AUGSTSPRIEGUMA TĪKLS GROUP AND JSC AUGSTSPRIEGUMA TĪKLS

ANNUAL REPORT

For the year ended 31 December 2021

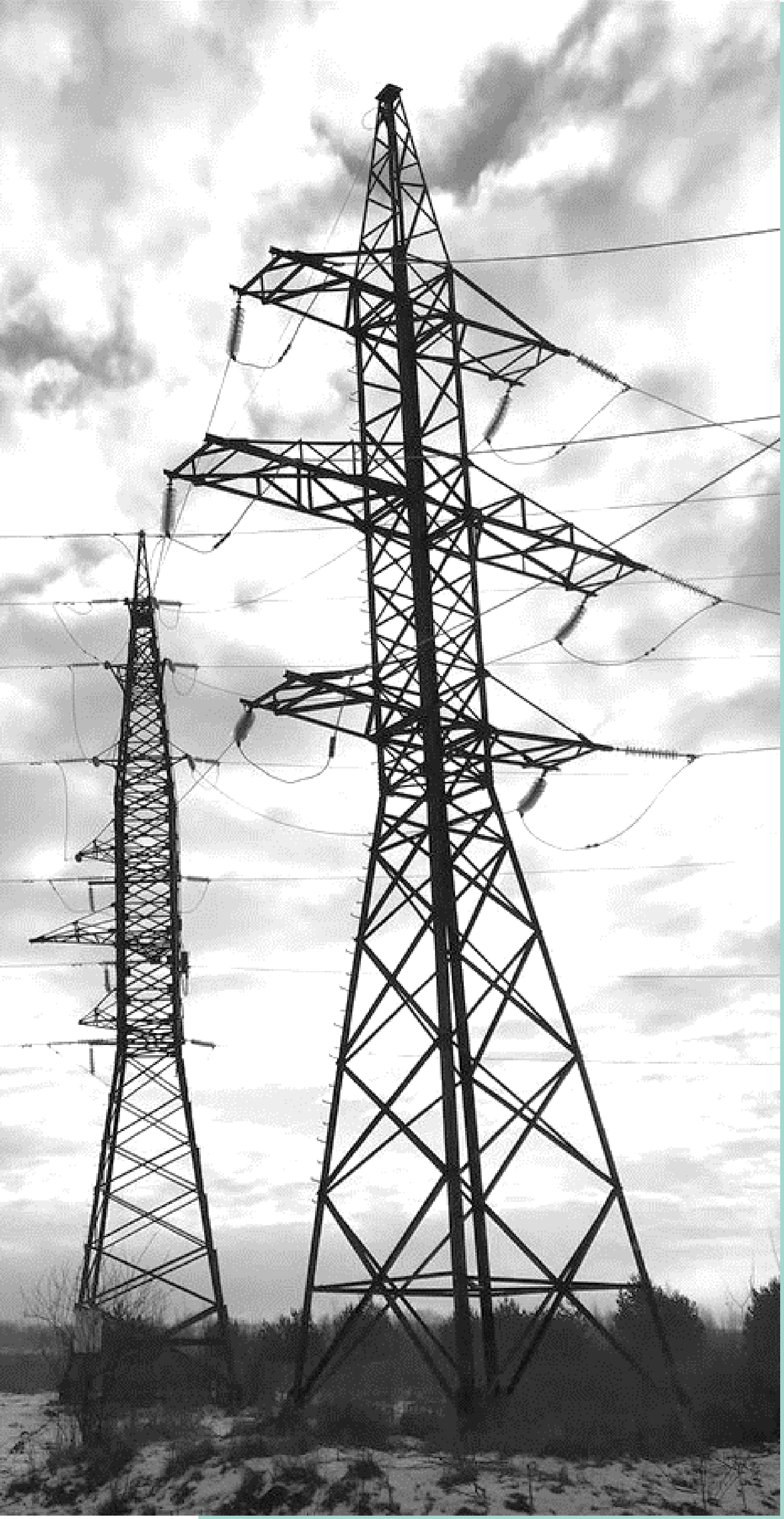
Prepared in accordance with the International Financial Reporting Standards as adopted by the European Union

CONTENTS

INFORMATION ABOUT THE GROUP AND THE COMPANY

NAME OF THE PARENT COMPANY	Akciju sabiedrība "Augstsprieguma tīkls"
LEGAL STATUS OF THE PARENT COMPANY	Joint Stock Company
REGISTRATION NUMBER, PLACE AND DATE OF THE PARENT COMPANY	000357556 Riga, 28 December 2001 Re-registration in the Commercial Register was performed on 13 November 2004 under unified registration number 40003575567
ADDRESS	Dārzciema iela 86 Riga, LV-1073 Latvia
TYPE OF PRINCIPAL ACTIVITY OF THE PARENT COMPANY	Transmission of electricity (NACE code 35.12)
TYPE OF PRINCIPAL ACTIVITY OF THE GROUP	Transmission of electricity (NACE code 35.12) and Transport via pipeline (NACE code 49.50)
PARENT COMPANY SHAREHOLDER	Ministry of Finance in the name of the Republic of Latvia (100%) Smilšu iela 1, Riga, LV-1050, Latvia

NAMES, SURNAMES AND POSITIONS HELD OF THE BOARD MEMBERS	Gunta Jēkabsone - Chairperson of the Board (from 15.07.2021) Imants Zviedris – Member of the Board Gatis Junghāns – Member of the Board Mārcis Kauliņš – Member of the Board Arnis Daugulis - Member of the Board (from 15.07.2021) Varis Boks - Chairperson of the Board (until 31.03.2021) Arnis Staltmanis – Member of the Board (until 07.04.2021)
NAMES, SURNAMES AND POSITIONS HELD OF SUPERVISORY COUNCIL MEMBERS	Kaspars Āboliņš - Chairperson of the Council Olga Bogdanova - Deputy Chairperson of the Council Armands Eberhards – Member of the Council Madara Melne – Member of the Council (until 26.01.2022) Aigars Ģērmanis – Member of the Council
PARTICIPATION IN OTHER COMPANIES	JSC "Conexus Baltic Grid" (68.46% from 21.07.2020; 34.36% until 20.07.2020)
ACCOUNTING PERIOD	1 January 2021 – 31 December 2021
NAME AND ADDRESS OF THE AUDITOR AND THE RESPONSIBLE CERTIFIED AUDITOR	PricewaterhouseCoopers LTD Krišjāņa Valdemāra iela 21, LV-1010
RESPONSIBLE CERTIFIED AUDITOR	Ilandra Lejiņa Certificate No. 168



KEY FINANCIAL AND OPERATIONAL INDICATORS

KEY FINANCIAL AND OPERATIONAL INDICATORS

	Group		Parent Company				
	2021	2020	2021	2020	2019	2018	2017
FINANCIAL INDICATORS							
Revenue, thous. EUR*	182,226	144,387	125,787	146,849	184,742	193,866	158,862
EBITDA, thous. EUR	69,143	55,042	35,578	42,351	40,515	1,642	1,843
Profit, thous. EUR	10,097	65,358	54,846	9,999	7,067	4,677	309
	31.12.2021.	**31.12.2020.**	**31.12.2021.**	**31.12.2020.**	**31.12.2019.**	**31.12.2018.**	**31.12.2017.**
Total assets, thous. EUR	1,232,245	1,213,515	909,279	905,527	221,934	193,000	188,722
Total equity, thous. EUR	647,812	639,203	465,343	384,809	69,956	70,344	8,499
Borrowings, thous. EUR	198,060	225,159	99,966	203,284	-	-	57,394
Net cash flows from operating activities, thous. EUR	60,387	97,799	32,745	48,181	20,423	7,236	38,645
Cash and current deposits, thous. EUR	63,190	72,388	48,514	57,225	48 216	106,637	33,113
FINANCIAL RATIOS							
Liquidity ratio	1.0	3.1	1.7	4.8	1.1	3.8	1.3
EBITDA Profitability	38%	38%	28%	29%	22%	1%	1%
Equity ratio (≥35%)	53%	53%	52%	42%	32%	36%	5%
NetDEBT to EBITDA, (≤5.0)	1.9	2.8	1.4	3.4	-	-	-
PERFORMANCE INDICATORS							
Electricity transmitted to users in Latvia, GWh	6,312	5,961	6,312	5,961	6,012	6,051	5,807
Natural gas transported, TWh	39.3	37.4					
Average number of employees	868	887	534	546	552	548	539

EBITDA - earnings before interest, financial income, corporate income tax, dividends received, share of profit of associate, gains from acquisitions of controlling interests, 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 = total equity/ total assets

NetDEBT = borrowings - cash - current deposits

* 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 resulting from the merger of these companies (see information disclosed in Note 25)

MANAGEMENT REPORT

SIGNIFICANT FACTS AND EVENTS

JSC Augstsprieguma tīkls made a successful debut in the capital markets by issuing Green Bonds in the amount of EUR 100 million

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

The Power Transmission System Development Plan 2022 - 2031 has been approved by resolution of the Public Utilities Commission Council of 14 October 2021

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

EU grants EUR 170 million for the final phase of the Baltic Synchronization project

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

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

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

Above mentioned investment in equipment and technologies is also one of the preconditions for secure connection of large-scale renewable energy sources to the transmission network and thus meeting the objectives of the European Green Course.

The price of electricity is rising significantly

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

The amount of electricity transmitted to consumers in Latvia is 6% higher than in the previous year

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

The volume of natural gas transported is 5% higher than a year earlier

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

A joint coordination centre for the Baltic electricity grid is established

The three Baltic electricity transmission system operators, i.e., Elering in Estonia, Litgrid in Lithuania, and AS "Augstsprieguma tīkls" in Latvia, have agreed to establish a joint Baltic Regional Coordination Centre in Tallinn, whose main task will be to coordinate the development of electrical systems and to coordinate the daily operations of each operator to ensure the security of electricity supply. The centre is scheduled to begin operations in July 2022.

NON-FINANCIAL STATEMENT OF THE AUGSTSPRIEGUMA TĪKLS GROUP AND THE PARENT COMPANY

The non-financial report of Augstsprieguma tīkls Group (hereinafter "the Group") and JSC Augstsprieguma tīkls has been prepared in accordance with the guidelines developed by Nasdaq (*ESG Reporting Guide 2.0*), published in May 2019. Detailed information on the sustainability aspects of the Group's parent company JSC Augstsprieguma tīkls and its subsidiary JSC Conexus Baltic Grid is provided in the Sustainability Reports of the companies, which are available on the companies' websites https://www.ast.lv/en/content/sustainability-reports and https://www.conexus.lv/financial-statements.

Description of the business model

The Augstsprieguma Tīkls Group is one of the largest energy supply companies in the Baltic States. The Group's core business is to perform the functions of an electricity transmission system operator, efficient management of power system assets, transmission and storage of natural gas.

As of 31 December 2021, the structure of the Augstsprieguma Tīkls Group consists of a group of trading companies over which the parent company JSC Augstsprieguma tīkls has a decisive influence and to which the subsidiary JSC Conexus Baltic Grid (hereinafter also - Conexus or the Subsidiary) belongs. Geographically, the Group operates on the territory of Latvia. See Note 11 for information on the investment in the Subsidiary and its location.

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

The structure of the Group is divided into three operating segments – electricity transmission, natural gas transmission, and natural gas storage. The division is based on the Group's internal organizational structure, which is the basis for monitoring and managing the performance of the segments. For more information on the operating segments and the Parent company, please refer to the section "Business segments".

The overall strategic goal of the Augstsprieguma Tīkls Group is to ensure the security of Latvian energy supply, provide continuous, high-quality, and affordable energy transmission service, and implement sustainable management of strategically important energy supply assets and promote their integration into the European Union's internal energy market.

Our mission is to ensure a continuous, secure, and sustainably efficient energy supply throughout Latvia.

Our core values:

TRUST

HONESTLY

Independent, ethical, and transparent action towards anyone and everyone

DEVELOPMENT

WISDOM

Effectively. Looking forward. Long-term thinking

SAFETY

RESPONSIBLY

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

TEAM

TOGETHER

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

Group facts 2021

	Measurement unit	Group		Parent Company	
Financial indicators		**2021**	**2020**	**2021**	**2020**
Revenue	thous. EUR	182,226	144,387	125,787	146,849
EBITDA	thous. EUR	69,143	55,042	35,578	42,351
Profit	thous. EUR	10,097	65,358	54,846	9,999
Total assets at the end of the year	thous. EUR	1,232,245	1,213,515	909,279	905,527
Electricity transmission					
Electricity transmitted	GWh	9,408	8,710	9,408	8,710
Electricity transferred to users	GWh	6,312	5,961	6,312	5,961
Length of lines	km	5,613	5,613	5,613	5 613
Transformer power	MW	9,231	9,231	9,231	9,231
The average duration of the power outage to a substation (SAIDI)	h	0.22	0.54	0.22	0.54

Group facts (continued)

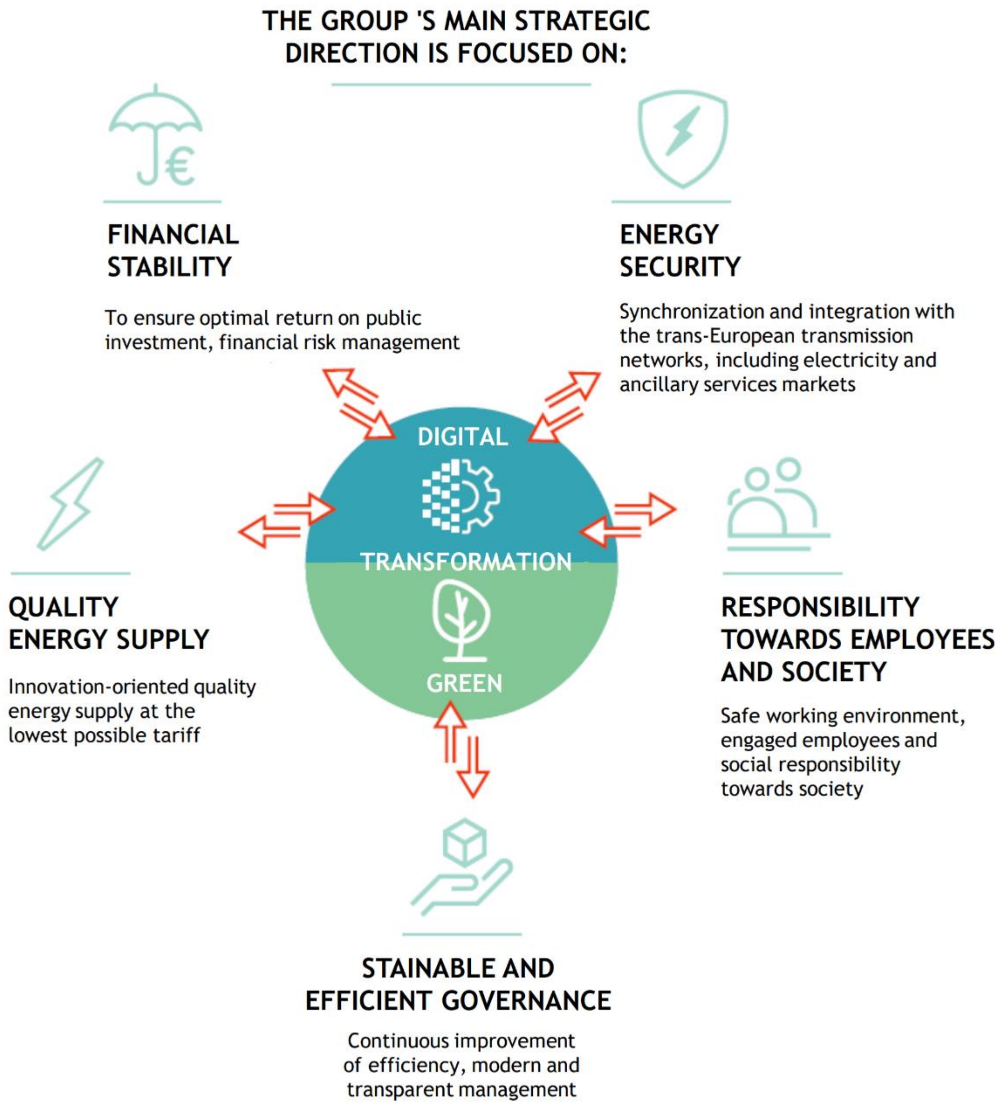
	Measurement unit	Group		Parent Company	
Average Transmission Service Availability Index (ASAI)	%	100	100	100	100
Natural gas transmission and storage					
Natural gas transmitted	TWh	39.3	37.4	-	-
Natural gas for Latvian consumption	TWh	12.5	11.6	-	-
Natural gas stored by system users Inčukalns UGS at the beginning of the removal season	TWh	17.4	21.5	-	-
The volume of natural gas withdrawn from Inčukalna PGK	TWh	17.9	11.6	-	-
Deliverability, the ratio of completed network user nominations	%	100	100	-	-
Deliverability to Inčukalns UGS *	%	100	100	-	-

* The indicator is calculated by including the interrupted quantity above the guaranteed minimum amount within the scope of the congestion management of Inčukalns UGS.

Group strategy

In order to promote sustainable economic development, Latvia and the European Union have prioritised reducing environmental impact, limiting climate and environmental change, and digitalisation matters. These priorities follow the European Commission's 2019 Communication (EC) on a Green Deal for Europe. The Green Deal focuses on the use of renewable energy sources and progress toward climate neutrality by 2050.

Based on the Group's vision, Augstsprieguma Tīkls Group's medium-term operating strategy for 2021-2025 (hereinafter also referred to as the "Strategy" was developed and approved in 2021. It defines the strategic direction of the Group and sets financial and non-financial goals for the Parent company and Conexus for the next five years. The goals set, projects already started and instructions for action also shape the future goals – heading towards a carbon-neutral economy within the framework of the European Green Deal, achievement of the goals set out in the Latvian National Energy and Climate Plan for 2021-2030.



Corporate and social responsibility

The Augstsprieguma tīkls Group conducts responsible business and implements both legal and voluntary activities that contribute to sustainable economic, environmental, and social development.

