordance with the lease agreement for the transmission system assets by implementing IFRS 16, the lease term is set at 5 years.

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

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

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

	JSC Augstsprieguma tīkls		Group	
	31.12.2020 EUR	31.12.2019 EUR	31.12.2020 EUR	31.12.2019 EUR
Right-of-use assets				
Residual value at the beginning of the reporting period	35 920 323	-	36 453 057	
Initial recognition value on 01.01.2019.	-	214 885 303	-	214 885 303
Initial adding value on 10.2020	14 398 775	-	14 398 775	
Recognised changes in lease contracts	-	(143 133 079)	57 397	(143 133 079)
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	(186 482)	(35 831 901)	(273 029)	(35 831 901)
Residual value at the end of the reporting period	14 212 293	35 920 323	14 715 877	35 920 323
Lease liabilities				
Residual value at the beginning of the reporting period	37 475 766	-	38 019 221	
Initial recognition value on 01.01.2019.	-	219 001 266	-	219 001 266
Initial adding value on 10.2020	14 580 829	-	14 580 829	
Recognised changes in lease contracts	-	(145 629 214)	57 397	(145 629 214)
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)	(37 578 581)	(27 687 830)	(37 578 581)
Decrease in lease liabilities	(219 033)	-	(330 751)	
Asset lease interest expenses on 09.2020	88 783	-	88 783	
Asset lease interest expense	57 199	1 682 295	82 135	1 682 295
Residual value at the end of the reporting period	14 418 995	37 475 766	14 933 065	37 475 766
31 December 2020				
including:				
Long term	13 761 561	-	14 215 413	
Short term	657 434	37 475 766	717 652	37 475 766

2.7. STOCK

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

Purchase costs of inventories include the purchase price, import duties and other taxes and fees,

transportation and associated costs, as well as other costs directly related to the delivery of materials and goods. Trade discounts, rebates and similar discounts are deducted in determining the value of inventories.

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

2.8. DEFERRED REVENUE

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

Deferred income from congestion management income, once it has been used to finance a specific

long-term investment project, is amortised through the progressive recognition of that income in the profit or loss statement for the current financial year in accordance with the amortisation/depreciation period of the long-term investment created. Respectively, when the asset is disposed of or excluded, the proceeds are recognised at their residual value.

2.9. PENSIONS, POST-EMPLOYMENT BENEFITS

(a) Pension liabilities

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

(b) Post-employment benefit liabilities

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

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

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

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

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

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

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

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

2.10. CORPORATE INCOME TAX

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

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

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

Deferred income tax

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

over time arises from the different depreciation rates used for accounting and tax purposes for property, plant and equipment and certain non-deductible provisions for tax purposes, as well as tax losses carried forward.

In accordance with International Accounting Standard No. 12 "Income taxes" requirements in cases where income tax is payable at a higher or lower rate depending on whether the profit is distributed, current and deferred tax assets and liabilities should be measured at the tax rate applicable to the retained earnings. In Latvia, retained earnings will be subject to a 0% tax rate.

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

2.11. PROVISIONS

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

Provisions are recognised in the balance sheet by determining the amount of expenditure that would be required to settle the obligation at the balance sheet date as precisely as possible. Provisions are only used for the expenses for which the provision

was initially recognised, and they are reversed if a potential outflow of resources is no longer expected.

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

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

2.12. REVENUE RECOGNITION

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

a) the parties to the contract have approved the contract (in writing, orally or in accordance with other normal commercial practices) and have

undertaken to comply with their respective obligations;

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

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

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

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;
- a) with operation of the Company the asset is created or improved (for example, repairs) and the customer controls the asset at the time the asset is created or improved;
- b) 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's activities; for practical purposes, the Company may recognise revenue in the amount the Company is entitled to collect.

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

(b) Congestion and overload management

JSC "Augstsprieguma tīkls" implements transmission system congestion and overload management in accordance with Article 13, Section 4 and Article 13¹, 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 services and ancillary services.

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

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

(d) Income from electricity/capacity sales

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

When participating in the trade of electricity, the transmission system operator shall act in accordance with open, non-discriminatory and market based

procedures, except in the event of deviations from the normal operating system or if there has been an accident. In the event of deviations from the normal operating system or in the event of an accident, the transmission system operator shall act in accordance with the provisions of the Network code.

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

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

Revenue from the sale of electricity/capacity is recognised on the basis of acceptance notes and bills, which are invoiced each month for the electricity/capacity delivered during the month in accordance with the agreements 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 in the assets of the recipient of the service – JSC Latvijas elektriskie tīkli – actively plans, organises, documents, controls construction, reconstruction and renovation works. The service includes the provision of capital investment project management. The service was provided until the addition of JSC Latvijas elektriskie tīkli on 25 November 2020.

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

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

towards the full implementation of their obligations.

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

(f) Charges for connection to the electricity transmission system

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

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

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

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

(g) Revenues from natural gas transmission

The natural gas transmission service shall be considered as a single performance obligation in accordance with IFRS 15. Trade in natural gas transmission capacity products is a regulated service provided by a subsidiary to transmission system users at approved tariffs. Short-term (quarterly, monthly, daily and current daily capacity) and

long-term natural gas transmission capacity (annual capacity) products are offered.

Revenues from transmission capacity trading products, which by the nature of the service means the provision of transmission infrastructure and does not change over time for each capacity unit according to the selected product, are recognised in the profit or loss statement for each reporting month in proportion to the user-reserved transmission capacity period.

(h) Revenues from natural gas storage

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

(i) Revenue from balancing (natural gas)

The subsidiary shall maintain information regarding the amount of natural gas entered into the transmission system and withdrawn from the transmission system by the natural gas transmission system users and calculate the imbalance. The amount of daily imbalance is the difference between input and output. In cases where a negative imbalance occurs to the transmission system user, the charge for the amount of imbalance for each day is calculated by multiplying the calculated amount by the daily published balancing natural gas sales price (the obligation to perform balancing is equal for each unit of transported gas volume). Revenues from balancing shall be recognised for each reporting month when a negative imbalance occurs in the natural gas transmission system user, which has caused a natural gas shortage in the transmission system. In the financial statements, the income from balancing is presented in the other income section at net value (less income for periods when the balance is positive). If market participants cause differences and if the subsidiary does not have sufficient gas resources to ensure the proper functioning of the gas transmission system, the subsidiary shall purchase appropriate quantities of balancing gas.

2.13. RECOGNITION OF COSTS

Costs are recognised on an accrual basis. Accounting costs include all foreseeable costs and contingent

liabilities incurred in the current or prior years, even if they become known between the balance sheet

date and the date of preparation of the financial statements, regardless of the date of receipt of the invoice, as the Company's economic transactions are accounted for and presented in the financial statements on the basis of their economic content and nature, not merely their legal form.

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

2.14. LONG-TERM AND SHORT-TERM LIABILITIES

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

the reporting period.

Accrued expenses that have been incurred during the reporting year when the amount of such costs or the date of payment during the reporting period is clearly known, but the invoices containing 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 of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost. The difference between the proceeds and the redemption value of the loan, deducting the costs related to the receipt of the loans, is gradually included in the profit or loss statement, except for the capitalised portion.

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

General and specific borrowing costs that relate directly to the acquisition or construction of qualifying assets,

i.e. assets that require a significant period of time before their expected use or sale, are added to the costs of creating or acquiring those assets until they are actually ready for their intended use.

Loans

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

2.16. RELATED PARTIES

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

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

2.17. SEGMENT INFORMATION

Reportable segments are operating segments or sets of segments that meet certain criteria. An operating segment is a component of the Group that is engaged in business activities from which it can earn revenues and cover expenses (including revenues and expenses related to transactions with other

components of the Group),

is a component 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 at the reporting date and the reported amounts of income and expenses in the current period. The following estimates of the Company's management have a significant impact on the results of the financial statements:

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

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

The amount of accrued revenue in December 2020 is EUR 68,336.37, the amount of accrued expenses is EUR 598,000.09. Provisions are made on the basis of settlement statements accepted by the Company, which are not invoiced on 31 December 2020.