The Group has developed and approved a Corporate Social Responsibility (hereinafter also "CSR") Policy to promote the Group's sustainable development through high customer satisfaction and loyalty, employee motivation and productivity, and cooperation with the public and government institutions. The CSR policy considers the ten core principles of the United Nations Global Compact and corporate social responsibility, which encourage organizations to respect human rights, ensure good working conditions, protect the environment and combat corruption.

The Group's corporate social responsibility is based on the Group's core values – be Fair, Responsible, Smart, act Jointly, as well as Group's lines of business, and goals.

The key criteria for the implementation of the CSR policy are to contribute to sustainable economic growth, focusing on the well-being of employees, their families, and the surrounding society, including the protection of the environment. To support good CSR practices and promote the welfare of society, the Group implements its CSR activities in the following areas: science and education, environmental protection and occupational safety, social support, and responsibility to employees. State-owned capital companies may donate their financial resources or property in accordance with the Law on Prevention of Squandering of Financial Resources and Property of a Public Person.

Recognising its role and contribution to sustainable development, in its activity, the Group strives to provide processes, products, and services that contribute to the achievement of the United Nations (hereinafter also "UN") Sustainable Development Goals (hereafter also "SDG"). The Strategy identifies three high-priority SDGs and five medium-priority SDGs as priorities and in line with the Group's core business. By implementing the CSR activities, AST also contributes to the achievement of other SDGs.

High priority | **Medium priority**

High priority

ENSURE THAT EVERYONE HAS ACCESS TO RELIABLE, SUSTANABLE AND AFFORDABLE ENERGY

- Continuous, high-quality and affordable provision of energ supply services
- Sustainable management of energy supply assets
- Promoting the development the electricity market

BUILDING SUSTAINABLE INFRASTRUCTURE, PROMOTING INCLUSIVE AND SUSTAINABLE INDUSTRIALIZATION AND FOSTERING INNOVATION

- Maintenance and renewal of the transmission electricity network, creation of more efficient network structure
- Digitalization of the transmission network, which promotes energy efficiency t reduce costs
- Involvement in international projects aimed at developing future technologies
- Synchronization with the continental European transmission networks

TAKE URGENT ACTION TO COMBAT CLIMATE CHANGE AND ITS EFFECTS

- Reducing the environmental impact of energy supply assets
- Renovating the energy supply system to meet the needs of climate-neutral energy producers

Medium priority

We want to reduce the negative impact of energy supply system on biodiversity, landscapes and land use. We follow environmentally friendly practices.

We promote responsible and sustainable business practices.

We believe that an inclusive culture and gender equality drive innovation and growth.

We ensure sustainable consumption and practices in our operations and strive to set an example for others. In our development projects, we mainly use existing power line corridors.

We recycle almost 100% of our waste.

We combine our expertise and share our experience with transmission system operators around the world, engaging in research and development.

Corporate governance

G1, G6, G7, G

The Corporate Governance Policy of the Augstsprieguma tīkls Group was developed considering the laws and regulations of the Republic of Latvia, the principles contained in the Latvian Corporate Governance Code, the recommendations of the European Union and the Organization for Economic Cooperation and Development on corporate governance, reviewing and summarising the corporate governance practices implemented by JSC Augstsprieguma tīkls.

The elements contained in the model are a prerequisite for achieving the Group's objectives and increasing its value. In accordance with the requirements of the Law on the Market of Financial Instruments and the principles and recommendations of the Corporate Governance Code developed by the Advisory Board of the Ministry of Justice of the Republic of Latvia, JSC Augstsprieguma tīkls has prepared a Corporate Governance Report for 2021.

The report is available on the website of JSC Augstsprieguma tīkls: https://www.ast.lv/en/content/model-corporate-governance and on the website of Nasdaq Baltic.

Ethics and compliance

The Augstsprieguma tīkls Group maintains high professional ethics, ensures compliance with regulatory requirements and does not engage in anti-competitive, corrupt or discriminatory transactions. To prevent corrupt or fraudulent activities, employees are regularly informed about ethical and compliance standards, and the Group's internal regulations are continuously improved. The Group also requires its contractual partners to adhere to the same ethical principles and, when entering into contracts, asks for confirmation that the cooperation is based on the principles of fair business cooperation. The Code of Ethics and the general principles for cooperation with contractual partners are published on the Group's website: https://www.ast.lv/lv/content/atbildiga-uznemejdarbiba.

Roles, duties, and responsibilities

The roles, duties, and responsibilities of the governing bodies are set out in the regulatory documents of the Republic of Latvia, as well as in the Group's internal documents. The main ones are the Articles of Association and the rules of procedure of the governing bodies, which are published on the Group's website.

Openness and Transparency

The Augstsprieguma tīkls Group publishes financial and non-financial information on both the Augstsprieguma tīkls website and the Nasdaq Baltic website. Once a year, the Group publishes a sustainability and annual report and a corporate governance statement, and quarterly interim financial statements of the Group and JSC Augstsprieguma tīkls. The Subsidiary's sustainability report and annual report as well as the interim financials are available on the Subsidiary's website.

Prevention of conflicts of interest

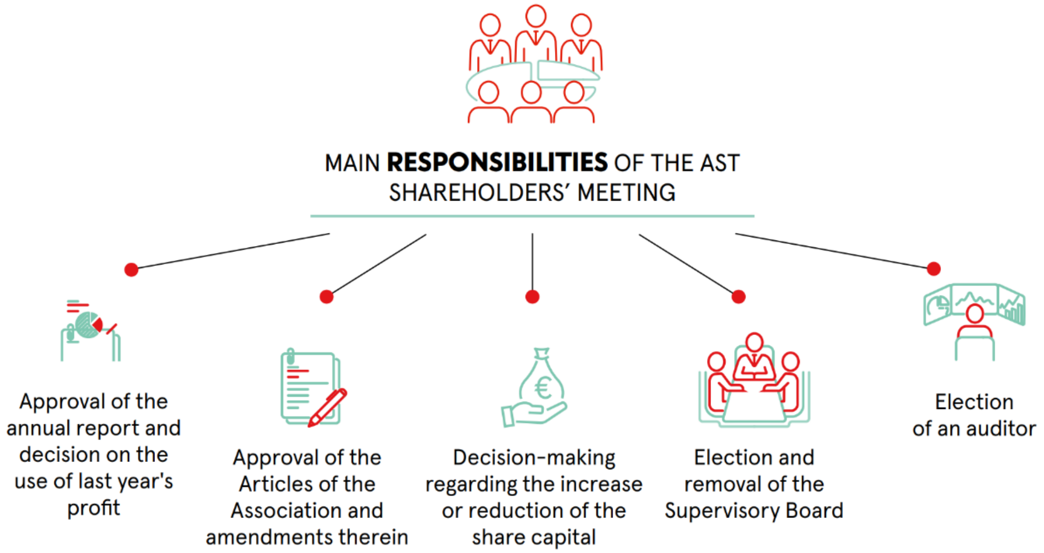
Members of the council and board of State-owned capital companies have the status of public officials, which limits their activities outside of the office to prevent personal or material interests from interfering in their activities. The council and board members are required to make an annual declaration as a public official. The Code of Ethics of the Augstsprieguma tīkls Group defines the types of conflicts of interest and establishes measures to prevent conflicts of interest. The Group organises training and information events and has implemented the conflict of interest declarations. They are to be made annually by employees who engage in decision-making in the performance of their duties, have been or could be involved in conflicts of interest. New employees must confirm that they are willing to avoid conflicts of interest in their work when they start their jobs.

Stakeholders

The Augstsprieguma tīkls Group assesses and considers both the impact on stakeholders and the impact on the Group and deals with relevant issues responsibly towards stakeholders. For more information on stakeholder engagement, please refer to the sustainability reports of the Parent company and Subsidiary, which are available on the respective company's website in the section "Stakeholder engagement".

Shareholder and Shareholders' Meeting

The share capital of the parent company is 100% owned by the State and held by the Ministry of Finance of the Republic of Latvia. The competence of the shareholder of AST is exercised by the Cabinet of Ministers. The shareholder carries out the management of AST together with the Shareholders' meeting, the Board and the Council within the competences established by the Law on Management of Capital Shares and Capital Companies of Public Persons. Decisions falling within the competence of the Shareholders' Meeting of AST are made by the representative of the holder of the State capital shares. In 2021, four shareholders' meetings were held, during which several important decisions were made in connection with the approval of the 2020 Annual report, the appropriation of the 2020 profit, the election of the auditor for the audit of AST in 2021, the establishment of the AST Audit Committee and the election of the Audit Committee members, and the AST bond issue.



Council

The Board of AST represents the interests of the shareholder between Shareholders' Meetings and supervises the activities of the Board of AST, participates in the strategic development of AST, and supervises the financial and risk management system. The functioning of AST Council and its main duties are defined in its Articles of Association and Rules of Procedure of the Council. The tasks and responsibilities of the AST Council are regulated by law. The Rules of Procedure of the Council and detailed information on the members of AST Council are available on the Group's website: https://www.ast.lv/lv/content/padome.

During the reporting period, Kaspars Āboliņš, Chair of the Council, Olga Bogdanova, Vice Chair of the Council, Madara Melne, Armands Eberhards and Aigars Ģērmanis, members of the Council, remained the members of AST Council. As of 26 January 2022 Madara Melne left the AST's Council. The term of office of other members of the Council expires on 30 December 2024.

At the end of the reporting period, two women (40%) and three men (60%) were members of the Group's Council, ensuring gender diversity of the Council.

In 2021, 19 AST Council meetings were held, at which more than 100 agenda items were discussed, and 63 AST Council resolutions were adopted.

Audit Committee

AST has an Audit Committee composed of three members, two independent members and one dependent member of the AST Council. The Audit Committee is accountable to the AST Council for its activities and the performance of its duties.

The main task of the AST Audit Committee is to ensure the protection of the interests of the shareholder and the Shareholders' Meeting in relation to the preparation of the financial statements, their audit and the effectiveness of the internal control, risk management and internal audit system, as far as the reliability and objectivity of the financial statements are concerned.

The regulations of the Audit Committee and detailed information on the members of the Audit Committee are available on the Group's website: https://www.ast.lv/lv/content/revizijas-komiteja.
In 2021, two meetings of the Audit Committee were held, during which two decisions were made.

The objectives and tasks of the AST Audit Committee, its working methods, rights, and duties are set out in the Articles of Association of the AST Audit Committee.

In the reporting period 2021, the AST Audit Committee consisted of Andris Puriņš, the independent Chair of the Audit Committee, Ivars Blumbergs, an independent member of the Audit Committee, and Madara Melne, an independent member of the Audit Committee from the AST Council. However, as of 26 January 2022, Madara Melne left the AST's Council and Audit Committee to be replaced by Aigars Ģērmanis.

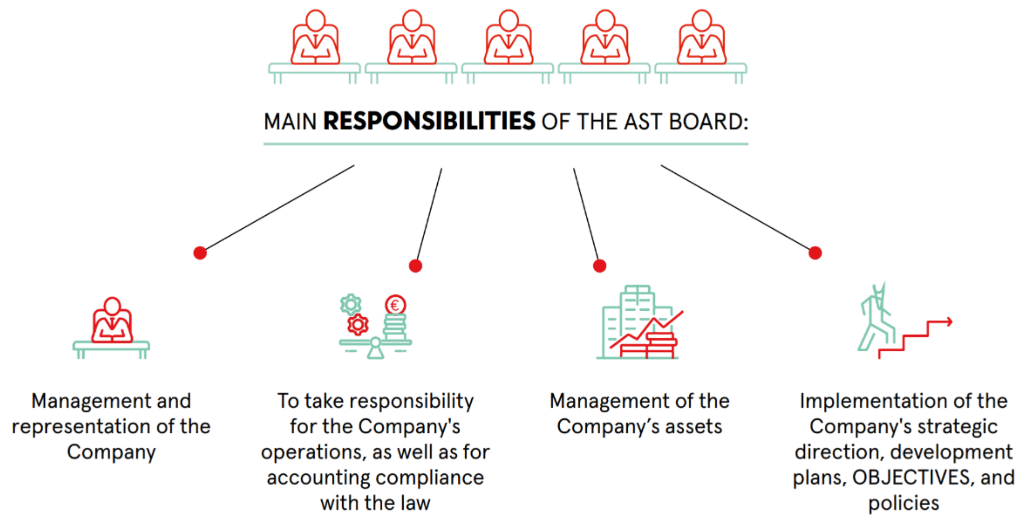
The Rules of Procedure of the Audit Committee and detailed information on the members of the Audit Committee are available on the Group's website: https://www.ast.lv/en/content/audit-committee.

Board

The day-to-day management of the capital shares of AST, which are jointly managed and represented by AST, is carried out by its executive body, the Board. The tasks and responsibilities of the AST Board are regulated by law. The principles of operation of the Board and the main responsibilities are set out in the Articles of Association and the Rules of Procedure of the Board.

All members of the Board are independent in their activities and the members of the Board do not hold shares in the capital of contractual partners or related companies.

The AST Board consists of five members elected by the AST Council for a term of five years, after assessing their suitability in terms of required skills, experience and intended scope of duties.



During the 2021 reporting period, the composition of the Group's Board underwent changes. The Chair of the Board Gunta Jēkabsone (from 15 July 2021) and a member of the Board on Development matters Arnis Daugulis (from 15 July 2021) took up their jobs, while a member of the Board Imants Zviedris continued his work. Board members Gatis Junghāns and Mārcis Kauliņš were elected for a new office term, continuing their work.

At the end of the reporting period, one of the five members of the Group's Board was a woman (20%) and four were men (80%).

The Rules of Procedure of the Board and detailed information on the members of the Board can be found on the Group's website: https://www.ast.lv/en/content/board.

In 2021, 62 AST Board meetings were held, during which 375 agenda items were discussed and more than 243 decisions were made.

Management of the Subsidiary

The Parent company's investments in other capital companies are managed in accordance with the Corporate Governance Policy, complying with the conditions for good governance practices. Conexus is managed by the Parent company through the exercise of its shareholder rights and obligations as set forth in the Law on Management of Public Capital Companies (LMPCC) and the Commercial Code, including the appointment of Council members, who in turn represent the interests of shareholders and supervise the Board. The Parent company has acquired a majority stake in Conexus, and Conexus is also a private shareholders (29.06% of Conexus is owned by the private shareholder MM Infrastructure Investments Europe Limited, 2.48% is owned by other minority shareholders). The objectives to be achieved by Conexus are derived from both the overall strategic objective of the Group and the energy policy planning documents. For detailed information on Conexus' objectives to be achieved, please refer to the section "Business segments".

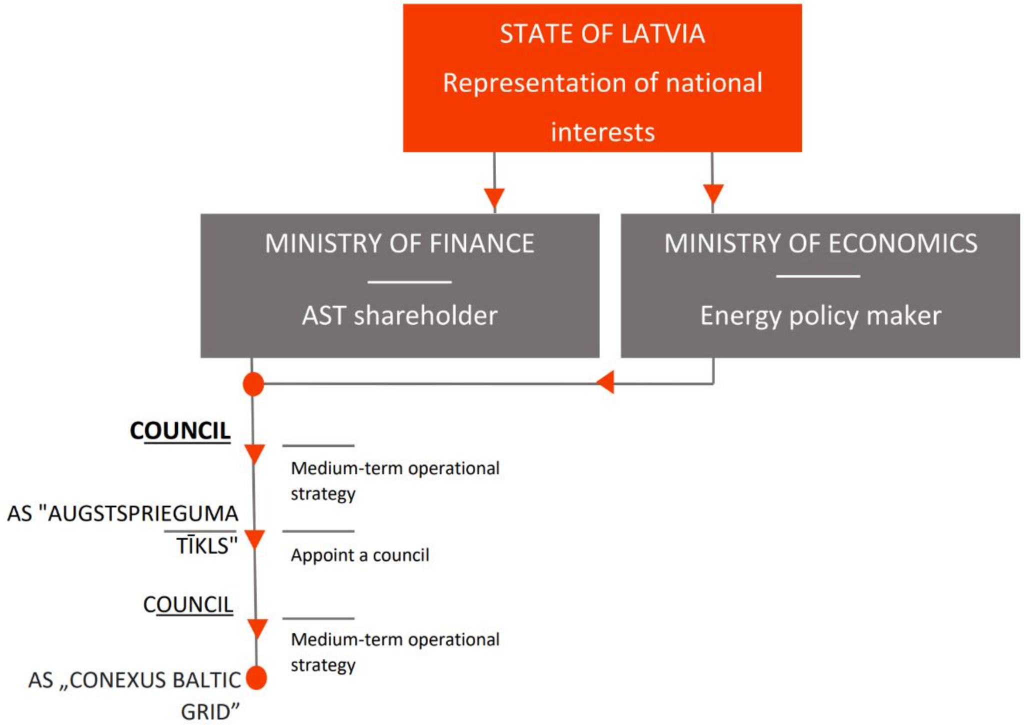
Internal control system and risk management

The Group's and the Parent Company's risk management aims to identify, assess and manage the Group's and the Parent Company's key risks in a timely manner to ensure the achievement of strategic objectives and mitigate potential losses or reputational damage. Risk management is integrated into both the strategy development and implementation processes and the operational activities.

The risk management of the Augstsprieguma tīkls Group and the Parent Company are governed by the risk management policy and concept as well as by the management regulations for the individual risk areas. A total of ten risk areas have been identified.

A number of improvements were made to the Group's and the Parent Company's risk management system in 2021:

- The risk management policy was approved;



- The area of risks of investment projects was created;
- Uniform risk assessment and risk appetite scales were developed;
- A list of key risks was created and a quarterly review of existing risks was implemented.

In order to improve risk management, it was decided in 2021 to draw up a list of the Group's and the Parent Company's material risks, comprising the risks with the highest residual risk values from all risk areas. In the future, the plan is to manage the material risks more dynamically than before, to define the monitoring period of the material risks at least once per quarter, and to assess compliance with the risk appetite and risk indicators.

The review, assessment and ongoing monitoring of risks (risk monitoring) are carried out in a timely manner in all risk areas. Risk assessment considers existing risk control measures and existing risk management measures, whereupon the residual risk value is determined. To ensure comprehensive risk management, continuous risk monitoring and control (events, incidents, reports, etc.) is ensured between periodic risk control measures. If necessary, an extraordinary review of the risks can be initiated.

The material risks of the Group and the Parent Company:

- Strategic risks are risks related to the security and continuity of energy supply, the implementation of strategically important investment projects, and geopolitical developments. The main risk management tools: monitoring changes and development trends in the energy sector and the political environment, participating in developments affecting the Group's and the Parent Company's area of activity, evaluating and implementing necessary changes in the Group and the Parent Company;
- Operational risks are risks related to electricity transmission, natural gas transmission, and natural gas storage. They also include asset forfeiture, human health and safety, cybersecurity, information technology, environmental impacts, and other issues. These risks result from incomplete or inefficient processes and systems, employee errors or lack of competence, and damage to facilities or external events. The main risk management tools are internal regulations and the maintenance and continuous development of the control system, regular inspections, and repair of equipment, ensuring that employees are qualified to the required level, and using insurance services;
- Fraud and corruption risks are defined as the possibility that an employee or a group of employees will intentionally act in their own or another's interests, obtain an improper advantage and cause financial or reputational damage to the Group and the Parent Company. Key risk management tools are the prohibition on accepting and offering gifts (except for items of negligible material value), prohibition on combining offices (except with the employer's written consent), prohibition of conflicts of interest (conflict of interest declaration, employee's conflict of interest avoidance declaration), regular employee training on ethics, on matters preventing conflict of interest, fraud and corruption.

Fraud and corruption risk management

The Group and the Parent Company respects the principles of integrity, which is embodied by the procedures developed for management of the risks of fraud, corruption, and conflicts of interest. The risk assessment considers the employee's involvement in processes where the employee may have acted in bad faith. No cases of corruption were identified in the Augstsprieguma tīkls Group and the Parent Company during the reporting year. The Group and the Parent Company implement risk management for fraud and corruption and continuously improve risk mitigation measures. Detailed information can be found on the website: https://www.ast.lv/en/content/management-risks-fraud-corruption-and-conflicts-interest.

Procurements

It is essential for the Group and the Parent Company to ensure transparent free competition between market participants, equal treatment, and efficient use of resources, and one of the ways to achieve this is to promote the fairest possible competition. The Group and the Parent Company ensures high cost-efficiency, transparency of procurement procedures, monitoring of corruption risks and promotes fair competition. To ensure economic activity, the Group and the Parent Company purchase energy resources, construction works, goods, and services. To ensure transparency, procurement information is published on the websites of the Group companies.

As a public service provider, the Group and the Parent Company organise procurement procedures in accordance with the Law on Procurement of Public Service Providers and internal regulations if the expected transaction amount is below the thresholds set out in the Law on Procurement of Public Service Providers.

In addition to the above legal requirements, procurement transactions are organised in accordance with Cabinet Regulation No. 108 "Regulations on Public E-Procurement" to ensure transparency of procurement procedures and prevent the risk of corruption through enhanced cooperation between supervisory authorities.

The Group and the Parent Company do not cooperate with suppliers that are subject to international or national sanctions or sanctions imposed by a member state of the European Union or the North Atlantic Treaty Organization that may have a significant impact on financial and capital market interests and affect the performance of the cooperation agreement.

In 2021, the interactive "Sanctions Map" of the International and National Sanctions Law of the Republic of Latvia, which represents the sanctions regime of the EU and UN, was considered in the organization of the procurement. In order to achieve the purpose, set out in the Sanctions Law, prior to awarding a procurement contract to a potential winner, the Group and the Parent Company verify that no sanctions have been imposed on the contractor that could affect the execution of the contract in accordance with the above-mentioned legal requirements.

In the preparatory stages of procurement regulations, the requirements of the Group's and the Parent Company's internal regulations, the requirements of the Law on Procurement of Public Service Providers, and the directives of the European Union are complied with.

In the procurement procedures, the Group and the Parent Company comply with, to the extent practicable, the principles of green procurement (in addition to the price of the goods or services, the lifecycle costs or lifecycle cost elements are evaluated, which include, for example, acquisition costs, operating costs such as electricity and other resources, end-of-life maintenance costs such as take-back and recycling costs). The Group and the Parent Company adhere to the list of goods and services for which green public procurement is mandatory, which is contained in Annex 1 of Cabinet Regulation No. 353 "Green Public Procurement Requirements and Procedures for Their Application".

In 2021, the Group concluded 606 (Parent Company 263) procurement contracts, including 78 (Parent Company 53) construction contracts, 341 (Parent Company 142) contracts for services, and 187 (Parent Company 68) supply contracts. In 2021, eight contracts were concluded for the purchase of transformers, which are defined as green procurements.

Employees and working environment

S7, S4, S6

The key to success of the Group and the Parent Company is a team of more than 850 qualified and responsible employees who care about safe, continuous and sustainable energy supply (electricity and natural gas), and the development of the energy supply system. The Group's and the Parent Company's management recognises that employees with different skills and diversity are a value that enables the company to develop and achieve new goals. We respect the right of employees to choose whether or not to be represented by a union under a collective bargaining agreement.

The Group's Code of Ethics, Human Resources Management Policy defines a non-discriminatory work environment, the Group ensures a non-discriminatory work environment, equal employment conditions: https://www.ast.lv/en/content/code-ethics.

The objective of the Group's and the Parent Company's human resources management is to ensure effective human resources management in order to implement sustainable management of internal resources, ensure competitive and motivational compensation, and develop employee succession and competencies.

The underlying principles of the Group's and the Parent Company's human resources management are:

- Safe and non-discriminatory work environment, equal employment conditions and treatment of all employees;
- Employees form a team that ensures motivating, flexible, loyal, and professional activity;
- Employees are professionals in their field, constantly improving their professional skills and competencies and helping new colleagues to join the team by sharing their professional experience and practices;

- Employees are open to change and take responsibility for the quality of assigned tasks to ensure the achievement of the Group's goals;
- Employees maintain a positive corporate reputation and brand communication with stakeholder representatives;
- Mutual relationships are built on the basis of general ethical principles, integrity, and mutual respect, and avoid conflicts of interest.

The Group's and the Parent Company's remuneration policy is developed and maintained with the aim of providing the competencies required to achieve the Group's and the Parent Company's objectives by recruiting appropriately qualified employees on a long-term basis, motivating employees to perform high-quality work, increasing productivity and achieving goals, increasing employee responsibility and initiative, and using financial resources efficiently and rationally.

In all areas of activity, the Group and the Parent Company respect human rights enshrined in the Constitution of the Republic of Latvia, as well as laws and international agreements binding on Latvia. The work environment and operations are designed to prevent the possibility of violation or infringement of human rights of the Group's and the Parent Company's employees and its subcontractors.

Safe working environment

The Group and the Parent Company pay particular attention to creating a safe working environment. As part of the internal monitoring of the working environment and in compliance with the requirements of the legal regulations of the Republic of Latvia, an annual plan of occupational health and safety measures is developed, aimed at maintaining a safe working environment. The Group and the Parent Company conduct mandatory health examinations for employees, provides them with needs-based workplaces, personal protective equipment, and technical aids, and train employees on occupational safety and safe working methods.

In 2021, there were no serious work-related accidents or fatalities in the Group and the Parent Company. Accidents are registered and investigated in accordance with the laws and regulations of the Republic of Latvia. Appropriate additional training is also provided to employees: a record of accidents is kept, and they are investigated in accordance with the laws and regulations of the Republic of Latvia. Appropriate additional training for employees is also provided:

Number of accidents	Group			Parent Company		
	2021	2020	2019	2021	2020	2019
Number of accidents (risk of infection from ticks)	1	2	3	1	2	3
Number of accidents (not serious)	1	4	7	-	3	2
Number of accidents (fatal)	-	-	1	-	-	1

Workforce diversity

Generations of the workforce are changing, so financial incentives cannot be the only tools to motivate employees. The reputation of the employer, well-being, teleworking, and flexible working hours are some of the aspects that are becoming increasingly important to the Group's employees.

The energy sector is characterised by a high number of employees in technical professions, therefore the proportion of men in the Group's and the Parent Company's employee composition is high. This indicator has not changed significantly in recent years.

Employee Groups by Occupation	**Group**				
	Women	**%**	**Men**	**%**	**At 31.12.2021**
Managers (first core group)	29	20%	115	80%	144
Senior specialists (second core group)	62	24%	198	76%	260
Specialists (third core group)	39	17%	186	83%	225
Employees (fourth core group)	9	75%	3	25%	12
Service staff (fifth core group)	2	50%	2	50%	4
Agricultural workers (sixth core group)	1	100%	0	0%	1
Skilled workers (seventh core group)	1	1%	178	99%	179
Plant and machinery operators (eighth core group)	1	2%	43	98%	44
Other professions (ninth core group)	6	46%	7	54%	13
Total	**150**	**17%**	**732**	**82%**	**882**
Employee Groups by Occupation	**Parent Company**				
	Women	**%**	**Men**	**%**	**At 31.12.2021**
Managers (first core group)	15	20%	59	80%	74
Senior specialists (second core group)	37	21%	141	79%	178
Specialists (third core group)	27	18%	122	82%	149
Employees (fourth core group)	4	67%	2	33%	6
Service staff (fifth core group)	2	100%	-	-	2
Skilled workers (seventh core group)	1	1%	113	99%	114
Plant and machinery operators (eighth core group)	-	-	9	100%	9
Other professions (ninth core group)	-	-	2	100%	2
Total	**86**	**16%**	**448**	**84%**	**534**

	Group				
Employee Groups by Age	**Women**	**%**	**Men**	**%**	**At 31.12.2021.**
Total	**150**	**17%**	**733**	**83%**	**882**
Up to 30 (inclusive)	16	18%	72	82%	88
30-40 (inclusive)	40	17%	189	83%	229
40 to 50 (inclusive)	38	15%	220	85%	258
50 to 60 (inclusive)	35	18%	157	82%	192
above 60	21	18%	94	82%	115
	Parent Company				
Employee Groups by Age	**Women**	**%**	**Men**	**%**	**At 31.12.2021.**
Total	**86**	**16%**	**448**	**84%**	**534**
Up to 30 (inclusive)	6	12%	44	88%	50
30-40 (inclusive)	24	17%	116	83%	140
40 to 50 (inclusive)	21	13%	136	87%	157
50 to 60 (inclusive)	20	17%	97	83%	117
above 60	15	21%	55	79%	70

In 75% of cases, employment contracts in the Group (Parent Company 72%) are entered into for a full-time job and for an indefinite period. In 2021, the Group will have 2% of all employees not on a full-time basis and not on fixed-term contracts. In 2021, one employee was employed on a part-time basis for an indefinite term.

Employment with the Company	Group		Parent Company	
	Number of employees at 31.12.2021	Proportion, %	Number of employees at 31.12.2021	Proportion, %
Half time	1	0.1%	-	-
Part-time	3	0.3%	1	0.2%
Aggregated working time	191	22%	136	25%
Full normal working hours	665	75%	385	72%
Council, Board, Audit Committee	22	2%	12	2%
Total	**882**	**100%**	**534**	**100%**

Environmental aspects

E1, E3, E7

The underlying principle of the Group's and the Parent Company's environmental management is to assess the impact of the activities carried out on the environment and to plan and implement measures to reduce the impact. The Group and the Parent Company have implemented an environmental management and energy management system to ensure the sustainable and environmentally friendly operations and development of the electricity transmission, natural gas storage, and transmission systems and to reduce the environmental risks associated with their operations. The implemented management systems are based on the requirements of the environmental management standard ISO 14001 and on the requirements of the energy management standards ISO 50001, which have been duly certified.

The objective of the Group's and the Parent Company's environmental policy is the continuous improvement of the Group's and the Parent Company's environmental performance through the prevention or reduction of negative environmental impacts, the rational use of natural resources, and the application of the best available techniques in all areas of the Group's and the Parent Company's operations.

The Group and the Parent Company adhere to the following underlying principles of environmental protection:

- They organize their activities and plan their development in accordance with the underlying principles of sustainable development, considering economic and environmental aspects and complying with Latvian laws in the field of environmental protection;
- They identify potential environmental risks and minimize their negative impact on the environment in all areas of the operations;

- They implement the best available techniques, reduce the emission of pollutants into the environment, the impact on climate change, and the amount of waste generated;
- They contributes to the continuous improvement of environmental performance in each structural unit and in the Group and the Parent Company as a whole, and promote the efficient use of resources;
- In development planning, they assess the impact of investment projects on the environment, avoid damage to the environment and public interests, and ensure the maximum reduction of environmental damage during the construction, use, and decommissioning phases of the planned facilities;
- They maintain and improve the environmental management system in accordance with the requirements of the standard LVS EN ISO 14001;
- They take care of biodiversity conservation, assess and control the impact of the Group's and Parent Company's activities on specially protected natural areas, species, and habitats;
- They ensure the competence of responsible employees in the environmental field, promote the formation of environmental awareness among employees in each workplace, and inform employees about the main environmental aspects of the Group's and Parent Company's activities;
- They regularly and openly inform the public and stakeholders about their environmental activities;
- They act in an environmentally friendly way and encourage partners and the public to behave in an environmentally friendly way.

Information on the Group's and the Parent Company's Environmental Policy is available on the Group's website: https://www.ast.lv/en/content/quality-systems.

Operating energy consumption and improving energy efficiency

The Group's energy management system includes electricity transmission, natural gas storage, and transmission, which mainly relate to electricity consumption in electricity-consuming plants, natural gas consumption in natural gas combustion plants, energy consumption in road transportation, and machinery consumption. To continuously promote the improvement of the Group's and the Parent Company's energy efficiency, energy consumption is monitored and annual energy efficiency improvement targets and measures are set and implemented.

Annual critical energy consumption and indicators for the Group's energy consumption:

	Group			
	2021	**2020**	**2019**	**2018**
Total energy consumption of the Group, MWh (including natural gas (for heating and technological processes), fuel, and electricity)	**174,117**	**172,254**	**195,472**	**150,132**
of which electricity consumption, MWh	15,600	14,593	15,110	15,228
of which heat consumption, MWh	155,992	155,121	177,785	133,076
Underground gas storage energy consumption indicator	**0.0105**	**0.0101**	**0.0104**	**0.0105**
Indicator = natural gas consumption process Inčukalns UGS (m3 / year) / pumped in amount of natural gas in Inčukalns UGS (m^3 / year)				
Energy consumption indicator of the natural gas transmission system		0.016*	0.022*	0.028*
	0.054	**0.050**	**0.053**	**0.057**
Indicator = natural gas consumption of transmission systems process provision (m3 / year) / through transmission amount of natural gas pumped into the systems (m^3 / year)				
Proportion of losses, technological consumption,% / year				
Indicator = share of AST losses in MWh against AST electricity (110 / 330kV network) MWh	**2.2**	**2.3**	**2.4**	**2.2**

*In 2021, in relation to the energy consumption indicator of the gas transmission system published in the 2020 report, the used input data were revised and the indicator was recalculated for previous years as well.

Annual critical energy consumption and indicators for the Parent Company's energy consumption

	Parent Company			
	2021	**2020**	**2019**	**2018**
Total energy consumption of the Parent Company, MWh (including natural gas (for heating and technological processes), fuel, and electricity)	**12,794**	**169,726**	**192,895**	**148,304**
of which electricity consumption, MWh	10,078	8,704	9,499	10,376
of which heat consumption, MWh	2,641	2,156	2,407	2,638
Proportion of losses, technological consumption,% / year Indicator = share of AST losses in MWh against AST electricity (110 / 330kV network) MWh	**2.2**	**2.3**	**2.4**	**2.2**

Greenhouse gas emissions and reductions

As part of the European Union's Green Deal, the goal of achieving climate neutrality by 2050 has been defined. To this end, the goal is divided into several stages: 50-55% climate neutrality in 2030 and full climate neutrality in 2050. The Latvian climate neutrality goals and the Group's and the Parent Company's long-term climate targets are subordinate to each other.

The Group and the Parent Company has determined the total emissions and the emissions in each area as far as currently practicable.

Direct greenhouse gas emissions in the Group:

	Group			
	2021	**2020**	**2019**	**2018**
Direct greenhouse gas emissions (CO2 and CH4 emissions), tCO2 equivalent, including:	**45,877**	**52,101**	**49,297**	**29,977**
Natural gas transmission and storage segment	45,478	51,975	49,104	29,735
Electricity transmission segment	399	126	193	242

Direct greenhouse gas emissions in the Parent Company:

	Parent Company			
	2021	**2020**	**2019**	**2018**
Direct greenhouse gas emissions (CO2 and CH4 emissions), tCO2 equivalent, including:	**399**	**126**	**193**	**242**
Electricity transmission segment	399	126	193	242

Materials and methodologies used:

- Cabinet Regulation No. 1 of 23 January 2018 is mainly used for the calculation of tonnes of CO_2 equivalent. 42 "Methodology for Calculating Greenhouse Gas Emissions". According to these regulations, calculations were made for transportation, technical and economic self-consumption, energy saving, and natural gas heating;
- CO_2 emissions are calculated using the national methodology "Methodology for calculating CO_2emissions from stationary combustion of fuels" (applied in the calculations of the natural gas transportation and storage segment);
- Thermal energy from district heating networks and conversion of electricity to CO_2 eq. tonnes CO_2 emission factors from MEPRD website here: https://www.varam.gov.lv/lv/siltumnicefekta-gazu-emisiju-aprekina-metodika;
- For other CO_2 equivalents, equipment manufacturers' guidelines were used to calculate tonnes;
- The amount of methane emissions is calculated using the natural gas technology loss methodology of the Subsidiary approved in 2017.

Responsible use of materials and waste management

The waste generated by the Group and the Parent Company are disposed of in accordance with the legal provisions of the Republic of Latvia and the requirements established by the Group and the Parent Company.

The Group and the Parent Company have established procedures for waste disposal, including regulations for the collection of hazardous waste, separately collected waste, and unsorted waste. Various counterparties are used to ensure appropriate waste disposal.

Hazardous waste is disposed of in the Group and the Parent Company by contractors holding a hazardous waste disposal permit issued by the competent regional environmental authorities for the respective type of waste. When entering into a contract for hazardous waste disposal, a copy of the disposal permit, among other documents, must be enclosed to the contract as an Annex.

The annual volumes of waste are not comparable, as the amount of waste generated by the Group varies from year to year, depending on the nature and extent of repairs and operation of the facilities, as well as their periodicity.