○ Post-employment benefit liabilities

Based on statistical and analytical information as well as estimates made by specialists, the Company makes estimates and assumptions about post-employment benefit obligations as described in the Annex 2.8.

In the reporting year, the discount rate used to discount post-employment benefit obligations is fixed at 0.392% (in 2019: 0.744%). The discount

rate is determined in accordance with the requirements of International Financial Reporting Standards whereby the discount rate should be determined by reference to the market rate of return on high-quality corporate bonds at the balance sheet date; moreover, the discount rate should reflect the time value of money rather than the actuarial or investment risk.

Pursuant to the provisions of the Collective Bargaining Agreement, which envisages the annual indexation of employees' wages in the amount of inflation, when calculating post-employment benefit accruals, no increase in employees' salaries is planned in 2021, 1.1% in 2022, 1.6% in 2023, 1.7% in 2024, thereafter – 2.0%.

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

	Increase	Decrease
Discount rate (+/-1%)	103 014 4%	(230 306) -9%
Monthly salary increase (+/- 1%)	248 696 9%	(210 835) -8%
Employee turnover rate (+/- 1%)	293 674 11%	(244 688) -9%

○ Book value of intangible assets and property, plant and equipment

The Group's management calculates and recognises impairment losses of intangible assets and fixed assets based on estimates of their future use, disposal or sale. Given the projected business volumes and the potential market value of the assets, the Management believes that no significant adjustments to the value of intangible assets and property, plant and equipment as at 31 December 2020 are required.

In accordance with the Group's accounting policy, the Group companies make estimates regarding the useful lives and residual values of property, plant 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, plant 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, plant 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, plant and equipment carried at revalued amount is performed by external, certified appraisers in accordance with property valuation standards, based on the existing use of the property, plant and equipment that is 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, plant and equipment differs materially from its fair value at 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 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 (for details, see Annex 25). Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at their fair values at 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 2.6.

3. REVENUE

	JSC Augstsprieguma tīkls		Group	
	2020 EUR	2019 EUR	2020 EUR	2019 EUR
Electricity transmission service	73 377 414	72 787 419	73 377 414	72 787 419
Transmission asset reconstruction and renovation works*	53 968 536	85 729 175	28 485 159	85 729 175
Sale of balancing electricity	12 549 323	13 504 002	12 549 323	13 504 002
Revenues from transmission of natural gas	-	-	12 579 249	-
Revenues from storage of natural gas	-	-	8 885 617	-
Revenues from connection fee	829 478	-	1 952 340	-
Congestion management at borders (auction)	1 007 197	3 864 585	1 007 197	3 864 585
Electricity transit service	698 230	2 405 603	698 230	2 405 603
Revenue from reactive electricity	615 362	692 336	615 362	692 336
Liquidation of electrical capacity overload	411 844	2 227 422	411 844	2 227 422
Rental of transmission system assets and rental of other fixed assets	-	-	324 732	-
Sale of regulatory electricity	287 556	2 170 975	287 556	2 170 975
Construction services	-	-	108 819	-
Other services	3 603 336	1 360 560	3 603 336	1 360 560
TOTAL REVENUE	147 348 276	184 742 077	144 886 178	184 742 077

* The Group's turnover in 2020 is affected by the exclusion of services mutually provided between JSC Augstsprieguma tīkls and JSC Latvijas elektriskie tīkli. Pursuant to decision of the PUC Council of 30 January 2013 No. 18 "On the Certification of the Electricity Transmission System Operator", from 1 January 2015, AST took over the business lines of maintenance and development of transmission system assets from JSC Latvijas elektriskie tīkli and ensures the new construction, reconstruction and renewal of transmission system assets (see Appendix 7). 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 and JSC Augstsprieguma tīkls was added.

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

SEGMENT INFORMATION

	JSC Augstsprieguma tīkls		Group	
	2020 EUR	2019 EUR	2020 EUR	2019 EUR
Electricity Transmission	147 348 276	184 742 077	123 421 312	184 742 077
Natural gas transmission	-	-	12 527 640	-
Natural gas storage	-	-	8 885 616	-
TOTAL	147 348 276	184 742 077	144 834 568	184 742 077

4. OTHER INCOME FROM BUSINESS ACTIVITIES

	JSC Augstsprieguma tīkls		Group	
	2020 EUR	2019 EUR	2020 EUR	2019 EUR
EU financial support	586 687	-	1 473 717	-
Sale of current assets and fixed assets	211 073	60 383	217 913	60 383
Other revenue	51 247	191 007	117 900	191 007
OTHER INCOME FROM BUSINESS ACTIVITIES	849 007	251 390	1 809 530	251 390
TOTAL				

5. USED RAW MATERIALS AND MATERIALS, REPAIR COSTS

	JSC Augstsprieguma tīkls		Group	
	2020 EUR	2019 EUR	2020 EUR	2019 EUR
Purchase of balancing electricity	8 859 783	11 237 536	8 859 783	11 237 536
Transmission electricity losses and technological consumption	5 751 676	9 124 185	5 751 676	9 124 185
Purchase of regulatory electricity	3 663 722	3 851 795	3 663 722	3 851 795
Costs of materials used and repairs	2 482 690	2 020 794	3 323 864	2 020 794
Natural gas transmission and storage system maintenance services	-	-	2 135 367	-
Electricity transit losses	1 663 322	2 123 434	1 663 322	2 123 434
Natural gas costs	-	-	556 111	-
Electricity for own consumption	212 918	282 833	212 918	282 833
USED RAW MATERIALS, TOTAL REPAIR COSTS	22 634 111	28 640 577	26 166 763	28 640 577

6. STAFF COSTS

	JSC Augstsprieguma tīkls		Group	
	2020 EUR	2019 EUR	2020 EUR	2019 EUR
Remuneration for work	12 474 088	12 066 959	16 439 638	12 066 959
State social insurance contributions and benefits determined by the collective agreement	3 599 873	3 551 356	4 585 271	3 551 356
Contributions to the pension plan	636 661	612 156	843 075	612 156
Other staff costs	-	-	8 137	-
TOTAL STAFF COSTS (INCLUDING REMUNERATION FOR CORPORATE GOVERNANCE)	16 710 622	16 230 471	21 876 121	16 230 471
<i>including Remuneration to the company's management (board, council)</i>				
Remuneration for work	698 723	638 124	969 101	638 124
State social insurance contributions and benefits determined by the collective agreement	170 928	156 083	240 466	156 083
Contributions to the pension plan	-	-	18 404	-
Other staff costs	-	-	20 430	-
TOTAL REMUNERATION TO THE MANAGEMENT OF THE COMPANY	869 651	794 207	1 248 401	794 207
Number of employees at the end of the reporting year	539	551	888	551
Average number of employees in the reporting year	546	552	887	552

7. OTHER COSTS OF BUSINESS ACTIVITY

	JSC Augstsprieguma tīkls		Group	
	2020 EUR	2019 EUR	2020 EUR	2019 EUR
Electricity transmission asset reconstruction and renovation works	53 952 908	85 705 387	28 469 531	85 705 387
Power reserve maintenance costs	4 209 747	2 446 502	4 209 747	2 446 502
Telecommunication services	2 878 023	2 920 005	2 878 023	2 920 005
Premises and territory maintenance costs	935 908	921 200	1 562 906	921 200
Elimination of capacity congestion	1 094 939	4 659 045	1 094 939	4 659 045
IT system maintenance costs	844 508	747 822	849 791	747 822
Local taxes and fees	210 290	166 346	819 765	166 346
Transportation costs	778 999	999 214	778 999	999 214
Nature and labour protection costs	121 587	106 639	121 587	106 639
Various business costs	1 482 508	935 356	2 839 106	935 356
OTHER COSTS OF BUSINESS ACTIVITY TOTAL	66 509 417	99 607 516	43 624 394	99 607 516