	Group		
	2021	**2020**	**2019**
Total weight of hazardous waste generated, tonnes	**319**	**291**	**374**
Total weight of hazardous waste, tonnes	**349**	**402**	**341**
Percentage of hazardous waste sent for recycling	31%	17%	6%
Percentage of hazardous waste handed to be landfilled	69%	83%	94%
	Parent Company		
	2021	**2020**	**2019**
Total weight of hazardous waste generated, tonnes	**147**	**180**	**220**
Total weight of hazardous waste, tonnes	**237**	**306**	**263**
Percentage of hazardous waste sent for recycling	12%	0.3%	0%
Percentage of hazardous waste handed to be landfilled	88%	99.7%	100%

Use of water

The Group's and the Parent Company's water consumption varies depending on the scope and profile of the works. As part of water management, the Group and the Parent Company monitor water consumption and the measures taken to reduce water consumption. Water is used only for business purposes.

For electric power transmission, the volumes of water extraction and drinking water treatment are small, and no permit(s) from environmental institutions are required. As the scale of operations and development varies from year to year, water consumption fluctuates depending on the nature and scale of the work. Nevertheless, the Parent Company monitors drinking water by regularly reviewing water criteria and ensuring that they are appropriate. In accordance with the principle of cooperation, the Parent Company provides drinking water for the adjacent residential infrastructure at certain locations.

In the underground gas storage facilities, water for operational processes and own consumption is drawn from five wells. The maximum possible volume for water procurement for production processes and household needs is regulated, i.e., 43,000 m^3/year. The water used in the underground gas storage facilities is properly treated and returned to the environment. In the electricity and gas transmission facilities, the water is obtained from the providers of utility services. Potable water for the electric and natural gas transmission system facilities is purchased from an outside supplier.

The amount of groundwater withdrawn is registered with meters, while the respective utility provides information on the amount of water purchased from outside water suppliers.

	Group				
	2021	**2020**	**2019**	**2018**	**2017**
Total water extraction, m3	**14,666**	**19,031**	**20,112**	**21,702**	**19,518**
Of which groundwater extraction	7,545	9,708	7,849	8,781	8,900
Of which the extraction of water for household needs from an outside supplier	7,121	9,323	12,263	12,921	10,618
	Parent Company				
	2021	**2020**	**2019**	**2018**	**2017**
Total water extraction, m3	**6,483**	**9,182**	**8,991**	**11,412**	**10,031**
Of which groundwater extraction	975	1,347	986	974	1,127
Of which the extraction of water for household needs from an outside supplier	5,508	7,835	8,005	10,438	8,904

Wastewater treatment

The Group's and the Parent Company's activities generate wastewater. Depending on the technological processes that ensure safe natural gas storage, electricity, and natural gas transmission processes, production and household wastewater is generated. The underground gas storage facility also treats rainwater generated in the surrounding area. Industrial (production) wastewater is generated when gas is withdrawn from an underground gas storage facility, i.e., water is separated from the gas, and to prevent hydrates, certain chemicals must be used, which are a source of water contamination. The risk of subsurface contamination is prevented by testing industrial wastewater and then reinjecting it into the subsurface (by pumping it back into the wells).

While wastewater treatment in the biological treatment plants of AST does not require a permit from the environmental authorities due to its volume, we ensure that the treated wastewater complies with regulations and try to use utility connections whenever possible. Under the principle of cooperation, in some places, we provide wastewater disposal for adjacent residential infrastructure. Due to the change in facility management habits and the pandemic, the load on the biological plants has decreased, which is currently causing us some concern and care.

	Group				
	2021	**2020**	**2019**	**2018**	**2017**
The total amount of wastewater, m^3	**40,360**	**38,825**	**46,659**	**39,000**	**57,084**
of which wastewater treated at local treatment plants, m^3	29,839	26,207	31,012	23,829	43,156
of which is handed over for appropriate treatment to service providers	10,521	12,618	15,647	15,171	13,928
	Parent Company				
	2021	**2020**	**2019**	**2018**	**2017**
The total amount of wastewater, m^3	**10,053**	**13,409**	**13,456**	**14,677**	**14,077**
of which wastewater treated at local treatment plants, m^3	1,107	2,168	1,958	1,911	1,786
of which is handed over for appropriate treatment to service providers	8,946	11,241	11,498	12,766	12,291

Overview of the green projects

AST is the first electricity transmission system operator in the Baltic States to issue green bonds. The entry into the bond market is an important step in the development of AST, including the issuance of green bonds, which goes hand in hand with the major investment projects of the coming period and the synchronisation of the Baltic power grids with the European grids.

The bond issuance programme was launched in October 2021, with the first green bond issuance amounting to EUR 100 million. AS "Augstsprieguma tīkls" bonds are included in the Baltic Debt Securities List and listed on AS "Nasdaq Riga".

Trade date	Maturity date	Coupon	Yield	ISIN	Status	Sole Lead Manager
20 October 2021	20 January 2027	0.50%, Fixed Annual	0.527%	LV0000802528	Senior, Unsecured Green Bond	Luminor bank Cobalt

In line with the Parent company's goal of ensuring uninterrupted, secure, and sustainably efficient electricity transmission throughout Latvia, AST has developed a green bond framework to ensure the use of borrowed funds in environmentally friendly projects, as well as their management and monitoring.

The green bond framework includes guidelines for the use of bond proceeds for sustainable development, the process of selecting and choosing green projects, and the management and reporting of bond proceeds.

An assessment of AST's green bond framework provided an opinion from an independent expert, Standard & Poor's Financial Services LLC, on its compliance with the International Capital Markets Association's 2021 Green Bond Principles.

According to the Green Bond Framework, projects can be divided into three groups:

- Renewable Energy;
- Energy efficiency;
- Quality, security, and resilience of electricity transmission infrastructure.

Eligible projects of the Green Bond Program:

Eligible green projects	Project category according to the Green Bond Framework	Objectives and benefits	Indicator*	Financing from revenues from green bonds, thous. EUR
330 kV EPL ''Kurzemes loks''	RENEWABLE ENERGY	The infrastructure created by the project implementation provides the opportunity to receive electricity from renewable energy sources in the transmission grid.	The available capacity for green energy in 2021, 95.5% of the total capacity of EL	60,493.8
	CONTINUOUS, SECURE AND SUSTAINABLE EFFICIENT TRANSMISSION OF ELECTRICITY	Reduction of power outages, security and continuity of electricity supply, in synchronisation with the continental European grid.	The average duration of the power outage at a substation, CAIDI (h)	

The third 330 kV interconnector in Estonia and Latvia	RENEWABLE ENERGY	The infrastructure created as a result of the project implementation provides opportunities to receive electricity produced from renewable energy sources in the transmission network.	Capacity available for green energy, 77.1% of total EL capacity	3,137.3
	CONTINUOUS, SECURE AND SUSTAINABLE EFFICIENT TRANSMISSION OF ELECTRICITY	Reduction of power outages, security and continuity of electricity supply, in synchronisation with the continental European grid.	The average duration of the power outage to a substation, CAIDI (h)	
330 kV power line "Riga TEC-2 - Riga HPP"	RENEWABLE ENERGY	The infrastructure created as a result of the project implementation provides opportunities to receive electricity produced from renewable energy sources in the transmission network.	Capacity available for green energy, 95.3% of total EL capacity	96.4
	CONTINUOUS, SECURE AND SUSTAINABLE EFFICIENT TRANSMISSION OF ELECTRICITY	Reduction of power outages, security and continuity of electricity supply, in synchronisation with the continental European grid.	The average duration of the power outage to a substation, CAIDI (h)	
Transformer replacement	ENERGY EFFICIENCY	Reduction of technical losses.	Energy gain in 2021 was 2,464MWh. Life cycle energy gain 83,093MWh CO_2 saved in 2021 2,710 (tons / year)	7,634.6
Total				**71,362.1**

* Allowed volume of green energy is presented for informative purposes, as calculation is based on the maximum technological capacity and actual (measured) capacity of the built electricity transmission line during the period. It does not take into account production volume of renewable energy produced, in respect of which AST has already issued technological requirements for establishing connection.

Since 2017, the average duration of electricity supply interruption to the substation has decreased.

	2017	**2018**	**2019**	**2020**	**2021**
CAIDI, h	**0.83**	**0.74**	**0.47**	**0.54**	**0.22**
ASAI, %	**99.76**	**99.85**	**99.94**	**99.74**	**100**

CAIDI – the average duration of the power outage to the substation
ASAI – the average transmission service availability index

EU Taxonomy

The European Green Deal is Europe's new strategy for sustainable and efficient growth. To achieve the EU's climate and energy goals, focusing investments on sustainable projects and activities is key.

The Taxonomy Regulation is the centrepiece of the European Commission's action plan to steer capital flows towards a more sustainable economy. This is an important step towards carbon neutrality by 2050 in line with the EU's climate goals, as the Taxonomy is the classification system for environmentally sustainable economic activities.

The EU Taxonomy is one of the cornerstones of the EU Green Deal. The Taxonomy is a common classification system for sustainable economic activities that identifies, for each sector, a set of economic activities that are considered sustainable and contribute significantly to one or more of six environmental objectives: mitigating climate change, adapting to climate change, sustainably using and protecting water and marine resources, transitioning to a circular economy, preventing and controlling pollution, restoring and protecting biodiversity and ecosystems.

Under Article 10 (2) of EU Regulation 2021/2178, AS “Augstsprieguma tīkls” discloses quantitative information on the share of economic activities covered under the Taxonomy and non-Taxonomy in each of the three defined indicators (KPIs) – turnover, capital expenditures, operating costs. As part of sustainability reporting, including Taxonomy, AST reports information about the Parent Company, except for the subsidiary AS “Conexus Baltic Grid”. AS “Augstsprieguma tīkls”, the Parent Company of the Augstsprieguma tīkls Group, divides its activity into a single core business segment – electricity transmission.

For the year 2021, the reporting requirements apply only to the economic activities under the Taxonomy. Activities recognized under the Taxonomy in this reporting period do not necessarily mean that they will be recognized as such in future reports.

The following steps were taken to identify whether the economic activity of AST in 2021 fell under the Taxonomy:

- The economic activity of AST in the fiscal year 2021 was identified;
- An assessment of the economic activity was carried out to determine whether it was related to the activities published in Regulation 2021/2139 and should be identified as an economic activity covered under the Taxonomy.

Quantitative information:

	Falling under the Taxonomy	Not falling under the Taxonomy
Turnover, thous. EUR	125,787	-
	100%	0%
Capital expenditures, thous. EUR	33,848	-
	100%	0%
Operating costs, thous. EUR	95,212	-
	100%	0%

Turnover

Under the issued licence, AS "Augstsprieguma tīkls" is the only electricity transmission system operator in Latvia. Electricity transmission is a regulated public service, and the revenues and profits of AST are generated in accordance with the "Methodology for Calculating Electricity Transmission System Tariffs" (Methodology). Under the Methodology, the transmission operator uses a cost allocation model approved by the Public Utilities Commission (hereinafter "PUC"). The Company's profit consists of eligible revenues that recover the economically justified costs related to the transmission services. Under the cost allocation model agreed to with the PUC, all of the Company's cost and revenue items are included in the electric transmission tariff, or all of the Company's revenues and operating costs are allocated to electric transmission service.

Electricity transmission (NACE code 35.12) is included in the Taxonomy, and technical test criteria have been developed for it so that the economic activity of AS "Augstsprieguma tīkls" is a taxonomic activity (100%) in terms of Regulation 2021/2139 (paragraph 4.9).

The revenues that fall under the Taxonomy are determined in accordance with the amount of revenues in the Company's 2021 Financial Statements. For detailed information on the Company's accounting policies for revenue recognition in accordance with International Financial Reporting Standards, please refer to Note 2.11 of the Company's financial report for 2021.

Capital expenditures

The Company makes capital expenditures in the facilities of the electric transmission system in accordance with the development plan approved by the PUC for a period of ten years. In 2021, transmission system capital expenditures were made in accordance with the Electricity Transmission System Development Plan for 2022-2031, approved by PUC Resolution dated 14 October 2021, the annual capital expenditure plan approved by the Company's

Board and Council. Detailed information on the Company's capital expenditures can be found in the Management Report of the Company's 2021 Financial Statements and on the Company's website at https://www.ast.lv/lv/content/elektroenergijas-parvades-sistemas-attistibas-plans.

The amount of capital expenditures covered by the Taxonomy was determined in accordance with the amount of capital expenditures made in 2021 in accordance with Notes 10.1 and 10.2 of the Company's 2021 Financial Statements. Capital expenditures include capitalised debt and project management costs. For detailed information on the Company's accounting policies for capital expenditures in accordance with International Financial Reporting Standards, please refer to Note 2.3 of the Company's 2021 Financial Statements.

Operating costs

Operating costs reflect costs necessary to carry out the functions of the electric transmission system operator. Operating costs include non-capitalised costs related to the maintenance and upkeep of the Company's assets and are necessary for the efficient and sustainable delivery of the transmission service.

Operating costs related to the Taxonomy were determined in accordance with the Company's 2021 Financial Statements and include the cost of materials and repairs necessary to maintain the assets that are covered under the Taxonomy, personnel costs necessary to maintain them, and other operating costs covered under the Taxonomy that are not capitalised.

For detailed information on the Company's accounting policies for the recognition of operating costs in accordance with International Financial Reporting Standards, please refer to Note 2 of the Company's 2021 Financial Statements.

BUSINESS SEGMENTS

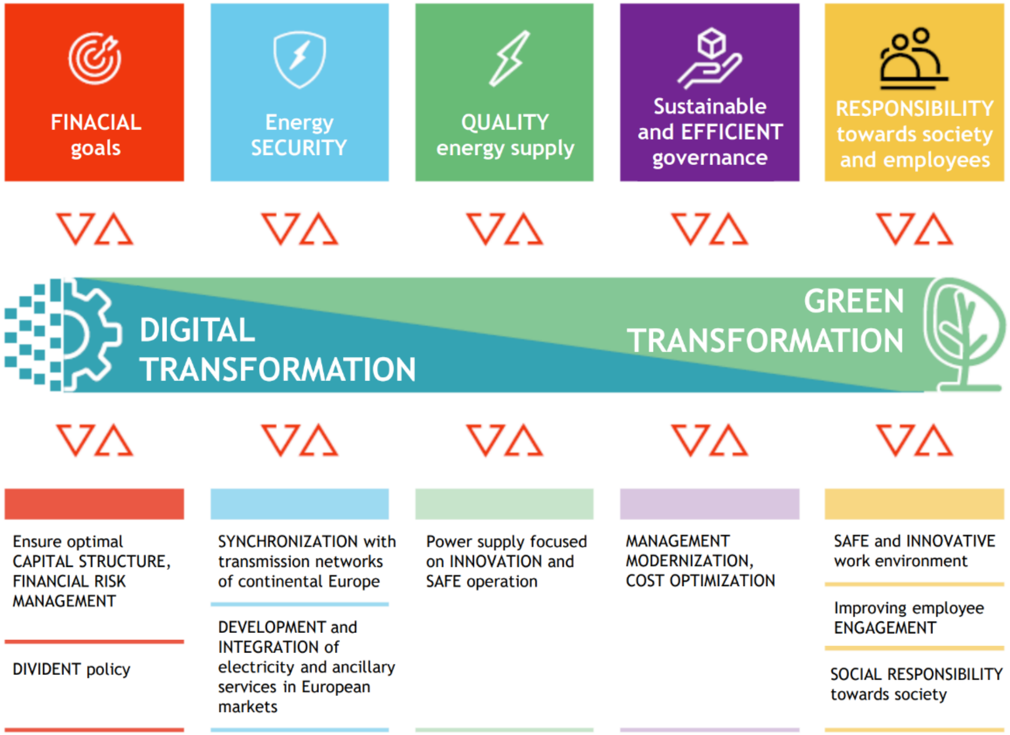
In the reporting period, net sales of the Augstsprieguma tīkls Group were EUR 182,226 thousand. Net profit was EUR 10,097 thousand. The decrease in the Group's profit compared to 2020 is due to both the net gain from the acquisition of a majority stake in Conexus in 2020 and the sharp increase in the price of electricity in 2021. In accordance with the existing regulatory framework, the negative impact of unplanned cost increases will be covered in future periods. The decision on the amount of costs to be carried forward is made by the Public Utilities Commission.

Electricity transmission

Under the issued license No. E12001 and Section 11, paragraph one of the Electricity Market Law, AS "Augstsprieguma tīkls" is the sole electricity transmission system operator in Latvia, and the territory of its license covers the entire territory of Latvia. AS "Augstsprieguma tīkls" ensures continuous, safe and sustainably efficient electricity transmission throughout Latvia. Under Section 5 of the Energy Law, electric transmission is a regulated sector.

The Parent company considers all of its activities falling into one business segment – electric power transmission. The following information relates both to the strategic objectives and sustainability aspects of the Parent company and to the operating environment and financial performance of the segment.

The Group's medium-term operating strategy sets out the Parent company's financial and non-financial objectives for the next five years:



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

The implemented integrated management system ensures the efficient operation of AST in compliance with internationally agreed regulations for operational, quality, energy, environmental, occupational health, and safety management, correct compliance with the requirements of laws and regulations, promoting awareness of the business context of AST, viewing developments in the company through the prism of corporate risks and processes.

The strategic direction of the Parent Company is focused on sustainable development. The Company participates in the annual "Sustainability Index" organised by the Institute of Corporate Sustainability and Responsibility, and in 2021, it was awarded, for the third time, the high Platinum rating, which confirms compliance with the highest standards of corporate responsibility and concern for the well-being of its employees and customers.

Since 2017, in addition to AST's 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 organization Global Reporting Initiative (GRI).

The Sustainability Report addresses the Company's social responsibility, economic responsibility, responsibility towards society, employees and the working environment, environmental protection and other important aspects. The Sustainability Report of AST for 2021 is available at: https://www.ast.lv/lv/content/ilgtspejas-parskati.

The procedure for determining and calculating remuneration, including the procedure for determining the remuneration of the Board and the Council, is regulated in the internal regulations of the Parent company in accordance with the requirements of the laws of the Republic of Latvia. More detailed information on the remuneration policy of the Parent Company can be found in the above-mentioned Sustainability Report.

The goal of the Parent Company's environmental policy is the continuous improvement of environmental performance through the prevention or reduction of harmful effects on the environment, the rational use of natural resources, and the implementation of best available techniques in all areas of activity.

The Parent company systematically conducts risk assessments, and environmental programs are established to avoid significant risks. A register of environmental incidents is maintained. The main indicators of environmental pollution are monitored regularly in accordance with the environmental monitoring plan. The overall level of environmental risks is low.

Increasing attention is being paid to energy efficiency issues. The objective of the Energy management policy of the Parent company's is the continuous improvement of the company's energy performance by reducing technical and technological losses, improving the operational energy consumption of the Company's facilities, and improving the Company's strategy for the purchase and use of vehicles.

The Parent Company provides electricity through a transmission grid that includes interconnected grids and facilities, including interconnectors with a voltage of 110 kilovolts or more, used for transmission to the respective distribution network or to consumers.

During the reporting period, the obligations imposed on the transmission system operator were implemented through the following transmission system:

High voltage (kV)	Number of substations	Number of autotransformers and transformers	Installed capacity (MVA)	Overhead and cable PPAs (km)
330 kV	17	27	4 000	1 742
110 kV	123	246	5 231	3 871
Total	**140**	**273**	**9 231**	**5 613**

In contrast to the moderate and sluggish 2020 in terms of prices, a significant increase in electricity prices in Latvia was observed in May 2021, setting new historical monthly average price records since September, reaching 206.40 EUR/MWh in December. The average electricity price in Latvia in 2021 was 88.78 EUR/MWh, 2.6 times higher than the average price in 2020. Electricity prices have increased throughout Europe, and the year-on-year increase in the NordPool exchange zone system reference price was even more significant than in Latvia – from 10.93 EUR/MWh in 2020 to 62.31 EUR/MWh in 2021. The price increase in the reporting year was due to a number of factors: multiple increases in gas prices and CO_2 emission quotas, a lower expansion of wind farms in Europe, and lower water inflows in Scandinavia, which reduced hydropower production and had to be replaced by fossil fuels.

In 2021, Latvia generated 5,609 GMWh of electricity, 2% more than the previous year, while Latvian electricity consumption increased by 4%, reaching 7,382 GWh per year. Latvian consumption in 2021 was partly covered by local generation in 2021 (a decrease of 1.3 percentage points), creating a deficit of 1,773 GMWh, which was imported from neighbouring countries.

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

In 2021, electricity imports from third countries to the Baltics increased by 18.3% - 4,671 GWh of electricity were imported, whereas last year imports from third countries were possible only through the Latvian-Russian interconnector.

Electricity generated in the European Union plays a much bigger role in the Baltics – 10,576 GWh were imported to the Baltics from Finland, Sweden and Poland, which is 7.7% less than in 2020.

In evaluating the financial performance indicators and the results of the segment's economic activity, it should be considered that electric transmission is a regulated sector and that, pursuant to Section 5 of the Energy Law, the PUC determines the allowed profit by setting the return on investment, approving the rates for the services of the electric transmission system.

The segment's revenue for the period amounted to EUR 125,787 thousand, including revenues from electricity transmission system services in the amount of EUR 76,145 thousand, representing 61% of the segment's total revenues. The changes in the revenue in 2021 compared to 2020 are related to the reform of the ownership of the assets of the transmission system, which was implemented in 2020.

The amount of profit in 2021 was negatively affected by the sharp increase in the price of electricity.

Due to sharp rise in the price of electricity from May 2021, the costs associated with the provision of electricity transmission services have increased significantly in 2021. As the current electricity transmission service tariff, which was approved in November 2020, does not cover the increase in the mentioned costs, in 2021 the electricity transmission segment operated with a loss of 3,441 thousand. EUR.

However, according to the "Methodology for calculating tariffs for services of the electricity transmission network" (hereinafter also "the Methodology"), the increase in costs caused by the fluctuation of electricity prices will be compensated in the next regulatory period, which is planned from 2023. According to the Methodology, on 28 February 2022, the Parent company filed with the Public Utilities Commission a calculation of the negative impact of cost fluctuations (regulatory invoice) in the amount of EUR 11,903 thousand. The decision on changes in the electricity transmission rates is made by the Public Utilities Commission.

Natural gas transmission and storage segments

Due to the Parent Company's shareholding in its subsidiary, the Latvian operator of the natural gas transmission and storage system JSC Conexus Baltic Grid, an important focus of the Group's activities is the sustainable management of strategically important energy supply assets and their integration into the internal energy market of the European Union.

JSC Conexus Baltic Grid is the unified operator of natural gas transmission and storage in Latvia and manages one of the most modern natural gas storage facilities in Europe – Inčukalns Underground Gas Storage (hereinafter - Inčukalns UGS Storage) – as well as the main natural gas transmission system connecting the Latvian natural gas market directly with Lithuania, Estonia and the northwestern region of Russia.

Conexus provides natural gas transportation and storage services to its customers in accordance with the tariffs established by the Public Utilities Commission.

Based on the energy policy planning documents, the overall strategic goal of the Group, the following directions of Conexus' development have been established:

- Promotion of security of energy supply in Latvia and provision of high-quality and accessible energy transmission service;
- Ensuring sustainable management of Latvia's energy supply assets;
- Promoting the integration of Latvia's energy supply assets into the European Union's internal energy market.

Natural gas transmission

JSC Conexus Baltic Grid is the sole operator of natural gas transmission and storage in Latvia. It ensures the maintenance of the natural gas transmission system, its safe and uninterrupted operation, and interconnection with the transmission systems of other countries and enables traders to use the natural gas transmission system for natural gas trading.

The main natural gas transmission system is 1,190 km long and is directly connected with the natural gas transmission systems of Lithuania, Estonia, and Russia. It ensures the transportation of natural gas in regional gas pipelines on the territory of Latvia and in connections with the natural gas transmission networks of neighboring countries:

- The international gas pipelines have a diameter of 720 mm and an operating pressure between 28 and 40 bar;
- The diameter of regional gas pipelines is between 400 mm and 530 mm with an operating pressure of up to 30 bar;
- For the transmission of natural gas to the local distribution network in Latvia, 40 gas regulation stations are used. For the supply of natural gas to the Latvian consumers, all the consumption points on the territory of Latvia are combined into one point.

In 2021, the total volume of transported natural gas reached 39.3 TWh, an increase of 5% compared to the previous year. The volume of natural gas consumption for the needs of Latvian consumers reached 12.5 TWh, which is 8% more than the previous year.

The internal natural gas market created by the gas transmission system operators in Finland, Estonia and Latvia – Gasgrid Finland, Elering and Conexus, respectively, has been in operation since 1 January 2020. It is the first single market region of its kind in the European Union, where Latvia and Estonia form a common balancing zone, while Latvia, Estonia and Finland form a common entry tariff zone.

In 2021, work will continue on regional market integration within the RGMCG (Regional Gas Market Integration Group), including market expansion and regulatory harmonization. The transmission system operators of Latvia, Lithuania, Estonia, and Finland, Conexus, Amber Grid, Elering AS and Gasgrid Finland, respectively, are working on a solution that would allow Lithuania to be included in the single area without internal tariff boundaries, creating better conditions for market participants to operate across the region, thus creating greater added value for natural gas end consumers.

Market integration is an important step for Latvia's energy independence, sustainable and efficient use and availability of infrastructure, especially the Inčukalns UGS, and expanding opportunities to promote the development of sustainable gases (derived from renewable energy sources).

In 2021, revenues of the natural gas transmission segment amounted to EUR 32,443 thousand, and EBITDA reached EUR 18,787 thousand. Profit before tax in 2021 amounted to EUR 8,287 thousand.

The transmission and storage of natural gas is a regulated business segment. The revenues of the transmission segment are calculated in accordance with the methodology approved by the PUC, based on the approved return on capital.

In 2021, the revenue of the transmission segment was positively affected by actual air temperatures, which were lower in the winter months than in 2020. As a result, total consumer demand for gas heating was higher than in the corresponding period of the previous year, which led to EUR 806 thousand higher revenues. Together with the increase in the volume of natural gas transported to Lithuania, the revenues from the Conexus transmission service at the Kiemena exit point (Lithuania) also increased. The increase in revenue amounts to EUR 624 thousand.

The assets of the transmission segment amounted to EUR 250,660 thousand at the end of the reporting period. During the reporting period, investments were made in the amount of EUR 10,579 thousand.

Natural gas storage

The natural gas storage segment provides natural gas storage required for the heating season and other needs of network users in the Inčukalns underground gas storage facility.

The creation of the internal market for natural gas has aroused the interest of network users in storage. The interconnector between Estonia and Finland, Balticconnector, opened in early 2020, has had a positive impact on the total volume of transmitted traffic, enabling the delivery of natural gas to Finnish users in the amount of 7.5 TWh in 2021, also using the services offered by Inčukalns UGS. This is equivalent to about one-third of Finland's total natural gas consumption. However, compared to 2020, this amount has decreased by 18%, which is due to the decrease in Finnish domestic consumption due to high natural gas prices.

In the 2021/2022 storage cycle, storage capacity was reserved by users from the Baltic States, Finland and Norway. The total number of active users decreased from 20 to 17 users compared to the 2020/2021 storage season.

In 2021/2022, 87% or 18.9 TWh was reserved from the storage cycle of 21.8 TWh, of which 12.4 TWh (66%) was reserved for the bundled capacity product, 4 TWh (21%) for the two-year bundled capacity product, and 03 TWh (1%) for the 22 TWh (12%) product.

The volume of Inčukalns UGS capacity reservation products for 2021/2022 reached 18.9 TWh in 2006, which is 12% less than the year before. At the same time, the various types and tariffs of capacity products reserved by market participants provided an increase in revenues from capacity products by EUR 2,201 thousand compared to the previous year. Most of this increase in revenues was due to the reservation of 2.2 TWh of the transfer product (RDP).

In 2021, revenues of the natural gas storage segment amounted to EUR 23,996 thousand, and EBITDA reached EUR 14,778 thousand. Profit before tax in 2021 amounted to EUR 7,186 thousand.

At the end of the reporting period, the segment's assets amounted to EUR 217,410 thousand. In 2021, the segment's investments amounted to EUR 16,772 thousand.

FINANCIAL RISK MANAGEMENT

The financial risks of the Augstsprieguma tīkls Group are managed in accordance with the Financial Risk Management Policy and Financial Risk Management Regulations.

The Subsidiary of the Augstsprieguma tīkls Group develops and approves its own financial risk management policies, which are consistent with the general principles contained in the Group's policy.

The management of financial resources aims to ensure the financing and financial stability of economic activities through conservative financial risk management. As part of financial risk management, the Group and the parent company implement financial risk controls and take risk mitigation measures to reduce the risk of open positions.

a) Liquidity risk

Liquidity risk relates to the ability of the Group and the Parent Company to meet their obligations as they fall due. For unforeseeable cash flow fluctuations and short-term liquidity risks arising from operational risks, the Group and the Parent Company set aside a reserve in the form of cash or subscribed and irrevocably available loans for the next 24 months.

The Group and the Parent Company adhere to prudent liquidity risk management and ensure that they have sufficient financial resources to settle their liabilities when they fall due.

Management believes that there will be no liquidity problems and that the Augstsprieguma tīkls Group will be able to pay its liabilities to creditors when due. Management believes that JSC Augstsprieguma tīkls will have sufficient cash resources for the Group so that its liquidity is not at risk.

b) Interest rate risk

Interest rate risk arises primarily from fixed-interest borrowings, with the risk that financing costs will increase significantly due to interest rate increases. To limit the risk, the Group's and Parent Company's financial risk management rules stipulate that the proportion of fixed-interest or limited-rise interest rates in the loan portfolio may not be less than 35%. At the same time, the financial risk management rules provide those deviations from this indicator are permitted in the restructuring of liabilities assumed in the course of the reorganization of ownership of the transmission assets.

c) Credit risk

The financial assets that potentially expose the Group and the Parent Company to a certain degree of risk concentration are mainly cash and receivables from contracts with customers. Credit risk may be associated with counterparty risk and counterparty risk.

In the course of its business activities, the Group and the Parent Company cooperate with local and foreign financial institutions. Consequently, there is a risk of financial counterparties - in case of insolvency or suspension of business partners, the Group and the Parent Company may incur losses. In the case of attracted external financing, there is a risk until the loan is withdrawn and transferred to one of the Group's partner banks or the Parent Company.

Credit risk arising from the Group's and the Parent Company's balances in current accounts is managed in accordance with the Group's financial risk management policy and regulations, balancing the allocation of funds.

In accordance with the financial risk management policy, counterparties are accepted in cooperation with banks and financial institutions that have a minimum credit rating of at least investment grade, as determined by themselves or the Parent Company's international rating agency.

In the course of its business activities, the Group and the Parent Company cooperate with local and foreign companies. This gives rise to counterparty or receivables risk, i.e., in the event of insolvency or default of business partners, the Group or the Parent Company may incur losses. The Law on International and National Sanctions of the Republic of Latvia imposes financial and civil restrictions on companies on the sanctions list, including the freezing of funds. In view of this, cooperation with a sanctioned company exposes the Group or the Parent Company to the risk of default, legal and reputational risks.

Although the Group and the Parent Company have significant concentration risk with respect to a counterparty or a group of similar counterparties, this risk is considered limited as the main counterparty is the state-owned company Latvenergo and its subsidiaries – a group of companies with a high credit rating of Baa2 (investment grade rating) and a stable future outlook from Moody's.

Credit risk related to receivables is managed through monthly analysis of receivables in accordance with the risk management measures set out in the Financial Risk Management Regulation.

d) Management of capital risk

The shareholder of the Parent company is the Republic of Latvia in the person of the Ministry of Finance (100%). The purpose of capital risk management is to ensure the sustainable operation and development of the Group and the Parent Company, the financing required for the implementation of the development plan in the area of transmission assets, and the fulfilment of the restrictive conditions specified in the loan agreements. The restrictive covenants set forth in the borrowing agreements have not been breached. To ensure compliance with the restrictive covenants set forth in the loan agreements, an equity ratio analysis is performed on a regular basis.

Restructuring, financing, and liquidity

According to the decisions of the meeting of the Cabinet of the Republic of Latvia of 8 October 2019 and 17 December 2019, the reorganization of the ownership of the assets of the transmission system was carried out in 2020.

In June 2020, the former subsidiary of JSC Latvenergo, the owner of the transmission system assets JSC Latvijas elektriskie tīkli, was carved out from the Latvenergo Group and invested in JSC Augstsprieguma tīkls. According to the decision of the Register of Enterprises of the Republic of Latvia dated 25 November 2020, JSC Latvijas elektriskie tīkli was removed from the Register of Enterprises November 2020 and merged with JSC Augstsprieguma tīkls.

JSC Latvijas elektriskie tīkli received loans from the parent company JSC Latvenergo in accordance with the agreement "On provision of mutual financial resources" concluded within the Latvenergo Group in order to ensure the functions of the owner of the transmission system assets until the change of the shareholder. On 8 May 2020, an agreement was concluded between the Parent company JSC Latvenergo and JSC Latvijas elektriskie tīkli on the consolidation of the non-current borrowings of JSC Latvijas elektriskie tīkli, which provides for the refinancing of the previously raised loans of EUR 184,725 thousand, and sets a new schedule for the repayment of the loans and a fixed interest rate equal to the weighted average interest rate at which JSC Latvenergo borrows on the foreign market.

Following the investment of the shares of JSC Latvijas elektriskie tīkli in JSC Augstsprieguma tīkls, JSC Augstsprieguma tīkls has ensured the procurement of the debt capital necessary for the financing of investments. At the time of investing the shares of JSC Latvijas elektriskie tīkli, the amount of borrowing of JSC Latvijas elektriskie tīkli from its parent company JSC Latvenergo was EUR 225,232 thousand.

On 18 June 2020, JSC Augstsprieguma tīkls entered into a loan agreement with AS SEB banka for EUR 116,200 thousand for a term of 18 months and an interest rate of 3 months EURIBOR and an additional interest rate (see also Note 20). The purpose of this loan was to partially refinance the liabilities of JSC Latvijas elektriskie tīkli to JSC Latvenergo. With a loan from JSC SEB banka and own funds available to JSC Augstsprieguma tīkls, the loan from

JSC Latvenergo in the amount of EUR 138,560 thousand was repaid on 19 June 2020. The remaining part of the loan to Latvenergo amounts to EUR 86,672 thousand, which AST has committed to repay in two equal instalments in 2022 and 2023.

In order to ensure efficient management of the available funds, an agreement was concluded between AST and Latvenergo for the early repayment of the loan on 18 June 2021, with EUR 46,672 thousand of the principal amount of the loan to be repaid in June 2021 and the remaining EUR 40,000 thousand to be repaid in July 2021. The loan was repaid in accordance with the terms of the agreement.

In October 2021, the loan was fully refinanced by JSC SEB banka by issuing bonds in the amount of EUR 100 million and redirecting the available funds to JSC Augstsprieguma tīkls.

An overdraft credit agreement was concluded between JSC Augstsprieguma tīkls and JSC SEB banka to finance working capital in the amount of up to EUR 20,000 thousand. During the reporting period, JSC Augstsprieguma tīkls did not make any borrowings under the above overdraft credit agreement.

The natural gas operator JSC Conexus Baltic Grid raises external financing with its own funds.

The Company' s Board has approved the fundraising strategy for JSC Augstsprieguma tīkls for the years 2021-2025.

The international credit rating agency S&P Global Ratings (S&P) has rated and assigned a long-term credit rating of **A- / Stable to the Latvian transmission system operator JSC Augstsprieguma tīkls.**

REGULATORY ACTIVITIES – THE TARIFF FOR TRANSMISSION AND STORAGE SERVICES

Electric power transmission

Electric transmission service tariffs (rates) are set in accordance with the PUC-approved "Methodology for Calculating Tariffs on Electric Transmission System Services." In 2021, transmission system services were provided at the rates approved by the 26 November 2020 PUC Council Resolution.

PUC Council Resolution No. 153, dated 26 November 2020, approved the rates for electric power transmission services for the regulatory period from 21 January 2021 to 31 December 2022. Thanks to the efficiency measures implemented by the Parent company, the reform of the ownership of the transmission system assets, a cost reduction of 5% was achieved compared to the previous tariff.