8. NET FINANCIAL INCOME/(COSTS)

	JSC Augstsprieguma tīkls		Group	
	2020 EUR	2019 EUR	2020 EUR	2020 EUR
a) Financial income				
Interest income from loans	334 070	-	334 070	-
Interest income from credit institutions	18 200	44 224	18 200	44 224
Other financial income	-	-	226 547	-
Total financial income	352 270	44 224	578 817	44 224
b) Financial costs				
Borrowing interest costs	(829 429)	-	(1 871 028)	-
Interest expense on asset leases IFRS 16	(145 982)	(1 682 295)	(133 196)	(1 682 295)
Other finance costs	(171 635)	(1 336)	(171 635)	(1 336)
Total financial expenses	(1 147 046)	(1 683 631)	(2 175 859)	(1 683 631)
NET FINANCIAL INCOME/(COSTS)	(794 776)	(1 639 407)	(1 597 042)	(1 639 407)

9. AT THE INITIAL APPLICATION OF IFRS 9 INTANGIBLE INVESTMENTS, FIXED ASSETS

9.1. INTANGIBLE ASSETS

	JSC Augstsprieguma tīkls				
	Computer software	Transmission usage rights	Costs of creating intangible investments	Advance payment for rights of use	TOTAL
31 December 2018					
Initial value	829 266	-	153 175	4 118 381	5 100 822
Accumulated depreciation and impairment	(450 429)	-	-	-	(450 429)
Residual value as of 31 December 2018	378 837	-	153 175	4 118 381	4 650 393
2019					
Purchased	334 232	11 493 000	229 532	33 909 709	45 966 473
Depreciation	(190 352)	(13 095)	-	-	(203 447)
Residual value 31 December, 2019	522 715	11 479 905	382 708	38 028 090	50 413 419
31 December, 2019					
Initial value	1 163 497	11 493 000	382 708	38 028 090	51 067 295
Accumulated depreciation and impairment	(640 782)	(13 095)	-	-	(653 877)
Residual value 31 December, 2019	522 715	11 479 905	382 708	38 028 090	50 413 419
2020					
Purchased	298 526	-	456 164	-	754 690
Obtained as a result of reorganisation	-	1 080	-	-	1 080
Regrouped	639 372	-	(639 372)	-	-
Excluded	-	(11 048 917)	-	(38 028 090)	(49 077 008)
Depreciation	(225 960)	(431 011)	-	-	(656 971)
Residual value 31 December 2020	1 234 653	1 057	199 500	-	1 435 210
31 December 2020					
Initial value	2 108 318	1 892	199 500	-	2 309 710
Accumulated depreciation and impairment	(873 665)	(835)	-	-	(874 500)
Residual value 31 December 2020	1 234 653	1 057	199 500	-	1 435 210

* 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	Costs of creating intangible investments	Advance payment for rights of use	TOTAL
31 December, 2019					
Initial value	1 163 497	11 493 000	382 708	38 028 090	51 067 295
Accumulated depreciation and impairment	(640 782)	(13 095)	-	-	(653 877)
Residual value 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
Purchased	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)
Excluded	(281)	(11 048 917)	-	(38 028 090)	(49 077 288)
Depreciation	(413 505)	(431 011)	-	-	(844 516)
Residual value as at 31 December 2020	3 100 954	1 057	205 870	-	3 307 881
31 December 2020					
Initial value	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 depreciation and impairment	(873 665)	(835)	-	-	(874 500)
As a result of the control, JSC Conexus Baltic Grid 31.12.2020	(5 832 682)	-	-	-	(5 832 682)
Residual value as at 31 December 2020	3 100 954	1 057	205 870	-	3 307 881

9.2. FIXED ASSETS

	JSC Augstsprieguma tīkls				
	Buildings and engineering structures	Power lines/ Production equipment	Other fixed assets	Costs of the establishment of fixed assets and costs of objects under construction.	TOTAL
31 December 2018					
Initial value	-	6 815	8 424 110	-	8 430 925
Accumulated depreciation and impairment	-	(6 140)	(4 105 851)	-	(4 111 991)
Residual value	-	675	4 318 259	-	4 318 934
2019					
Purchased	-	-	1 599 329	1 000 165	2 599 494
Written off	-	-	(532)	-	(532)
Depreciation	-	(675)	(1 426 019)	-	(1 426 694)
Residual value 31 December, 2019	-	-	4 491 037	1 000 165	5 491 202
31 December, 2019					
Initial value	-	6 815	9 933 969	1 000 165	10 940 949
Accumulated depreciation and impairment	-	(6 815)	(5 442 932)	-	(5 449 747)
Residual value	-	-	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
Purchased	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)
Written off	(60)	(34 175)	(1 973)	-	(36 208)
Depreciation	(555 509)	(6 280 342)	(1 869 224)	-	(8 705 075)
Adjustment	-	-	-	(109 544)	(109 544)
Residual value 31 December 2020	40 005 503	516 827 304	6 517 669	91 009 302	654 359 778
31 December 2020					
Initial/revalued value	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)
Residual value 31 December 2020	40 005 503	516 827 304	6 517 669	91 009 302	654 359 778

	Group					
	Land, buildings and civil engineering works	Power lines/ Techno-logical equipment	Other fixed assets	Emergency spare parts	Costs of the establishment of fixed assets and costs of objects under construction.	TOTAL
31 December, 2019						
Initial value	-	6 815	9 933 969	-	1 000 165	10 940 949
Accumulated depreciation and impairment	-	(6 815)	(5 442 932)	-	-	(5 449 747)
Residual value 31 December, 2019	-	-	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
Purchased	35 100	226 151	3 802 191	-	52 264 119	56 327 561
Regrouped	8 692 116	20 635 288	538 839	-	(40 771 326)	(10 905 083)
Sold				-	(283 386)	(283 386)
Written off	(2 157 085)	(827 820)	(133 178)	-	-	(3 118 083)
Depreciation	(3 481 458)	(7 505 451)	(1 991 711)	-	-	(12 978 620)
Adjustment				158 462	(109 544)	48 918
Residual value 31 December 2020	363 358 755	589 967 982	9 023 807	1 563 188	103 760 662	1 067 674 394
31 December 2020						
Initial/revalued value	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)
Residual value 31 December 2020	363 358 755	589 967 982	9 023 807	1 563 188	103 760 662	1 067 674 394

REVALUATION OF FIXED ASSETS

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. Augstsprieguma tīkls Group's accounting policy stipulates that the revaluation of fixed assets is performed regularly, but not less than once every five years.

(a) Electricity transmission segment

The following fixed assets of the electricity transmission segment are revalued regularly, but not less than once in 5 years:

- electricity transmission networks,
- transformer substation electrical equipment.

The revaluation of the above groups of fixed assets 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. 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.

The carrying amount of revalued property, plant and equipment that would be recognised if the assets were accounted for in accordance with the cost model as at 31 December 2020 would be EUR 533,543 thousand. Detailed information on the methods used in the revaluation is provided in Note 2.4.

The table summarises the carrying amounts of the revalued groups of assets, assuming that the assets are carried at cost.

Together in groups	Initial value in the absence of revaluation	Accumulated depreciation if no revaluation was performed	Initial value in the absence of revaluation	Balance sheet value on 31.12.2020
Buildings and structures	687 846 470	363 893 922	323 952 548	353 062 217
Technological plants and equipment	432 273 338	228 707 630	203 565 708	203 770 590
Other FA	12 918 853	6 894 202	6 024 651	6 517 669
Total	1 133 038 661	599 495 754	533 542 907	563 350 476

b) Natural gas transmission and storage segment

In accordance with the Group's accounting policy, the Group accounts for the revalued amount of the following groups of property, plant and equipment in the natural gas transmission and storage segment: buildings and structures and technological equipment and machinery, excluding land and buffer gas in transmission lines and Inčukalna UGS.

In 2020, the Group assessed the fair value of the acquired assets by acquiring a controlling interest (see Note 25). In the period from the date of acquisition to the end of the reporting year, no significant changes in the fair value of assets of the natural gas transmission and storage segment were identified.