The Parent Company has established the implementation of measures to reduce the increase in tariffs for services in the electricity transmission system as one of its priority objectives. In order to achieve the set goal, the Parent Company is actively soliciting co-financing funds from the European Union to finance capital investments. Currently, five capital projects are being co-financed by the EU. In addition, to minimize the impact on transmission tariffs, the Parent Company uses accumulated congestion charge revenues to fund capital investments. Investments in the electricity transmission network financed by EU co-financing and congestion charge revenues are not included in the calculation of electricity transmission network service tariffs.

In 2022, the plan is to continue activities to improve the efficiency of the Parent Company's business processes, implement the digital transformation, and optimize costs.

Thanks to the activities of AST, 84% of the funds required for the implementation of the European Development Decade development projects, will be covered by EU co-financing and revenues from overload charges, thus reducing the impact on electricity transmission service rates.

Natural gas transmission and storage

Natural gas transmission and storage tariffs are established in accordance with PUC-approved methodologies: "Methodology for Calculating Tariffs for Natural Gas Transmission System Services" and "Methodology for Calculating Tariffs for Natural Gas Storage System Services".

On 1 March 2021, the PUC approved new tariffs for storage services, effective from 1 May 2021, for a five-year regulatory period (from 1 May 2021, through 30 April 2026). Such a period allows future revenues to be balanced throughout the regulatory period and provides stability and predictability for market participants. The PUC Decision establishes several tariff periods, at the same time, in accordance with the PUC Council Decision No. 1/15 "Methodology for calculating tariffs for the natural gas storage system", Conexus has been authorised for each tariff period to set the tariffs for storage services itself, if according to the methodology it is necessary to adjust the projected revenues.

With the approval of the new storage tariffs for the next five years, the principle of auctioning for the reservation of storage capacity has been introduced, which has been a necessary solution to ensure transparency in the reservation of storage capacity for market participants. Auctioning as a mechanism is a widely used practice in Europe that has proven its effectiveness in enabling Conexus, as a service provider, to provide transparent storage to market participants.

In 2021, the fee for the use of an exit point for the supply of Latvian natural gas users decreased by 3.7%. The new tariff of 1.9296946 EUR / MWh for the use of the starting point for the needs of Latvian natural gas users is valid from 1 October 2021 to 30 September 2022, thus, despite the increase in natural gas prices, a small reduction in costs for end-users is ensured. The size of the tariff is closely linked to the cost of natural gas supply auctions and is recalculated accordingly each year.

FUTURE DEVELOPMENT OF THE GROUP

Electric power transmission

Synchronization of the Baltic States with Continental Europe

In the coming years, the greatest challenges are related to the synchronization of the Baltic States with continental Europe.

On 22 May 2019, AST signed the *Agreement on the conditions of the future interconnection of electric power system of Baltic States and electric power system of continental Europe*. The annexes to the concluded agreement on interconnection with the Continental European electricity system set out the technical requirements to be met by Baltic TSOs before and after the start of the synchronization process. These requirements relate to changes in transmission system settings, investments in infrastructure development, as well as the obligation of TSOs to ensure a certain level of frequency conservation, frequency renewal reserves, and system inertia.

Synchronization of the Baltic States with continental Europe is planned for 2025 or earlier if necessary. As a result of synchronization, the Baltic electric power transmission system will become part of the European system, which will mean independence from the Russian unified (IPS / UPS) system and a more secure electric power supply.

Development of the electricity transmission network

By the resolution of the PUC dated 14 October 2021 "On the Development Plan of the Electric Transmission Network", the Development Plan of the Electric Transmission Network for the period from 2022 to 2031 (hereinafter "the Development Plan") developed by AST was approved.

The development plan is based on the strategic objective of AST, i.e., strengthening Latvia' s energy security by synchronizing the Latvian electricity transmission network with the continental European network in accordance with the principles of security and cost-efficiency.

The approved development plan sets out the development of the transmission network and the necessary financial investments in transmission infrastructure for the next ten years and provides for investments in the development of the electricity transmission network in the amount of EUR 401 million. The approved development plan is available in detail at: https://www.ast.lv/en/content/power-transmission-system-development-plan.

To minimize the impact of planned investments on electricity transmission tariffs, AST successfully secured EU co-financing for the projects of common European interest included in the development plan and reallocated congestion charge revenues to fund them:

- Project "Synchronization of the Baltic Electricity Transmission System with the European Network, Phase 1" – attracted EU co-financing up to 75% of the eligible costs, i.e., EUR 57.7 million;

- Project "Synchronization of the Baltic Electricity Transmission System with the European Network, Phase 2" – attracted EU co-financing of 75% of the eligible costs, i.e, EUR 92.6 million.

Investments in the electricity transmission system financed from EU co-financing and congestion charge revenues are not included in the calculation of tariffs for electricity transmission system services.

System management and development of the electricity market

Implementing the European Union's policy for the internal electricity market, JSC Augstsprieguma tīkls strategic direction is aimed at developing and integrating the electricity and ancillary services markets into the European markets.

In the coming years, it is planned to continue working on the development and improvement of the EU single internal next day and current day market. This will include new opportunities for the participants in the European Union's internal electricity market, including Latvian and Baltic market participants.

Projects are currently underway that will allow market participants to participate in the next-day and day-ahead markets in a 15-minute resolution and to operate in the current-day market with products that include energy and transmission capacity, similar to what is currently done in the next-day market.

It is also planned to continue the work on the establishment of the single European mFRR trading platform and the accession of the Baltic TSOs to this platform, which will allow the Baltic balancing service providers to participate in the common European reserve market.

In order to join the platform, changes need to be made to the way the common Baltic balancing model works. The most important of these is the switch to a 15-minute balancing market period, which will allow electricity market participants to plan their operations more accurately and control system imbalances more effectively.

Innovation and research

In order to ensure the development of the Company, the representatives of the company actively participate in the work of the Committee for Research, Development and Innovation of the European Organization of Transmission System Operators ENTSO-E. In doing so, they are aware of the essential role of innovation for successful operation.

Within the framework of the ENTSO Committee for Research, Development and Innovation, activities are carried out to modify the existing electrical systems with a view to achieving the objectives set by the European Union.

The innovation and research activities are focused on six directions:

- Modernization;
- Reliability and stability;
- Flexibility;
- Economy and efficiency;
- Digitization;
- Green transformation.

Natural gas transmission

On 23 January 2019, the European Commission approved 50% co-financing for the modernisation of Inčukalns UGS. The investments will significantly strengthen the importance of Inčukalns UGS as a modern and significant natural gas infrastructure not only in Latvia but also in the Baltic region and Finland.

The Inčukalns UGS development project aims to improve the operation of the storage facility so that it remains functional even when the pressure in the Baltic gas transmission system increases, as well as to reduce the dependence of the storage facility on the amount of natural gas reserves during the withdrawal season. In addition, the project will reduce the environmental impact of the storage facility by reducing CO_2, NO_x, SO_x, and other emissions.

The total investments under the project will amount to EUR 88 million, including:

- Improvement of surface equipment for EUR 29 million;
- Rehabilitation of 36 wells for EUR 26 million;
- Modernisation of the existing five gas self-pumping units and installation of an additional new gas pumping unit for EUR 33 million.

Natural gas storage

At the end of 2019, the European Climate, Infrastructure and Environment Executive Agency (formerly the Innovation and Networks Executive Agency) approved the allocation of funds for the gas pipeline capacity expansion project between Lithuania and Latvia, representing a total investment of EUR 10 million, of which EUR 5.5 million was transferred to Conexus. The European Commission granted EU support under the European Infrastructure

Development Facility (CEF) in the amount of 50% of the project implementation costs for the capacity increase of the Latvian-Lithuanian gas pipeline interconnector.

The increase in transmission capacity between Lithuania and Latvia will facilitate market access to the Klaipeda LNG terminal, the Inčukalns UGS and the Polish-Lithuanian gas interconnector. The project aims to increase the capacity of the interconnector between Lithuania and Latvia by 70-80% on average, which will be achieved by improving the existing infrastructure. The project is expected to be completed by the end of 2023 and includes 17 subprojects.

EVENTS AFTER THE END OF THE REPORTING PERIOD

On February 24, 2022, escalated the military conflict between Russia and Ukraine. As a result of Russia's invasion of Ukraine, Russia and Belarus are subject to severe economic and political sanctions from the European Union, the United States, and other countries. Although this event is a non-adjusting event after the balance sheet date, it is expected to have an impact on the Group and the Parent Company.

The management of the Group continuously performs the necessary activities to ensure the continuity of operations of both the electricity transmission system operator and the unified natural gas transmission and storage operator and the availability of the provided services.

Considering that currently the Latvian power system operates synchronously with Russia

unified (IPS / UPS) system, JSC Augstsprieguma tīkls has assessed the possible risks related to Russia's military aggression against Ukraine. In the current situation, it is not possible to assess the level of risk of possible unplanned disconnection of the Baltic power systems from the Russian unified (IPS / UPS) system, however, JSC Augstsprieguma tīkls together with the electricity transmission system operators of the Baltic States and Poland, has prepared for the operation of the Baltic electricity systems in the event of an emergency desynchronization.

Urgent synchronization of the Baltic energy systems with the Continental European electricity system is expected to lead to an increase in energy supply costs, but given the uncertain and complex situation, it is currently not possible to assess the magnitude of the financial impact. The Group provides strategically important public services. The parent company is a state-owned (100%) capital company and according to the Electricity Market Law is the only electricity transmission system operator in Latvia. The management believes that the impact of volatility in the electricity markets will be mitigated and ensuring the security and stability of energy supply as a nationally important function will be supported by ensuring the long-term financial stability of the Parent Company.

Also, due to Russian aggression in Ukraine, the Latvian government on April 19, 2022 took a decision to suspend the supply of natural gas from Russia from 1 January 2023. Although these are significant changes in the Baltic and Finnish single natural gas market, it is not expected, that the importance of the Subsidiary in the Latvian energy system, as well as the impact on its business continuity and financial stability, will decrease.

In the near future, the Latvian government plans to make decisions on alternative solutions for ensuring the supply of natural gas, which, in turn, will ensure the continued use of natural gas as an important energy resource. Also, in accordance with the initiatives of the European Union energy policy, JSC "Conexus Baltic Grid" has already started work on the evaluation of the possibility to inject alternative energy resources to natural gas, i.e. biomethane and hydrogen, into the transmission system and storage.

By suspending the supply of natural gas from Russia, a revision of the value of the Subsidiary's assets related to the natural gas supply from Russia, which makes up 6% of the total value of the Subsidiary's assets, is possible. Decisions on the future strategic use of these assets and the determination of the appropriate value will be taken after an assessment of the current situation and consultations with the Estonian natural gas transmission system operator Elering AS.

To mitigate cyber security risks, the Parent Company and its Subsidiary JSC Conexus Baltic Grid, as critical infrastructure companies, perform enhanced risk assessment and appropriate risk management.

In order to reduce energy supply risks, the Parent Company and its Subsidiary JSC Conexus Baltic Grid have taken the necessary actions to increase the volume of natural gas in the storage facility and from 27 February 2022 gas injection has been started at Inčukalns Storage.

Although the uncertainty about the future impact of events on the Group's and the Parent Company's operations has increased, no circumstances have been identified that would jeopardize the continuity of operations and the performance of functions determined by law.

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

PROFIT DISTRIBUTION

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 28 of the Law on the State Budget for 2022, proposes to pay EUR 29,143,118 in dividends to the State.

The distribution of net profit and amount of dividends payable is subject to a resolution of the JSC Augstsprieguma tīkls Shareholders Meeting.

Gunta Jēkabsone,	**Imants Zviedris,**	**Mārcis Kauliņš,**	**Gatis Junghāns,**	**Arnis Daugulis,**
Chairperson of the Board	Member of the Board	Member of the Board	Member of the Board	Member of the Board

Riga, 26 April 2022

STATEMENT OF THE BOARD'S RESPONSIBILITY

STATEMENT OF THE BOARD'S RESPONSIBILITY

The Board of the Company is responsible for preparing its financial statements.

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

Gunta Jēkabsone,	**Imants Zviedris,**	**Mārcis Kauliņš,**	**Gatis Junghāns,**	**Arnis Daugulis,**
Chairperson of the Board	Member of the Board	Member of the Board	Member of the Board	Member of the Board

Riga, 26 April 2022

STATEMENT OF PROFIT OR LOSS

	Notes	Parent Company 2021 EUR	Parent Company Restated* 2020 EUR	Group 2021 EUR	Group Restated* 2020 EUR
Revenue	4	125,787,322	146,849,002	182,226,430	144,386,904
Other income	5	5,002,481	1,348,281	6,113,495	2,308,804
Raw materials and consumables used	6	(60,705,009)	(22,634,111)	(67,865,715)	(26,770,236)
Personnel expenses	7	(16,460,878)	(16,710,622)	(28,644,836)	(21,876,121)
Other operating expenses	8	(18,045,926)	(66,502,037)	(22,686,206)	(43,007,578)
EBITDA**		**35,577,990**	**42,350,513**	**69,143,168**	**55,041,773**
Depreciation, amortization and impairment, of intangible assets and property, plant and equipment	10.3	(36,904,301)	(37,160,987)	(54,710,050)	(40,640,203)
OPERATING (LOSS)/PROFIT		**(1,326,311)**	**5,189,526**	**14,433,118**	**14,401,570**
Dividends from subsidiaries	11	58,286,236	5,604,642	-	-
Share of profit of associate	11	-	-	-	3,080,996
Net gain on acquisition of a controlling interest	25a	-	-	-	50,326,017
Finance income	9a	6,905	352,270	7,607	244,747
Finance costs	9b	(2,121,135)	(1,147,046)	(2,407,894)	(1,841,789)
PROFIT BEFORE TAX		**54,845,695**	**9,999,392**	**12,032,831**	**66,211,541**
Corporate income tax	15	-	-	(1,936,172)	(853,056)
PROFIT FOR THE YEAR		**54,845,695**	**9,999,392**	**10,096,659**	**65,358,485**
Profit attributable to:					
Equity holder of the Parent Company		54,845,695	9,999,392	5,827,026	64,051,311
Non-controlling interests		-	-	4,269,633	1,307,174

Notes from page 68 to 164 are an integral part of these financial statements.
*Refer to Note 2.15 for more details on prior period restatement.
** Explanation on the inclusion of additional non-IFRS measure provided in Note 2.

Gunta Jēkabsone	**Imants Zviedris**	**Mārcis Kauliņš**	**Gatis Junghāns**	**Arnis Daugulis**	**Māra Grava**
Chairperson of the Board	Member of the Board	Member of the Board	Member of the Board	Member of the Board	Head of the Finance and Accounting Department

Riga, 26 April 2022

STATEMENT OF COMPREHENSIVE INCOME

	Notes	Parent Company		Group	
		2021 EUR	2020 EUR	2021 EUR	2020 EUR
PROFIT FOR THE YEAR		**54,845,695**	**9,999,392**	**10,096,659**	**65,358,485**
Other comprehensive income/ (loss) not to be reclassified to profit or loss in subsequent periods					
Share of the group in other comprehensive income of the associates	11	-	-	-	28,120,629
Revaluation of property, plant and equipment	10.2a	34,762,721	-	34,762,721	-
Result of re-measurement on defined post-employment benefit plan		(1,075,235)	384,250	(1,403,458)	389,738
Other comprehensive income for the year		**33,687,486**	**384,250**	**33,359,263**	**28,510,367**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**88,533,181**	**10,383,642**	**43,455,922**	**93,868,852**
Comprehensive income attributable to :					
Equity holder of the Parent Company		88,533,181	10,383,642	39,289,810	92,553,403
Non-controlling interests		-	-	4,166,112	1,315,449

Notes from page 68 to 164 are an integral part of these financial statements.

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Riga, 26 April 2022

STATEMENT OF FINANCIAL POSITION

	Notes	Parent Company		Group	
		31.12.2021. EUR	Restated* 31.12.2020. EUR	31.12.2021. EUR	Restated* 31.12.2020. EUR
ASSETS					
NON-CURRENT ASSETS					
Intangible assets	10.1	2,121,767	1,435,210	4,163,016	3,307,881
Advance payments for intangible assets		-	-	6,720	-
Property, plant and equipment	10.2	685,805,790	654,359,778	1,105,768,949	1,065,621,493
Advance payments for property, plant and equipment		-	-	2,332,465	2,052,901
Right-of-use assets	21a	14,635,417	14,212,293	15,086,525	14,715,877
Non-current financial investments	11	134,396,393	134,396,393	1,422	1,422
Non-current prepaid costs		-	-	1,108,651	1,209,438
TOTAL NON-CURRENT ASSETS		**836,959,367**	**804,403,674**	**1,128,467,748**	**1,086,909,012**
CURRENT ASSETS					
Inventories	12	517,327	514,087	3,143,866	3,535,090
Receivables from contracts with customers	13	21,508,872	11,164,836	34,882,006	18,019,530
Deposits	14	-	25,000,000	-	25,000,000
Other current assets	14	1,767,892	32,208,508	2,550,217	32,652,003
Corporate income tax	14	11,512	11,512	11,512	11,512
Cash	16	48,513,943	32,224,560	63,190,053	47,388,296
TOTAL CURRENT ASSETS		**72,319,546**	**101,123,503**	**103,777,654**	**126,606,431**
TOTAL ASSETS		**909,278,913**	**905,527,177**	**1,232,245,402**	**1,213,515,443**

Notes from page 68 to 164 are an integral part of these financial statements.
* Refer to Note 2.15 for more details on prior period restatement.