10. OTHER LONG-TERM FINANCIAL INVESTMENTS

	JSC Augstsprieguma tīkls		Group	
	31.12.2020 EUR	31.12.2019 EUR	31.12.2020 EUR	31.12.2019 EUR
Participation in the capital of subsidiaries, including:	134 394 971	57 394 971	-	110 780 752
JSC Conexus Baltic Grid	134 394 971	57 394 971	-	110 780 752
Ownership in the capital of other companies, including:	1 422	1 902 887	1 422	1 903 858
JSC Nord Pool Holding	-	1 901 465	-	1 901 465
JSC Pirmais slēgtais pensiju fonds	1 422	1 422	1 422	1 422
Adjustment	-	-	-	971
Residual value at the end of the reporting period	134 396 393	59 297 858	1 422	112 684 610

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%

* Pursuant to the decision of the Shareholders' Meeting of JSC Conexus Baltic Grid on 30 April 2020, the parent company received dividends in the amount of EUR 5,604,642 in the reporting year

** The parent company owns 1.9% of the capital of JSC Pirmais slēgtais pensiju fonds. The company is a nominal shareholder because all the risks and rewards arising as a result of the Fund's operations is incurred or acquired by the Company's employees – members of the pension plan.

During the reporting year, the Group disposed of its shareholding in AS Nord Pool Holding. As at 31 December 2019, the investment was carried at fair value.

Changes in the value of the investment in the associate JSC Conexus Baltic Grid before the acquisition of control (see Annex 25):

	EUR
1 January 2019	109 038 314
Profit for the reporting period	5 862 636
Revaluations of post-employment benefits	(19 276)
Dividends	(4 100 921)
31 December 2019	110 780 752
Profit for the reporting period	3 080 996
Revaluation of long-term investment	28 120 629
Revaluations of post-employment benefits	-
Dividends	(5 604 592)
Carrying amount as at 31 July 2020	136 377 785

11. INVENTORIES

	JSC Augstsprieguma tīkls		Group	
	31.12.2020 EUR	31.12.2019 EUR	31.12.2020 EUR	31.12.2019 EUR
INVENTORIES				
Materials and spare parts	514 087	480 112	2 137 535	480 112
Natural gas	-	-	1 477 709	-
Provisions for slow-moving inventories	-	-	(80 154)	-
TOTAL INVENTORIES	514 087	480 112	3 535 090	480 112

12. NET TRADE RECEIVABLES

	JSC Augstsprieguma tīkls		Group	
	31.12.2020 EUR	31.12.2019 EUR	31.12.2020 EUR	31.12.2019 EUR
Trade receivables				
Electricity transmission system service debt	1 210 290	747 506	1 210 290	747 506
Settlements for natural gas transportation	-	-	4 625 819	-
Settlements for natural gas storage	-	-	2 009 978	-
Settlement of balancing operations	-	-	218 523	-
Other trade receivables	479 125	7 249 868	479 499	7 249 868
Total receivables	1 689 415	7 997 374	8 544 109	7 997 374
For electricity transmission system service debt	-	(24 234)	-	(24 234)
For other trade receivables	(15 617)	(6 920)	(15 617)	(6 920)
Total provisions for doubtful and hopeless debts	(15 617)	(31 154)	(15 617)	(31 154)
Net trade receivables				
Electricity transmission system service debt	1 210 290	723 272	1 210 290	723 272
Settlements for natural gas transportation	-	-	4 625 819	-
Settlements for natural gas storage	-	-	2 009 978	-
Settlement of balancing operations	-	-	218 523	-
Other trade receivables	463 508	7 242 948	463 881	7 242 948
TOTAL NET TRADE RECEIVABLES	1 673 798	7 966 220	8 528 491	7 966 220

DECREASE OF RECEIVABLES VALUE	JSC Augstsprieguma tīkls		Group	
	31.12.2020 EUR	31.12.2019 EUR	31.12.2020 EUR	31.12.2019 EUR
At the beginning of the reporting year	31 154	17 808	31 154	17 808
Written off provisions for doubtful debtors		(11 529)	-	(11 529)
Included in the profit or loss statement	(15 537)	24 875	(15 537)	24 875
At the end of the reporting year	15 617	31 154	15 617	31 154

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

13. OTHER DEBTORS

	JSC Augstsprieguma tīkls		Group	
	31.12.2020 EUR	31.12.2019 EUR	31.12.2020 EUR	31.12.2019 EUR
Deposits	25 000 000	20 000 000	25 000 000	20 000 000
Overpaid taxes (see Note 21), including:	11 512	11 512	11 512	11 512
<i>Corporate income tax</i>	11 512	11 512	11 512	11 512
Receipt of EU funding	31 570 973	-	31 570 973	-
The rest of the receivables	76 778	22 722	169 780	22 722
TOTAL OTHER DEBTORS	56 659 263	20 034 234	56 752 265	20 034 234

IFRS 14 ACCRUED INCOME

	JSC Augstsprieguma tīkls		Group	
	31.12.2020 EUR	31.12.2019 EUR	31.12.2020 EUR	31.12.2019 EUR
Provisions for revenue from provided services				
For transmission system service revenue	6 346 934	6 247 801	6 346 934	6 247 801
For the sale of balancing electricity	1 365 183	850 470	1 365 183	850 470
For mandatory purchase component revenue	627 107	379 458	627 107	379 458
Cross-border electricity perimeter charges	211 132		211 132	-
For revenue from the sale of regulatory electricity	71 975	34 343	71 975	34 343
For revenue from reactive electricity	50 247	41 287	50 247	41 287
For building maintenance service revenue	39 779	41 142	39 779	41 142
Provisions for loss compensation in transformers	20 413	16 610	20 413	16 610
For balancing administration service revenue	3 201	3 557	3 201	3 557
For transmission asset reconstruction and renovation works	-	3 828 182	-	3 828 182
For revenue from other services	392 374	9 947	392 374	9 947
Total provisions for revenue from provided services	9 128 345	11 452 797	9 128 345	11 452 797
Electricity transit service revenue (ITC)	68 336	858 728	68 336	858 728
Various accrued revenue	226 022	1 465 567	226 022	1 465 567
TOTAL ACCRUED REVENUE	9 422 703	13 777 092	9 422 703	13 777 092

15. CASH AND CASH EQUIVALENTS

	JSC Augstsprieguma tīkls		Group	
	31.12.2020 EUR	31.12.2019 EUR	31.12.2020 EUR	31.12.2019 EUR
CASH IN THE BANK	32 224 560	28 216 327	47 388 296	28 216 327

16. EQUITY

As of 31 December 2020, the registered share capital of JSC Augstsprieguma tīkls is EUR 363,896,079 (EUR 64,218,079 on 31 December 2019), consisting of 363 896 079 shares (64,218,079 shares on 31 December 2019).

In accordance with the decision of the Shareholders' Meeting of 15 June 2020 of JSC Augstsprieguma tīkls (Minutes No. 2, § 1 and § 2), an investment in the share capital of the Company in the amount of EUR 299,678,000 has been made.

The parent company has made payments to the state budget for the use of state capital from the previous year's net profit:

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

The parent company's reserves consist of retained earnings from previous periods, which by the owner's decision have been transferred to other reserves to ensure the Company's development, fixed assets revaluation reserve, post-employment benefit revaluation reserve.