Gunta Jēkabsone	**Imants Zviedris**	**Mārcis Kauliņš**	**Gatis Junghāns**	**Arnis Daugulis**	**Māra Grava**
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Riga, 26 April 2022

STATEMENT OF FINANCIAL POSITION (CONTINUED)

	Notes	Parent Company		Group	
		31.12.2021. EUR	Restated* 31.12.2020. EUR	31.12.2021. EUR	Restated* 31.12.2020. EUR
EQUITY AND LIABILITIES					
EQUITY					
Share capital	17a	365,895,957	363,896,079	365,895,957	363,896,079
Reserves	17b	37,176,552	4,172,258	38,641,445	6,304,575
Retained earnings		62,270,520	16,741,025	143,727,293	146,773,744
Equity attributable to equity holder of the Parent Company		**465,343,029**	**384,809,362**	**548,264,695**	**516,974,398**
Non-controlling interests	**17c**	**-**	**-**	**99,547,615**	**122,228,140**
TOTAL EQUITY		**465,343,029**	**384,809,362**	**647,812,310**	**639,202,538**
NON-CURRENT LIABILITIES					
Employee benefit obligations	18	3,426,477	2,636,255	4,800,612	3,664,749
Lease liabilities	21b	14,199,182	13,761,561	14,647,122	14,215,413
Borrowings	20	99,966,288	87,084,381	160,249,274	87,084,381
Deferred income from contracts with customers	19a	38,249,840	39,995,011	38,249,840	39,995,011
Other deferred income	19a	245,801,904	239,852,322	263,957,949	250,634,058
TOTAL NON-CURRENT LIABILITIES		**401,643,691**	**383,329,530**	**481,904,797**	**395,593,612**
CURRENT LIABILITIES					
Borrowings	20	-	116,200,000	37,810,235	138,075,000
Lease liabilities	21b	739,800	657,434	759,197	717,652
Deferred income from contracts with customers	19b	3,375,254	3,379,561	3,612,539	4,282,726
Other deferred income	19b	5,755,599	2,756,256	6,295,216	3,106,021
Trade payables	22	25,631,148	8,086,381	32,920,983	15,722,857
Deferred corporate income tax liabilities	15	-	-	4,831,892	5,152,360
Other creditors	22	6,790,392	6,308,653	16,298,233	11,662,677
TOTAL CURRENT LIABILITIES		**42,292,193**	**137,388,285**	**102,528,295**	**178,719,293**
TOTAL EQUITY AND LIABILITIES		**909,278,913**	**905,527,177**	**1,232,245,402**	**1,213,515,443**

Notes from page 68 to 164 are an integral part of these financial statements.
* Refer to Note 2.15 for more details on prior period restatement.

Gunta Jēkabsone	**Imants Zviedris**	**Mārcis Kauliņš**	**Gatis Junghāns**	**Arnis Daugulis**	**Māra Grava**
Chairperson of the Board	Member of the Board	Member of the Board	Member of the Board	Member of the Board	Head of the Finance and Accounting Department

Riga, 26 April 2022

STATEMENT OF CHANGES IN EQUITY

		Parent Company						
	Notes	Share capital EUR	Retained earnings EUR	Other reserves EUR	Noncurrent assets revaluation reserve EUR	Postemployment benefit plan revaluation reserve EUR	Reorganisation reserves EUR	Total EUR
AS AT 31 DECEMBER 2019		**64,218,079**	**2,951,011**	**2,680,615**	**-**	**106,006**	**-**	**69,955,711**
Profit for the year		-	9,999,392	-	-	-	-	9,999,392
Other comprehensive income for the year		-	-	-	-	384,250	-	384,250
Total comprehensive income for the year		**-**	**9,999,392**	**-**	**-**	**384,250**	**-**	**10,383,642**
Dividends paid for 2019	17a	-	(1,735,958)	-	-	-	-	(1,735,958)
Disposal of non–current assets revaluation reserve		-	315,146	-	(315,146)	-	-	-
Increase of share capital	17a	299,678,000	-	-	-	-	-	299,678,000
Result of merger with JSC Latvijas elektriskie tīkli	25b	-	5,211,434	-	28,653,237	-	(27,336,704)	6,527,967
Total transactions with owners and other changes in equity		**299,678,000**	**3,790,622**	**-**	**28 338 091**	**-**	**(27,336,704)**	**304 470 009**
AS AT 31 DECEMBER 2020		**363,896,079**	**16,741,025**	**2,680,615**	**28,338,091**	**490,256**	**(27,336,704)**	**384,809,362**
Profit for the year		-	54,845,695	-	-	-	-	54,845,695
Other comprehensive income for the reporting period		-	-	-	34,762,721	(1,075,235)	-	33,687,486
Total comprehensive income for the reporting year		**-**	**54,845,695**	**-**	**34,762,721**	**(1,075,235)**	**-**	**88,533,181**
Dividends paid for 2020	17a	-	(7,999,514)	-	-	-	-	(7,999,514)
Disposal of non–current assets revaluation reserve		-	683,192	-	(683,192)	-	-	-
Increase of share capital	17a	1,999,878	(1,999,878)	-	-	-	-	-
Total transactions with owners and other changes in equity		**1,999,878**	**(9,316,200)**	**-**	**(683,192)**	**-**	**-**	**(7,999,514)**
AS AT 31 DECEMBER 2021		**365,895,957**	**62,270,520**	**2,680,615**	**62,417,620**	**(584,979)**	**(27,336,704)**	**465,343,029**

The Notes from page 68 to 164 are an integral part of these financial statements.

Gunta Jēkabsone	**Imants Zviedris**	**Mārcis Kauliņš**	**Gatis Junghāns**	**Arnis Daugulis**	**Māra Grava**
Chairperson of the Board	Member of the Board	Member of the Board	Member of the Board	Member of the Board	Head of the Finance and Accounting Department

Riga, 26 April 2022

STATEMENT OF CHANGES IN EQUITY (CONTINUED)

		Group								
		Equity attributable to equity holder of the Parent Company								
	Notes	Share capital EUR	Retained earnings EUR	Other reserves EUR	Non-current assets revaluation reserve EUR	Post-employment benefit plan revaluation reserve EUR	Reorgani-sation reserves EUR	Total EUR	Non-controlling interests EUR	Total EUR
AS AT 31 DECEMBER 2019		**64,218,079**	**56,367,925**	**2,680,615**	**-**	**75,844**	**-**	**123,342,463**	**-**	**123,342,463**
Profit for the year		-	64,051,311	-	-	-	-	64,051,311	1,307,174	65,358,485
Other comprehensive income for the year		-	-	-	-	381,463	28,120,629	28,502,092	8,275	28,510,367
Total comprehensive income for the year		**-**	**64,051,311**	**-**	**-**	**381,463**	**28,120,629**	**92,553,403**	**1,315,449**	**93,868,852**
Dividends paid for 2019	17a	-	(1,735,958)	-	-	-	-	(1,735,958)	-	(1,735,958)
Transfer of revaluation surplus upon acquisition of control of an associate	25a	-	28,090,467	-	-	-	(28,090,467)	-	-	-
Increase of share capital	17a	299,678,000	-	-	-	-	-	299,678,000	-	299,678,000
Result of acquisition of JSC Latvijas elektriskie tīkli	25b	-	-	-	28,915,196	-	(25,778,705)	3,136,491	-	3,136,491
Acquisition of a subsidiary with a non-controlling interest (JSC Conexus Baltic Grid)	25a	-	-	-	-	-	-	-	120,912,690	120,912,690
Total transactions with owners and other changes in equity		**299,678,000**	**26,354,509**	**-**	**28,915,196**	**-**	**(53,869,172)**	**301,078,533**	**120,912,690**	**421,991,223**
AS AT 31 DECEMBER 2020		**363,896,079**	**146,773,744**	**2,680,615**	**28,915,196**	**457,307**	**(25,748,544)**	**516,974,398**	**122,228,149**	**639,202,538**
Profit for the year		-	5,827,026	-	-	-	-	5,827,026	4,269,633	10,096,659
Other comprehensive income for the year		-	-	-	34,762,721	(1,299,937)	-	33,462,784	(103,521)	33,359,263
Total comprehensive income for the year		**-**	**5,827,026**	**-**	**34,762,721**	**(1,299,937)**	**-**	**39,289,810**	**4,166,112**	**43,455,922**
Dividends paid for 2020	17a	-	(7,999,514)	-	-	-	-	(7,999,514)	(26,846,636)	(34,846,150)
Disposal of non–current assets revaluation reserve		-	1,125,914	-	(1,125,914)	-	-	-	-	-
Increase of share capital	17a	1,999,878	(1,999,878)	-	-	-	-	-	-	-
Total transactions with owners and other changes in equity		**1,999,878**	**(8,873,478)**	**-**	**(1,125,914)**	**-**	**-**	**(7,999,514)**	**(26,846,636)**	**(34,846,150)**
AS AT 31 DECEMBER 2021		**365,895,957**	**143,727,293**	**2,680,615**	**62,552,003**	**(842,630)**	**(25,748,544)**	**548,264,695**	**99,547,615**	**647,812,310**

Notes from page 68 to 164 are an integral part of these financial statements.

Gunta Jēkabsone	**Imants Zviedris**	**Mārcis Kauliņš**	**Gatis Junghāns**	**Arnis Daugulis**	**Māra Grava**
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Riga, 26 April 2022

STATEMENT OF CASH FLOWS

		Parent Company		Group	
	Notes	2021 EUR	Restated* 2020 EUR	2021 EUR	Restated* 2020 EUR
I. CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before taxes		**54,845,695**	**9,999,392**	**12,032,831**	**66,211,541**
ADJUSTMENTS:					
Depreciation, amortization and impairment, of intangible assets and property, plant and equipment	10.3	36,904,301	37,160,987	54,710,050	40,640,203
Disposals of intangible assets and property, plant and equipment	10.3	257,965	36,208	994,393	667,954
Increase/(decrease) in provisions		(285,013)	24,511	60,628	(70,992)
Interest expense		2,409,909	1,000,039	2,694,754	1,596,847
Interest income		-	(352,270)	-	(244,747)
Dividends from subsidiaries and associate	11	(58,286,236)	(5,604,642)	-	-
Net gain on acquisition of a controlling interest	25a	-	-	-	(50,327,298)
Share of profit of the associate	11	-	-	-	(3,080,996)
Operating profit before working capital adjustments		**35,846,620**	**42,264,226**	**70,492,655**	**55,392,513**
ADJUSTMENTS:					
Decrease/(increase) in receivables from contracts with customers, deposits and other current assets		20,096,580	45,991,954	13,238,545	25,830,909
(Increase)/decrease of inventories		(3,240)	(11,378)	391,224	67,284
Increase/(decrease) in trade payables and other creditors		(20,478,596)	(39,827,729)	(18,514,498)	17,674,998
Gross cash flows from operating activities		**35,461,365**	**48,417,073**	**65,607,927**	**98,965,704**
Interest paid	20	(2,478,825)	(441,883)	(2,703,452)	(1,013,755)
Interest paid on leases	21b	(237,970)	(145,982)	(260,821)	(170,918)
Interest received		-	352,270	-	18,200
Corporate income tax payments	15	-	-	(2,256,640)	-
Net cash flows from operating activities		**32,744,570**	**48,181,478**	**60,387,014**	**97,799,231**

Notes from page 68 to 164 are an integral part of these financial statements.

* Refer to Note 2.15 for more details on prior period restatement

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Riga, 26 April 2022

STATEMENT OF CASH FLOWS (CONTINUED)

	Notes	Parent Company		Group	
		2021 EUR	Restated* 2020 EUR	2021 EUR	Restated* 2020 EUR
II. CASH FLOWS FROM INVESTING ACTIVITIES					
Acquisition and creation of property, plant and equipment and intangible assets		(31,977,795)	(13,010,361)	(59,605,975)	(57,470,246)
Proceeds from sale of property, plant and equipment	10.2	95,963	283,386	166,453	283,386
European Union funding received	19	32,393,231	3,022,400	40,210,739	3,022,400
Congestion fees received	19	11,441,072	-	11,441,072	-
Investment in subsidiary, net of cash acquired	25a	-	(77,000,000)	-	(62,903,347)
Placed deposits		-	(25,000,000)	-	(25,000,000)
Repaid deposits		25,000,000	20,000,000	25,000,000	20,000,000
Dividends received from subsidiaries and associate	11	58,286,236	5,604,642	-	5,604,642
Proceeds from the sale of shares		-	1,729,072	-	1,729,072
Cash taken over from JSC Latvijas elektriskie tīkli as a result of merger/ acquisition	25b	-	15,054,455	-	132,046
Net cash flows from/ (used in) investing activities		**95,238,707**	**(69,316,406)**	**17,212,289**	**(114,602,047)**
III. CASH FLOWS FROM FINANCING ACTIVITIES					
Repayment of lease liabilities	21b	(683,173)	(27,760,881)	(770,882)	(15,470,924)
Borrowings from credit institutions, received	20	-	116,200,000	84,949,950	116,200,000
Borrowings from credit institutions, repaid	20	(116,200,000)	-	(124,969,097)	(1,458,333)
Repayment of borrowings from related parties	20	(86,672,207)	(138,560,000)	(86,672,207)	(138,560,000)
Issued debt securities (bonds)	20	99,861,000	-	99,861,000	-
Increase of share capital	17a	-	77,000,000	-	77,000,000
Dividends paid to shareholders	17a	(7,999,514)	(1,735,958)	(34,196,310)	(1,735,958)
Net cash flows (used in)/ from financing activities		**(111 693 894)**	**25 143 161**	**(61 797 546)**	**35,974,785**
Net increase in cash		**16,289,383**	**4,008,233**	**15,801,757**	**19,171,969**
Cash at the beginning of the year		32,224,560	28,216,327	47,388,296	28,216,327
Cash at the end of the year		**48,513,943**	**32,224,560**	**63,190,053**	**47,388,296**

Notes from page 68 to 164 are an integral part of these financial statements.

* Refer to Note 2.15 for more details on prior period restatement

Gunta Jēkabsone	**Imants Zviedris**	**Mārcis Kauliņš**	**Gatis Junghāns**	**Arnis Daugulis**	**Māra Grava**
Chairperson of the Board	Member of the Board	Member of the Board	Member of the Board	Member of the Board	Head of the Finance and Accounting Department

Riga, 26 April 2022

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

1. GENERAL INFORMATION ABOUT THE GROUP

Corporate information, summary

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

The JSC Augstsprieguma tīkls is the Parent Company of the Augstsprieguma tīkls group that includes the Subsidiary JSC Conexus Baltic Grid.

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

The Supervisory Board and the Board of the Augstsprieguma tīkls group:

Names, surnames and positions held of the board members	Gunta Jēkabsone - Chairperson of the Board (from 15.07.2021) Imants Zviedris – Member of the Board Gatis Junghāns – Member of the Board Mārcis Kauliņš – Member of the Board Arnis Daugulis - Member of the Board (from 15.07.2021) Varis Boks - Chairperson of the Board (until 31.03.2021) Arnis Staltmanis – Member of the Board (until 07.04.2021)
Names, surnames and positions held of Supervisory Board members	Kaspars Āboliņš - Chairperson of the Council Olga Bogdanova - Deputy Chairperson of the Council Armands Eberhards – Member of the Council Madara Melne – Member of the Council (until 26.01.2022) Aigars Ģērmanis – Member of the Council

JSC Augstsprieguma tīkls is a transmission system operator, licensed by the Public Utilities Commission under licence No. E12001, that ensures the security of the operation of the transmission network and the power supply system of Latvia, provides the transmission service on the basis of published transmission service tariffs, and ensures the availability of the transmission system services on a continuous basis. JSC Augstsprieguma tīkls is engaged in the operational management of the transmission system and ensures secure and reliable electric power transmission. The Subsidiary of the Parent Company is an independent operator of a unified natural gas transmission and storage system in Latvia, managing one of the most advanced natural gas storage facilities in Europe, i.e., Inčukalns Underground Gas Storage - and the main natural gas transmission system connecting the Latvian natural gas market with Lithuania, Estonia and Russia. The natural gas transmission and storage services provided by Conexus are regulated by the Public Utilities Commission.

In 2021, restrictions related to the spread of the coronavirus continued in the Republic of Latvia and many other countries and are expected to continue in 2022 as well, which is expected to further reduce economic development in the Country and in the world alongside with the possible negative effects caused by the war in Ukraine (as described in Note 29). Taking both of these together, it is not possible to foresee the situation's development in the future, and thus there is uncertainty about economic development. The Company's and the Group's management continuously evaluates the situation and assesses ways to reduce negative results from market turmoil. At the time of approval of these financial statements the Company and the Group has not encountered significant disruptions in business operations, no significant or potentially significant overdue receivables have been identified, the Company and the Group continues to cover liabilities in a timely manner. However, this conclusion is based on the information available at the time of preparation of these financial statements; as influencing circumstances change, the impact on the Company's and the Group's operations may differ from the current assessment, however, the management is confident that the Company and the Group will be able to continue their operations on a going concern basis.

The financial statements were approved by the Board of the Company on 26 April 2022 composed of: Gunta Jēkabsone (Chairwoman of the Board), Imants Zviedris (Member of the Board), Mārcis Kauliņš (Member of the Board), Gatis Junghāns (Member of the Board), Arnis Daugulis (Member of the Board).

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated and separate financial statements have been prepared in accordance with the International Financial Reporting Standards as adopted by the European Union. Taking the European Union approval process into account, standards and interpretations that have not been approved for application in the European Union are also presented, as those standards and interpretations may have an impact on the financial statements in future periods, if they are adopted.

The consolidated and separate financial statements have been prepared under the historical cost convention, except for items carried at fair value (Note 2.3. and 10.2.). The profit or loss statement is classified by nature of expense. The cash flow statement has been prepared using the indirect method.

Non-IFRS measure EBITDA is presented on the face of profit or loss statement. Such presentation is enforced by industry practise and enables better comparison with other companies operating in this sector of the economy. EBITDA in context of these financial statements is calculated as earnings before interest, financial income, corporate income tax, dividends received, share of profit of associate, gains from acquisitions of controlling interests, depreciation and amortisation. EBITDA presented in financial statements of other companies might be calculated differently.

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

Comparative financial information is presented within financial statements. When presentation is changed, comparative information is reclassified to ensure comparability (Note 2.15.).

Correction of prior period errors made in the presentation of the statement of cash flows was made in 2021 with corresponding adjustments made to comparatives for 2020. Adjustments made are disclosed in Note 2.15.

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

The consolidated financial statements of the Group include the financial results of the subsidiary JSC Conexus Baltic Grid and the subsidiary JSC Latvijas elektriskie tīkli from the moment of acquisition of these subsidiaries. In November 2020 JSC Latvijas elektriskie tīkli was merged into JSC Augstsprieguma tīkls and after the merger JSC Latvijas elektriskie tīkli transferred all its assets and liabilities to the Parent Company and ceased to exist as a separate legal entity with all of its operations being included into results of the Parent Company (Note 25 b).