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

	Reorganisa- tion reserve	Revaluation reserve of fixed assets	Post- employment benefit measurement reserve	Continuity reserve	JSC "Augst- sprieguma tīkls"	GROUP
	EUR	EUR	EUR	EUR	TOTAL EUR	TOTAL EUR
as of 31 December 2018	-	-	(153 387)	2 680 615	2 527 228	2 527 227
Continuity reserve						(30 162)
Profit from valuation of post-employment benefits	-	-	259 393	-	259 393	259 393
on 31 December 2019	-	-	106 006	2 680 615	2 786 621	2 756 459
Continuity reserve	-	-	384 250	(315 146)	69 104	411 625
Revaluation reserve of fixed assets	-	28 653 237	-	-	28 653 237	28 915 196
Reorganisation reserve	(27 336 704)	-	-	-	(27 336 704)	(25 778 705)
31 December 2020	(27 336 704)	28 653 237	490 256	2 365 469	4 172 258	6 304 575

17. DEFERRED REVENUE

	JSC Augstsprieguma tīkls		Group	
	31.12.2020 EUR	31.12.2019 EUR	31.12.2020 EUR	31.12.2019 EUR
a) Long-term deferred income				
- from European Union funding	112 672 698	30 000	123 454 434	30 000
- from the expected European Union funding	31 570 973	-	31 570 973	-
- from connection fees	39 995 011	-	39 995 011	-
- from congestion charge revenue	95 608 651	89 963 992	95 608 651	89 963 992
TOTAL	279 847 333	89 993 992	290 629 069	89 993 992
(b) Short-term deferred income				
- from European Union funding (depreciation)	2 320 835	169 877	2 670 600	169 877
- from connection fees	3 379 561	-	3 379 561	-
- from congestion charge revenue	273 144	4 776 510	273 144	4 776 510
- from IPGK reserved capacity charges	-	-	903 165	-
TOTAL	5 973 540	4 946 387	7 226 470	4 946 387

Deferred income (long-term and short-term part) movement	JSC Augstsprieguma tīkls		Group	
	31.12.2020 EUR	31.12.2019 EUR	31.12.2020 EUR	31.12.2019 EUR
At the beginning of the reporting year	289 601 283	169 877	301 033 754	169 877
Received deferred revenues from European Union financing	7 507 226	30 000	7 507 226	30 000
Deferred revenue from connection fees received	40 667	-	40 667	-
Long-term deferred revenue from usage rights is excluded	(11 043 332)	-	(11 043 332)	-
Deferred revenue from congestion charges	-	94 740 502	-	94 740 502
Revenue from congestion charges is included in the profit or loss statement	1 141 328	-	1 141 328	-
Connection fees are included in the profit or loss statement	(844 618)	-	(844 618)	-
- from IPGK reserved capacity charges	-	-	903 165	-
European Union funding is included in the profit or loss statement	(581 681)	-	(882 651)	-
At the end of the reporting year	285 820 873	94 940 379	297 855 539	94 940 379

18. ADVANCE PAYMENTS AND OTHER CREDITORS

	JSC Augstsprieguma tīkls		Group	
	31.12.2020 EUR	31.12.2019 EUR	31.12.2020 EUR	31.12.2019 EUR
Settlements with employees	641 702	619 356	641 702	619 356
Connection fee advances received *	602 252	82 723	602 252	82 723
Advance payments from EU co-financing	162 277	-	162 277	-
Other creditors	1 591 210	2 598 814	2 975 189	2 598 814
ADVANCE PAYMENTS AND OTHER CREDITORS	2 997 441	3 300 893	4 381 420	3 300 893

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

19. ACCRUED LIABILITIES

	JSC Augstsprieguma tīkls		Group	
	31.12.2020 EUR	31.12.2019 EUR	31.12.2020 EUR	31.12.2019 EUR
Accrued liabilities for expenses for services received				
Purchase of balancing electricity	695 079	778 154	695 079	778 154
Transmission asset reconstruction and renovation works	662 390	130 776	662 390	130 776
Savings to ensure the availability of natural gas	-	-	640 973	-
Mandatory procurement component	627 107	379 458	627 107	379 458
Electricity capacity reserve maintenance costs	363 974	345 960	363 974	345 960
Purchase of regulatory electricity	284 267	47 437	284 267	47 437
Expenses for telecommunications	242 629	248 305	242 629	248 305
Use of synchronous compensators	117 762	76 365	117 762	76 365
Repairs of power transmission poles	63 375	-	63 375	-
Information technology services	27 586	21 679	27 586	21 679
Annual report, accounting audit expenses	-	16 100	16 140	16 100
Electricity for own consumption	15 956	16 770	15 956	16 770
Lease of fixed assets (transmission assets)	-	3 131 548	-	3 131 548
Provisions for other services	78 105	102 427	78 105	102 427
Total accrued liabilities for expenses for services received	3 178 230	5 294 979	3 835 343	5 294 979
Accrued bonus costs for previous year's results	333 008	342 928	2 072 258	342 928
Accrued cost of unused holidays	745 304	657 646	1 261 725	657 646
Accrued interest liabilities	412 174	-	412 174	-
Accrued liabilities to compensate the transit losses	598 000	25 917	598 000	25 917
Accrued benefit costs and pension plan contributions	42 728	40 818	42 728	40 818
TOTAL ACCRUED LIABILITIES	5 309 444	6 362 288	8 222 227	6 362 288

20. LOANS

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

Until 11 June 2020, the shares of JSC Latvijas elektriskie tīkli were 100% owned by JSC Latvenergo. 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 16 June 2020, JSC Augstsprieguma tīkls ensures the attraction of the borrowed capital necessary for financing capital investments. On 18 June 2020, a loan agreement was concluded with AS SEB banka for EUR 116,200 thousand with a maturity of 18 months (repayment date of the principal amount on 18 December 2021), a base interest rate of 3 months EURIBOR and an added interest rate of 0.74%. The purpose of this loan is to partially refinance the liabilities of JSC Latvijas elektriskie tīkli to JSC Latvenergo. The loan is unsecured. In 2021, it is planned to refinance the loan of JSC Augstsprieguma tīkls against JSC SEB banka by issuing bonds.

As at 31 December 2020, JSC Augstsprieguma tīkls has a loan from Latvenergo AS in the amount of EUR 86,672 2017 with a fixed loan interest rate of 1.6%, which corresponds to the weighted average interest rate at which Latvenergo AS attracts loans in foreign markets. The loan is unsecured. The repayment terms of the loan principal are 15 March 2022 and 15 March 2023, the loan is repaid in two equal instalments.

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

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

LOANS FROM CREDIT INSTITUTIONS AND RELATED PARTIES:

	JSC Augstsprieguma tīkls		Group	
	31.12.2020 EUR	31.12.2019 EUR	31.12.2020 EUR	31.12.2019 EUR
Long-term loans from related parties	86 672 207	-	86 672 207	-
Short-term loans from credit institutions	116 200 000	-	138 075 000	-
Accrued liabilities for borrowing costs from related parties	412 174	-	412 174	-
TOTAL loans	203 284 381	-	225 159 381	-

**CHANGES IN BORROWING FROM CREDIT INSTITUTIONS
AND RELATED PARTIES**

	JSC Augstsprieguma tīkls		Group	
	31.12.2020 EUR	31.12.2019 EUR	31.12.2020 EUR	31.12.2019 EUR
At the beginning of the reporting year	-	-	-	-
Loans received from related parties	86 672 207	-	86 672 207	-
Loans received from credit institutions	116 200 000	-	138 075 000	-
Calculated borrowing interest rates for related parties	412 174	-	412 174	-
Calculated borrowing interest rates for credit institutions	441 883	-	441 883	-
Paid interest on loans to credit institutions	(441 883)	-	(441 883)	-
Changes in loans, net	203 284 381	-	225 159 381	-
At the end of the reporting year	203 284 381	-	225 159 381	-
Related companies	86 672 207	-	86 672 207	-
Credit institutions	116 200 000	-	138 075 000	-
TOTAL loans	202 872 207	-	224 747 207	-

21. TAXES AND MANDATORY STATE SOCIAL INSURANCE CONTRIBUTIONS

	JSC Augstsprieguma tīkls			Group		
	31.12.2019 EUR	Calculated EUR	Paid EUR	31.12.2020 EUR	31.12.2020 EUR	31.12.2019 EUR
Corporate income tax	-	347 192	(347 192)	-	3 539	-
Value added tax	187 421	6 405 292	(5 567 385)	1 025 328	1 637 290	187 421
Mandatory State social insurance contributions	442 746	4 536 075	(4 503 872)	474 949	742 095	442 746
Personal income tax	233 321	2 259 105	(2 238 727)	253 700	385 067	233 321
Entrepreneurship risk state fee	198	2 348	(2 352)	194	194	198
Electricity tax	315	2 176	(2 212)	278	278	315
Natural resource tax	-	-	-	-	43 237	-
Real estate tax	-	206	(206)	-	10	-
TOTAL TAXES	864 002	13 552 394	(12 661 946)	1 754 449	2 811 710	864 002

22. FAIR VALUE CONSIDERATIONS

13. 13 establishes a hierarchy of valuation techniques based on whether observable market data is used in the valuation technique or whether there is any observable market data. Observable market data is obtained from independent sources. If market data is not observable, the valuation technique reflects the Company's assumptions about the market situation.

This hierarchy requires the use of observable market data, if it is available. When carrying out the revaluation, the Company shall take into account the relevant observable market prices, if it is possible.

The objective of measuring the fair value, even if the market is not active, is to determine the transaction price at which market participants would be ready to sell the asset or make a commitment at a given valuation date under current market conditions.

Several methods are used to determine the fair value of a financial instrument: quoted prices or valuation techniques that incorporate observable market data and are based on internal models. Based on the fair value hierarchy, all valuation techniques are divided into Level 1, Level 2, and Level 3.

The level of the fair value hierarchy of a financial instrument should be determined as the lowest level if a significant part of their value consists of lower level data.

The classification of a financial instrument in the fair value hierarchy is carried out in two steps:

1. Classify each level of data to determine the fair value hierarchy;
2. Classify the financial instrument itself on the basis of the lowest level, if a significant part of their value is formed 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 are not the quoted prices at Level 1 but that are observable directly (i.e., price) or indirectly (i.e., derived from price).

Valuation technique using market data that is not based on observable market data – Level 3

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

Assets and liabilities that are presented at fair value or that are counted at fair value

The carrying amount of liquid and short-term (up to three months) financial instruments such as cash and cash equivalents, short-term deposits, short-term trade receivables and debts to suppliers and contractors is approximately at their fair value.

	JSC Augstsprieguma tīkls			
	Carrying amount EUR	1st pillar, EUR	2nd pillar, EUR	3rd pillar, EUR
31.12.2019				
Cash and cash equivalents	28 216 327	-	28 216 327	-
Trade receivables	7 966 220	-	-	7 966 220
Deposits	20 000 000	-	20 000 000	-
Other long-term financial investments	1 902 887	-	-	1 902 887
Other financial assets	22 722	-	-	22 722
Trade payables	6 099 120	-	-	6 099 120
Other financial liabilities	2 598 814	-	-	2 598 814
31.12.2020				
Cash and cash equivalents	32 224 560	-	32 224 560	-
Trade receivables	1 673 797	-	-	1 673 797
Deposit	25 000 000	-	25 000 000	-
Other long-term financial investments	1 422	-	-	1 422
Other financial assets	31 647 751	-	-	31 647 751
Trade payables	4 908 151	-	-	4 908 151
Other financial liabilities	1 591 210	-	-	1 591 210

Balance item	Group			
	Carrying amount EUR	1st pillar, EUR	2nd pillar, EUR	3rd pillar, EUR
31.12.2019				
Cash and cash equivalents	28 216 327	-	28 216 327	-
Trade receivables	7 966 220	-	-	7 966 220
Deposits	20 000 000	-	20 000 000	-
Other long-term financial investments	1 902 887	-	-	1 902 887
Other financial assets	22 722	-	-	22 722
Trade payables	6 099 120	-	-	6 099 120
Other financial liabilities	2 598 814	-	-	2 598 814
31.12.2020				
Cash and cash equivalents	47 388 296	-	47 388 296	-
Trade receivables	8 528 491	-	-	8 528 491
Deposits	25 000 000	-	25 000 000	-
Other long-term financial investments	1 422	-	-	1 422
Other financial assets	31 740 753	-	-	31 740 753
Trade payables	12 544 628	-	-	12 544 628
Other financial liabilities	2 975 189	-	-	2 975 189

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

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

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

Liquidity risk

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

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

As at 31 December 2020, the Company's current liabilities exceed current assets, as current liabilities include a loan agreement in the amount of EUR 116,200,000 with a maturity date of 18 December 2021 (see Note 20). The Company intends to refinance this loan in 2021, thus it does not pose a risk of going concern.

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

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

**ANALYSIS OF THE TERMS OF FINANCIAL LIABILITIES
BY THEIR CONTRACTUAL CASH FLOWS, INCLUDING
INTEREST PAYMENTS, EUR:**

	JSC Augstsprieguma tīkls				
	2021	2022	2023	2024 – ...	Total
31.12.2020					
Borrowings from banks	117 040 772	–	–	–	117 040 772
Borrowing from JSC Latvenergo	1 386 755	44 181 639	43 478 631	–	89 047 025
Debts to buyers and suppliers	4 908 151	–	–	–	4 908 151
Total	123 335 678	44 181 639	43 478 631	–	210 995 948
	2020	2021	2022	2023 – ...	Kopā
31.12.2019					
Borrowings from banks	–	–	–	–	–
Borrowing from JSC Latvenergo	–	–	–	–	–
Debts to buyers and suppliers	6 099 120	–	–	–	6 099 120
Total	6 099 120	–	–	–	6 099 120

	Group				
	2021	2022	2023	2024 – ...	Total
31.12.2020					
Borrowings from banks	139 029 716	–	–	–	139 029 716
Borrowing from JSC Latvenergo	–	44 181 639	43 478 631	–	87 660 270
Debts to buyers and suppliers	12 544 628	–	–	–	12 544 628
Total	151 574 344	44 181 639	43 478 631	–	239 234 614
	2020	2021	2022	2023 – ...	Total
31.12.2019					
Borrowings from banks	–	–	–	–	–
Borrowing from JSC Latvenergo	–	–	–	–	–
Debts to buyers and suppliers	6 099 120	–	–	–	6 099 120
Total	6 099 120	–	–	–	6 099 120

Interest rate risk

Interest rate risk arises primarily from borrowings with a fixed interest rate, with the risk that an increase in interest rates will result in a significant increase in finance costs.

To limit the risk, the Company's Financial Risk Management Regulations stipulate that the share of fixed rate or rate with limited increase in the loan portfolio may not be less than 35%.

As at 31 December 2020, 43% of JSC Augstsprieguma tīkls loans have a fixed interest rate.

The Company regularly analyses interest rate positions. Different scenarios are modelled taking into account possible refinancing of loans, renewal of existing positions and hedging activities.

Based on these scenarios, the effect of changes in interest rates on profit or loss items as well as cash flow is calculated.

Over the next twelve months, if interest rates on euro loans at floating base rates are 50 basis points higher than interest rates on 31 December 2020, assuming that other variables remain constant, the Company's profit would be EUR 0.6 thousand lower. The Company's fixed interest rate borrowings do not give rise to fair value interest rate risk.

Credit risk

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

In carrying out its economic activities, the Company cooperates with local and foreign financial institutions. Consequently, there is a risk of financial

counterparties – in the case of insolvency or suspension of cooperation partners, the Company may suffer losses. In the case of attracted external financing, the risk exists until the loan is withdrawn and transferred to one of the Company's partner banks.

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

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

The credit ratings of the banks used by the Company in accordance with the bank credit ratings assigned by Moody's and the balances of funds in these banks in current accounts and term deposits are as follows:

Balance item	JSC Augstsprieguma tīkls			
	Bank	Credit rating	31.12.2020 EUR	31.12.2019 EUR
Cash, including:				
Cash in current accounts, company cards	SEB banka	Aa2	9 887 191	8 506 206
	Swedbank	Aa3	22 337 369	19 710 121
Total cash			32 224 560	28 216 327
Cash with accounts receivables, including:				
With short-term accounts receivables:				
Deposits with a term of up to 3 months	Luminor bank JSC Latvian Branch	Baa1	25 000 000	20 000 000
Total deposits with a term of up to 3 months			25 000 000	20 000 000

Balance item	Group			
	Bank	Credit rating	31.12.2020 EUR	31.12.2019 EUR
Cash, including:				
Cash in current accounts, company cards	SEB banka	Aa2	10 822 773	-
	Swedbank	Aa3	33 419 549	
	Latvian branch of OP Corporate bank plc	Aa3	696 523	
	Citadele banka	Baa3	949 544	
	Luminor bank JSC Latvian Branch	Baa1	1 499 907	
Total cash			47 388 296	-
Cash with accounts receivables, including:				
With short-term accounts receivables:				
Deposits with a term of up to 3 months	Luminor bank JSC Latvian Branch	Baa1	25 000 000	-
Total deposits with a term of up to 3 months			25 000 000	-

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

Although the Company has a significant concentration of receivables risk in relation to one counterparty or a group of similar counterparties, this risk is assessed as limited, taking into account the fact that the most important Cooperation counterparty is a state-owned company – Latvenergo AB, 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. As at 31 December 2020, the payment of invoices in the total amount of EUR 636,439 was delayed, which is 0.4% of the Company's net turnover.

	JSC Augstsprieguma tīkls	
	31.12.2020 EUR	31.12.2019 EUR
Cash and cash equivalents	32 224 560	28 216 327
Trade receivables and other payables (gross amount) excluding advances and prepayments	1 689 415	7 997 374
Total	33 913 975	36 213 701

In addition, the following information regarding credit risk is disclosed:

	JSC Augstsprieguma tīkls	
	31.12.2020 EUR	31.12.2019 EUR
Debts that are not overdue	1 052 702	7 169 245
Overdue debts		
Up to 3 months	56 632	634 168
From 3 to 12 months	505 159	187 633
From 1 to 5 years	74 922	6 328
More than 5 years	-	-
TOTAL	1 689 415	7 997 374

Business Risk Management

The shareholder of the Company is the Ministry of Finance in the name of the Republic of Latvia (100%). The purpose of capital risk management is to ensure the sustainable operation and development of the Company, the financing necessary for the implementation of the development plan in transmission assets, and the fulfilment of the restrictive conditions specified in the loan agreements. In 2020, the restrictive conditions set out in the loan agreements have not been violated. In order to ensure the fulfilment of the restrictive conditions specified in the loan agreements, a regular analysis of the equity ratio is performed. According to the Augstsprieguma tīkls Group's Financial Risk Management Policy, equity must be maintained at a level of at least 35% (the restrictive condition specified in the loan agreements – at a level of at least 25%). As at 31 December 2020, the share of JSC Augstsprieguma tīkls equity in the balance sheet is 42%, of the Group – 53%.

Currency risk

The Company's operations are focused on transactions, assets and liabilities in the Company's functional currency, which is the Euro.

The Company's currency risk is assessed as insignificant, the Company has no balances in foreign currencies.

24. TRANSACTIONS WITH RELATED PARTIES

Related parties are state-owned entities that are controlled, jointly controlled, or substantially influenced by the state. The Company has no significant transactions and other transactions that, together but not separately, are significant with the Government of the Republic of Latvia, government agencies and similar local, national or international

institutions that are subject to standard operations. except for the capital company JSC Latvenergo and its subsidiaries – the owner of transmission assets JSC Latvijas elektriskie tīkli, the energy supply service provider JSC Latvenergo, the distribution system operator JSC Sadales tīkls, the public electricity trader JSC Enerģijas publiskais tirgotājs.

a) Revenue and expenses from transactions with related parties

	JSC Augstsprieguma tīkls	
	2020. EUR	2019. EUR
State controlled companies*		
Revenue		
Transport system service	72 255 404	72 469 813
Revenue from the sale of electricity, electric capacity maintenance services	5 718 133	6 262 195
Mandatory procurement component	4 240 315	3 991 820
Transmission asset reconstruction and renovation works	–	85 727 617
Revenue from other services	2 425 554	749 473
Total revenue from transactions with affiliated companies	84 639 406	169 200 918
Distributions		
Electricity purchase	11 225 918	13 618 590
Mandatory procurement component	6 280 984	4 065 761
Communication expenses	3 111 304	3 190 660
Long-term loan interest payments	234 978	–
Advance payments for connection usage rights	–	33 909 709
Right-of-use transmission assets	–	11 493 000
Lease of fixed assets and land	110 882	–
Other costs	118 214	855 796
Total cost of transactions with affiliated companies	21 082 281	67 133 516

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

	JSC Augstsprieguma tīkls	
	2020. EUR	2019. EUR
Accounts receivable:		
state-controlled capital companies	7 823 907	18 797 731
Liabilities of creditors:		
state-controlled capital companies	2 324 691	5 370 327

25. REVENUE FROM THE ACQUISITION OF A SUBSIDIARY (BARGAIN PURCHASE) AND MERGERS

JSC Conexus Baltic Grid

On 12 and 22 December 2017, the Company acquired 18.31% (for a total consideration of EUR 27,394 thousand) and 16.05% (for a total consideration of EUR 33 million), respectively, acquiring a total of 34.36% of JSC Conexus Baltic Grid shares.

As mentioned on page 10, in compliance with the protocol decision of the Cabinet of Ministers of the Republic of Latvia of 26 May 2020 (Protocol No. 36 § 38) "On the exercise of pre-emption right in the transaction of disposal of JSC Conexus Baltic Grid, on 21 July 2006, an additional 34.1% of JSC Conexus Baltic Grid shares were acquired for a total consideration of EUR 77 million, respectively, as of 21 July 2020, the Company owns 68.46% of JSC Conexus Baltic Grid shares and has a decisive influence (control) in the company.

The consolidated financial statements of the Group include the financial results of the subsidiary JSC Conexus Baltic Grid from 1 August 2020 to 31 December 2020, incl. recognising the following assets and liabilities at the time of acquisition of control:

	EUR
Intangible assets	1 527 925
Fixed assets	406 277 500
Long-term prepaid expenses	1 209 438
Right-of-use assets	452 150
Inventories	3 037 511
Advances for inventory	24 677
Trade receivables	6 239 666
Gross trade receivables:	6 239 666
Estimate of bad cash flows of debts	-
The rest of the receivables	797 913
Cash and its equivalents	14 096 653
Deferred revenue	9 279 112
Provisions for post-employment benefits and collective bargaining costs	1 114 516
Loans from credit institutions	19 833 333
Loans from credit institutions	3 500 000
Trade payables	2 338 728
Deferred corporate income tax liabilities*	5 152 000
Other liabilities	2 679 889
Accrued liabilities and provisions	1 813 516
Deferred revenue	2 083 221
Advance payments received from customers	741 890
Long-term lease liabilities	452 830
Short-term lease liabilities	56 625
	384 617 773

	EUR
Total remuneration	77 000 000
Non-controlling interest in proportion to the net assets acquired	120 912 690
Fair value of investment in an associate (before acquisition of control)	77 584 786
	198 497 476
Gain from a bargain purchase	109 119 016
Fair value of investment in associate (previous investment)	77 584 786
Book value of investment before acquisition of control	136 377 785
Loss as a result of gaining control	(58 792 999)
Net income from the transaction recognised in the profit or loss statement	50 326 017

* Recognised deferred corporate income tax of EUR 5,152 thousand for the profit of JSC Conexus Baltic Grid, which arose after 31 December 2017 and which is planned to be paid in dividends in the foreseeable future for a period of three years (2021 to 2023).

The value of the non-controlling interest is determined in proportion to the total net asset value of JSC Conexus Baltic Grid at the time of acquisition of control.

The fair value of the most significant item "Fixed assets" was determined taking the valuation into account recognised in the accounts of JSC Conexus Baltic Grid in April 2020, based on the assessment of depreciated replacement value of assets by groups of fixed assets in the natural gas transmission and storage segment: buildings and structures; technological equipment and machinery, except land plots and buffer gas in transmission pipelines and Inčukalns UGS. Fixed assets were valued by independent certified appraisers Grant Thornton Baltic SIA, determining the amortised replacement value: initial, accumulated depreciation and residual value for each valued fixed asset. The cost approach was used in the valuation, based on the average construction and acquisition costs in Latvia. As a result of revaluation, the residual value of revalued assets in the balance sheet of JSC Conexus Baltic Grid as of 1 January 2020 was increased by EUR 92,311,666, revaluation reserve was increased by EUR 92,100,425, the positive effect from the reversal of the previously recognised decrease of EUR 211,241 is included in the profit or loss statement. During the evaluation, estimates of the useful lives of fixed assets were made and, based on experience and industry practice, they were extended to the following groups of fixed assets: natural gas pipelines, wells, gas regulation equipment and specialised technological equipment.

The above assessment was used to determine the fair value of property, plant and equipment at the time of acquisition of control, as well as to assess the fair value of the regulated assets base. The

said assessment is included in the calculation of the value of the assets included in the calculation of the Inčukalns underground gas storage service tariff (approved by the Public Utilities Commission Council Decision No. 18 of 1 March 2021), it is determined in accordance with their revalued value without adjustments (valuation of fixed assets of JSC Conexus Baltic Grid performed by SIA Grant Thornton Baltic).

Revenue from a significant acquisition is recognised in profit or loss item "Income from participating interests" and arises from a number of reasons, the main ones being the differences between the fair value of the net assets and the entity's value in determining the transaction price (including various circumstances taken into account by investors in agreeing on the transaction price).

As a result of acquiring control of JSC Conexus Baltic Grid, the Company:

- has recognised losses of EUR 58,793 thousand.

	EUR
Fair value of investment in associate (previous investment)	77 584 786
Book value of investment before acquisition of control	136 377 785
Loss as a result of gaining control	(58 792 999)

- recognised the reclassification from reserves to retained earnings of EUR 28,090 thousand, which is the change in the value of the investment in JSC Conexus Baltic Grid (as an associate) that was recognised in other comprehensive income in the period from 22 December 2017 to 21 July 2020.

The Company and the Group have incurred costs related to the acquisition of JSC Conexus Baltic Grid for the total amount of EUR 35 thousand; these costs are recognised in the Company's and the Group's profit or loss statement under "Other operating expenses".

The consolidated financial results of the Group for 2020 include the total net income of JSC Conexus Baltic Grid, the result of profit or loss since the acquisition of control (1 August 2020) is EUR 21,465 thousand and EUR 4,144 thousand. According to the audited annual report of JSC Conexus Baltic Grid for 2020, the net income of JSC Conexus Baltic Grid for 2020 is EUR 53,867 thousand, profit EUR 13,112 thousand.

JSC Latvijas elektriskie tīkli

Pursuant to the protocol decision 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), on 10 June 2020, the current JSC Latvenergo subsidiary, transmission system asset owner JSC Latvijas elektriskie tīkli was separated from the Latvenergo Group and was invested in JSC Augstsprieguma tīkls on 15 June 2020. According to the Register of Shareholders, as of 16 June 2020, the sole shareholder of LET is JSC Augstsprieguma tīkls (see also the section "Reform of the ownership rights of transmission system assets").

Taking into account the fact that the investment of JSC Latvijas elektriskie tīkli shares in the share capital of JSC Augstsprieguma tīkls is a transaction involving two state capital companies, for accounting purposes in accordance with IFRS requirements it is considered a transaction between companies under joint control. Thus, applying the pooling of interest method, the carrying amounts of the acquired company (JSC Latvijas elektriskie tīkli) were accepted in the accounting of the acquiring company (JSC Augstsprieguma tīkls), recognising such assets and liabilities at the time of acquisition as disclosed in the table below.

	EUR
Intangible assets	1 112
Fixed assets	626 814 386
Right-of-use assets	14 647 417
Inventories	60 074
Trade receivables	52 612 404
The rest of the receivables	22 825
Cash and its equivalents	132 046
Deferred revenue	178 036 368
Provisions for post-employment benefits and collective bargaining costs	39 262
Long-term loans	112 616 103
Short-term loans	112 858 380
Trade payables	43 728 687
Deferred revenue	5 950 564
Lease liabilities	14 796 608
226 264 293	

According to the decision of the Enterprise Register of the Republic of Latvia of 25 November 2020, on 25 November 2020, JSC Latvijas elektriskie tīkli was excluded from the Register of Enterprises and was added to JSC Augstsprieguma tīkls. According to the reorganisation agreement entered into for accounting purposes, the date of the merger is 1 October 2020.

On 1 October 2020, JSC Augstsprieguma tīkls recognised in its balance sheet the net assets of JSC Latvijas elektriskie tīkli in the amount of EUR 230.5 m, as well as recognised corporate income tax liabilities in the amount of EUR 1.3 m and excluded an investment in the amount of EUR 222.7 m. The result of the merger was recognised in equity, recognising the long-term investment revaluation reserve of 28.7 m, a negative reorganisation reserve of 27.3 m and retained earnings of 5.2 million.

After the Reorganisation, in accordance with the provisions of Section 335, Paragraph four of the Commercial Law, JSC Latvijas elektriskie tīkli ceased to exist without a liquidation process; JSC Latvijas elektriskie tīkli (merged company) transferred all its property, rights and obligations to JSC Augstsprieguma tīkls (acquiring company).

After the Reorganisation, the acquiring company will continue the commercial activities of the company to be merged.

26. REMUNERATION TO CERTIFIED AUDITORS COMMERCIAL COMPANY

Pursuant to the agreement on the audit of the annual report, consolidated report and sustainability report between JSC Augstsprieguma tīkls and SIA Deloitte Audits Latvia, the fee for the audit of JSC Augstsprieguma tīkls annual report, consolidated report and sustainability report of 2021 is set at EUR 24,850 without VAT. In 2020, within the framework of the agreement, payment for audit services was made in the amount of EUR 11,183. In addition to the above, a payment of EUR 1,580 was made in 2020 for the final stage of the audit of the annual report, consolidated report and sustainability report for 2019.

	JSC Augstsprieguma tīkls	
	2020. EUR	2019. EUR
Audit service	12 763	22 510
Consulting service	-	35 000
TOTAL REMUNERATION TO THE COMMERCIAL COMPANY OF SWORN AUDITORS	12 763	57 510

27. EVENTS AFTER THE END OF THE REPORTING YEAR

According to the audited annual report of JSC Conexus Baltic Grid for 2020, the profit of JSC Conexus Baltic Grid in 2020 is EUR 13,111,806. In accordance with the announcement of JSC Conexus Baltic Grid of 12 April 2021 on convening the regular shareholders' meeting of JSC Conexus Baltic Grid in 2021, it is planned to pay dividends of EUR 2.14 per share from the profit of previous years. Considering the number of shares of JSC Conexus Baltic Grid owned by the Company, the Company will receive EUR 58,286 thousand. JSC Conexus Baltic Grid Shareholders' Meeting was convened on 12 May 2021.

On 26 February 2021, JSC Conexus Baltic Grid entered into a loan agreement with Nordic Investment Bank in the amount of EUR 30 mln, with the payment term until 4 March 2038.

In 2021, restrictions related to the spread of the coronavirus will continue in the Republic of Latvia and many other countries, which will 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 Group's management continuously evaluates the situation; at the time of approval of the annual report the Group has not experienced any significant disruptions in business operations, no significant or potentially significant debt losses have been identified, the Group continues to cover liabilities in a timely manner. However, this conclusion is based on the information available at the time of preparation; due to changing circumstances, the impact on the Group's operations may differ from the current assessment.

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

Independent Auditor's Report

To the shareholder of AS "Augstsprieguma tīkls"

Our Opinion on the Separate and Consolidated Financial Statements

We have audited the accompanying separate financial statements of AS "Augstsprieguma tīkls" ("the Company") and accompanying consolidated financial statements of the Company and its subsidiaries ("the Group") set out on pages 28 to 81 of the accompanying separate and consolidated annual report, which comprise:

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

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

Basis for Opinion

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

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

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

Reporting on Other Information

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

- ☐ Information about the Group and the Company, as set out on pages 3-8 of the accompanying consolidated Annual Report,
- ☐ the Management Report, as set out on pages 9-25 of the accompanying consolidated Annual Report.

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

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

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

Other reporting responsibilities in accordance with the legislation of the Republic of Latvia

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

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

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

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

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

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

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

Auditor's Responsibility for the Audit of the Separate and Consolidated Financial Statements

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

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

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

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

Deloitte Audits Latvia SIA
License No. 43



Inguna Staša
Member of the Board
Certified auditor
Certificate No. 145

Riga, Latvia
20 May 2021