As at 31 December 2021 and 31 December 2020, the Group's parent company had investments in the following subsidiaries:

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

Application of new or revised standards and interpretations

During the 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 came into force and are applied in the preparation of these financial statements:

- Covid-19-Related Rent Concessions – Amendments to IFRS 16 (effective for annual periods beginning on or after 1 June 2020). The amendments provided lessees (but not lessors) with relief in the form of an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification;

- Interest rate benchmark (IBOR) reform – phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (effective for annual periods beginning on or after 1 January 2021).

The adoption of these new standards, amendments to existing standards and interpretations had no material impact on the Parent Company's and the Group's financial statements.

Standards or interpretations effective for the first time for the annual periods beginning after 1 January 2022 or not yet adopted by the EU

At the date of approval of the financial statements, the following new standards, amendments to existing standards and interpretations were issued by the IASB but had not come into force:

- Amendments to IFRS 4 – deferral of IFRS 9 (effective for annual periods beginning on or after 1 January 2023);
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (effective for annual periods beginning on or after a date to be determined by the IASB, not yet adopted by the EU);
- Classification of liabilities as current or non-current – Amendments to IAS 1 (effective for annual periods beginning on or after 1 January 2022, not yet adopted by the EU);
- Proceeds before intended use, Onerous contracts – cost of fulfilling a contract, Reference to the Conceptual Framework – narrow scope amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020 – amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 (effective for annual periods beginning on or after 1 January 2022);
- Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting policies (effective for annual periods beginning on or after 1 January 2023, not yet adopted by the EU);
- Amendments to IAS 8: Definition of Accounting Estimates (effective for annual periods beginning on or after 1 January 2023, not yet adopted by the EU);
- Classification of liabilities as current or non-current, deferral of effective date – Amendments to IAS 1 (effective for annual periods beginning on or after 1 January 2023);
- Covid-19-Related Rent Concessions – Amendments to IFRS 16 (effective for annual periods beginning on or after 1 April 2021).

The Parent Company and the Group anticipate that the adoption of these standards and amendments to existing standards will not have a material impact on the financial statements in the period of initial application.

Consolidation

a) Subsidiaries

Subsidiaries are all entities over which the Parent Company has control. The Parent Company controls an entity where the Parent Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity (IFRS 10 "Consolidated Financial Statements").

Subsidiaries financial reports are consolidated from the date on which control is transferred to the Parent Company and are no longer consolidated from the date when control ceases.

Intercompany transactions, balances and unrealised gains on transactions between the Group's entities are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Investments in subsidiaries in the Parent company's separate financial statements are stated at historical cost less impairment losses, if any. An impairment loss is recognised for the amount by which the carrying amount of investment in subsidiary exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. Prior impairments of subsidiaries (if there are such) are reviewed for possible reversal at each reporting date.

b) Transactions with non-controlling interests and owners

The Group treats transactions with non-controlling interests as transactions with equity owners of the economic entity. Changes in the Parent's ownership interest in a subsidiary that do not result in the Parent losing control over the subsidiary are equity transactions (i.e. transactions with owners in their capacity as owners). For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in the Group's equity.

c) Associates

Associates are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights.

Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in the Group's share of net assets of an associate are recognised as follows: (i) the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as the share of results of associates, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, (iii) all other changes in the Group's share of the carrying value of net assets of associates are recognised in profit or loss within the share of results of associates.

However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

An impairment loss is recognised for the amount by which the carrying amount of associate exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. Prior impairments of associates are reviewed for possible reversal at each reporting date.

The Group ceases to use the equity method from the date on which the investment ceases to be an associate. The Group / Company ceases to have a significant influence over an entity when it loses power to participate in the entity's financial and operating policy decisions. Loss of significant influence may happen with or without changes in the absolute or relative participation.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. In addition, any amounts previously recognised in other comprehensive income in respect of that entity, are accounted for as if the Group had directly disposed of the related assets or liabilities.

Investments in associates in the Parent company's separate financial statements are stated at historical cost less impairment losses, if any. An impairment loss is recognised for the amount by which the carrying amount of investment in associate exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. Prior impairments of associates (if there are such) are reviewed for possible reversal at each reporting date.

d) Goodwill

The acquisition method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured, as the fair value of the assets given, equity instruments issued, and liabilities incurred or assumed at the date of exchange. Costs directly attributable to the acquisition are expensed to the Statement of Profit or Loss as 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.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and the fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill" or a "bargain purchase") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all the liabilities and contingent liabilities assumed and reviews the appropriateness of their measurement.

Goodwill is carried at cost less accumulated impairment losses, if any. The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

Business combinations involving entities under common control

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

2.1. FINANCIAL INSTRUMENTS

Financial instruments consist of financial assets (financial assets at amortised cost and financial assets at fair value through profit or loss) and financial liabilities (financial liabilities at amortised cost).

All financial instruments are initially measured at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date when the Group and the Parent Company commits to purchase or sell the asset.

Financial assets

The Group and the Parent Company classify its financial assets under IFRS 9 in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss), and
- those to be measured at amortised cost.

Classification of financial assets

The classification of debt instruments depends on the business model implemented by the Group's financial asset management, as well as on whether the contractual cash flows consist solely of principal and interest payments (SPPI). If the debt instrument is held to collect cash flows, it can be accounted for at amortised cost if it meets the SPPI requirements. Financial assets whose cash flows do not meet the SPPI requirements must be measured using the FVPL method (e.g., financial derivatives). Embedded derivatives are not separated from financial assets, but when they are included under financial assets, the SPPI requirements are considered.

Equity instruments are always measured at fair value. However, the Management has the option to make the irrevocable choice of showing a change in fair value in other income if the instrument is not held for trading purposes. If the equity instrument is held for trading, changes in fair value must be charged to profit or loss account.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's and the Parent Company's business model for managing the asset and the cash flow characteristics of the asset. The Group and the Parent Company classify all of their debt instruments (including deposits with credit institutions) at amortised cost: assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Any gain or loss arising on de-recognition is recognised directly in profit or loss. Impairment losses are presented as separate item in the statement of profit or loss.

Equity instruments at fair value through other comprehensive income (FVOCI)

The Group and the Parent Company subsequently measure all equity investments at fair value. Where the Group's or the Parent Company's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the de–recognition of the investment.

Dividends from such investments continue to be recognised in profit or loss when the Group's and the Parent Company's right to receive payments is established.

Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

Upon initial application of IFRS 9 the Group and the Parent Company has classified all its equity instruments that are not held for trading as FVOCI.

Cash

Cash and cash equivalents include cash balances on bank accounts.

Impairment of financial assets

Impairment is recognised in accordance with the expected credit loss (ECL) model. The model has a three-step approach, which is based on a change in the credit quality of the financial asset compared to that at the initial recognition. At the time of initial recognition of a financial asset, the Parent Company and the Group recognises immediate loss which is equal to the 12-month ECL, even if the financial asset is not impaired (for receivables from contracts with customers and other receivables lifetime ECL is recognised). In the event of a significant increase in credit risk, the impairment is measured using the lifetime ECL of the asset instead of the 12-month ECL. The model includes operational simplifications for receivables from contracts with customers.

In case of individual assessment, significant increase in credit risk is defined as loss of investment grade rating or change in shareholder that might negatively affect external credit rating. In case of portfolio assessment significant increase in credit risk is defined in terms of delay in payment and insolvency of debtor.

The Parent Company and the Group have applied the operational relief allowed by IFRS 9 regarding the valuation of receivables from contracts with customers – receivables are grouped according to their credit quality and maturity date, applying the ECL percentage to each relevant group. ECL rates are estimated considering the payment history of the last three years, adjusting this indicator with the aim of considering information on present and future forecasts.

Receivables due from affiliated parties, as well as the loans issued to the related parties, are grouped separately, with ECL being calculated, considering not only past experience, but also the credit rating of their ultimate owner – the Republic of Latvia – and future development forecasts. Loans granted to subsidiaries are considered assets with a credit risk that has not increased significantly since the date of their initial recognition, therefore the ECL calculation includes the credit losses expected within the next 12 months.

While cash and deposits with a term of up to 3 months are also subject to the expected credit loss requirements of IFRS 9, the identified expected credit loss was immaterial, considering also the fact that almost all of cash and deposits with a term of up to 3 months are held in financial institutions with the credit rating grade of the institution or its parent bank at investment grade credit rating (mostly 'A level' credit rating) (Stage 1).Impairment provisions are included in a separate provision account and losses are recognised in the profit or loss account. If the loss amount decreases in the next period following the recognition of impairment and this decrease may be objectively related to the event following the recognition of impairment (for example, the debtor's credit rating improves), the reversal of previously recognised impairment losses shall be recognised in the statement of profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired,
- the Group and the Parent Company have transferred its rights to receive cash flows from the asset

or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass–through' arrangement; and either (a) the Group and the Parent Company have transferred substantially all the risks and rewards of the asset, or (b) the Group and the Parent Company have neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial liabilities

Financial liabilities are classified as measured at amortised cost or FVPL. All the financial liabilities of the Parent Company and the Group are classified as financial liabilities at amortised cost.

Financial liabilities at amortised cost

Financial liabilities at amortised cost are initially recognised at fair value. In subsequent periods, financial liabilities at amortised cost are reported at amortised cost using the effective interest rate. Financial liabilities at amortised cost are classified as current liabilities if they fall due in one year or less. If they fall due in more than one year, then they are presented as non-current liabilities.

Derecognition of financial liabilities

The Group and the Parent Company derecognise a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group and the Parent Company also derecognise a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value. On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

2.2. FOREIGN CURRENCY TRANSLATION

a) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Group's entities operate ("the functional currency"). The financial statements have been prepared and presented in euros (EUR), which is the Parent Company's functional and presentation currency.

b) Transactions and balances

All transactions denominated in foreign currencies are translated into functional currency at the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into functional currency using the exchange rate at the last day of the reporting year. The resulting gain or loss is charged to the statement of profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

2.3. INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

Intangible assets are measured on initial recognition at historical cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. 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 Company's and Group's property, plant and equipment (excluding engineering structures related to electricity transmission, buildings and structures related to gas transmission, power transmission lines and related technological equipment and other equipment related to electricity transmission) are stated at cost less accumulated depreciation and impairment losses. The acquisition cost includes expenses that are directly related to the acquisition of the fixed asset. Land is not depreciated. Depreciation on fixed assets is calculated using the straight-line method to allocate the cost of the asset over its estimates useful life (taking into account residual value of asset).

Type of property, plant and equipment	Estimates useful life, years
Buildings and structures	15 - 80
Buildings	40 - 80
Buildings of electricity substations	50
Paved roads and similar structures	30 - 50
Other buildings and structures	15 - 25
Power transmission lines:	
High voltage electricity transmission lines	50
Other power transmission lines	20-30
Technological equipment	
Transformers	30 - 40
Technological equipment of substations 110 kV-330 kV	20 - 40
Other technological equipment	10 - 15
Other fixed assets	2 – 20

The main groups of the Company's and Group's property, plant and equipment 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.

Engineering structures related to electricity transmission, buildings and structures related to gas transmission, power transmission lines and related technological equipment and other equipment related to electricity transmission are stated at revalued amounts. 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 recognised in the Statement of Comprehensive income as "Non-current assets revaluation reserve" in shareholders' equity. Decrease in the carrying amount arising on revaluation primarily offset previous increases recognised in ''Comprehensive income'' and if decrease exceeds revaluation reserve, it is recognised in the Statement of Profit or Loss.

At the date of revaluation, initial carrying amounts and accumulated depreciation are increased or decreased proportionately with the change in the carrying amount of the asset so that the carrying amount of the asset after the revaluation equals its revalued amount. Non-current assets revaluation reserve is decreased and transferred to retained earnings at the moment, when revalued asset has been written off or disposed. Revaluation reserve cannot be distributed in dividends, invested in share capital, used for indemnity, reinvested in other reserves, or used for other purposes.

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

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

Profit or loss from disposal of 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 in the period incurred.

Where the carrying value of intangible or fixed asset is above its recoverable amount, its the carrying value is written down to its recoverable amount. The recoverable amount is the highest of the fair value of asset less costs to sell and value in use. When revalued property, plant and equipment are sold, the amount of the revaluation surplus attributable to that property, plant and equipment is transferred to retained earnings.

2.4. OTHER LONG-TERM FINANCIAL INVESTMENTS

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

According to IFRS 9, equity instruments after initial recognition are measured at fair value. The Parent Company and the Group chose the approach allowed by IFRS 9, initially recognising the financial asset, to irrevocably choose to classify equity instruments that are not held for trading, at fair value through other comprehensive income.

2.5. LEASE

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

The Group and the Parent Company as the lessee

When concluding a contract, the Group and the Parent Company assesses whether the contract is a lease or includes a lease. The Group and the Parent Company recognises the right-of-use asset and the corresponding lease liabilities in respect to all lease contracts in which it is the lessee; exceptions are possible for short-term leases (the lease term being 12 months or less) and leases of low-value assets (for example, lease of tablets and personal computers, as well as small office furniture and phone accessories).

Upon initial recognition, the Group and the Parent 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 Group and the Parent Company uses its comparable interest rate.

Lease payments included in the value 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.

Lease liabilities are subsequently valued at amortised cost, using the effective interest method, and decreasing the carrying amount to reflect the actual lease payments.

The Group and the Parent 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 remeasured 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 initial 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 is not accounted for as a

separate lease, in which case the lease liability is remeasured 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 value of the corresponding lease liabilities, lease payments made on or before the initial date, deducting any lease discounts received and any initial direct costs. These 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 Parent 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 was initially set at 5 years. Pursuant to the change in ownership and subsequent reorganisation of JSC Latvijas elektriskie tīkli, leases were effectively terminated in 2020 when the Parent Company was merged with its former subsidiary.

The Group and the Parent Company as the lessor

The Group and the Parent Company has only operating leases as a lessor. Revenues from lease are recognised on the basis of lease payment amount which are set accordingly to determined fee per lease agreement and recognised on a straight–line basis over term of the lease.

2.6. INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Cost is determined using the weighted average method.

Purchase cost of inventories consists of the purchase price, import charges and other fees and charges, freight–in and related costs as well as other costs directly incurred in bringing the materials and goods to their present location and condition. The value of inventories is assigned by charging trade discounts, reductions and similar allowances.

Existence of inventories as of the end of reporting period is verified during stock–taking.

2.7. DEFERRED INCOME

Deferred income is comprised of government grants, congestion management income and connection fees to transmission system. Details on accounting for connection fees to distribution system are disclosed in Note 2.11.

Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. Conditions attached to the grants are described in more details in Note 19. Government grants are recognised as income over the period necessary to match them with the related costs, for which they are intended to compensate, on a systematic basis.

Grants related to assets

Grants related to acquisition of property, plant and equipment are recognised at fair value as deferred income and are credited to the statement of profit or loss on a straight–line basis over the expected lives of the related assets.

Grants related to expense items

When a grant relates to an expense item, and it has a number of conditions attached, it is initially recognised at fair value as deferred income. Conditions attached to these grants are – the grant should be used only to cover related expenses, only for the intended purpose, the amount used should be identified and separately accounted (ensuring separate accounting registers). Grants are credited to income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed.

A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to a company with no future related costs are recognised in profit or loss of the period in which it becomes receivable.

Congestion management at borders (auction) and liquidation of electrical capacity overload

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

In situations where market participants place more requests for cross-border transmission of electricity than is technically possible, transmission rights for cross-border electricity are sold at special auctions. Under the principle used in these auctions, 50% of auction proceeds belongs to the transmission system operator of either country. Types of the auctions:

1. Proceeds from the day-ahead market auction are essentially the difference between the exchange prices of Latvia and neighbouring price regions of the Nord Pool power exchange every hour. The power exchange collects the aforementioned price difference through its trading mechanism and transfers it to respective transmission system operators.

2. An auction of long-term transmission capacity, which is aimed at reducing the inter-regional price risk resulting from a lack of transmission capacity. Latvian and Estonian system operators AS Augstprieguma tīkls and Elering AS offer forward transmission rights (FTRs) on an annual, quarterly and monthly basis. Market participants that have bought an FTR capacity have the right to the hourly auction proceeds of the day-ahead market for the same volume. Auctions are organised and the proceeds distributed by the Single Allocation Platform (SAP) under the authority of the pan-European System Operators operated by the Joint Allocation Office (JAO).

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 presented in the balance sheet as Deferred income. Once this income has been used to finance a specific long-term investment project as indicated by the Public Utilities Commission, deferred income is amortised through the progressive recognition of that income in the statement of profit or loss for the current financial year in accordance with the amortisation/depreciation period of the long-term investment created under "Other income".

In accordance with the matching principle of revenues and costs, the revenues of congestion management that are used to eliminate congestion and overload in the transmission network, are presented in the statement of profit or loss on a gross basis as "Other revenue" in the same period when the related costs associated with congestion and overload elimination are incurred.

2.8. EMPLOYEE BENEFITS

a) Defined contribution plans

The Group and the Parent Company pay monthly contributions to a closed-end defined contribution pension plan on behalf of its employees. The plan is managed by the JSC Pirmais slēgtais pensiju fonds which is partially owned by the Parent Company. The Group and the Parent Company do not incur legal or constructive obligations to pay further contributions if the private pension plan is unable to meet its liabilities towards employees. Contributions amount to 6% of the salary of respective employees. Pension contributions are recognised as an expense on an accrual basis and are included within staff costs.

b) Defined benefit plans

In addition to the above-mentioned pension plan, the Group and the Parent Company provide certain post-employment benefits (defined benefit plans) to employees whose employment conditions meet certain criteria. The amount of benefit liability is calculated annually based on the current salary level and the number of employees who are entitled to receive those payments, as well as based on actuarial assumptions. This calculation is performed by an independent actuary.

The present value of the benefit obligation is determined by discounting the estimated future cash outflows using the market rates on government bonds. The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation. This cost is included in employee benefit expense in the statement of profit or loss.

Re-measurement gains and losses arisen from experience adjustments and changes in actuarial assumptions are recognised in other comprehensive income in the period in which they occur within separate reserve "Post-employment benefit plan revaluation reserve". They are included in retained earnings in the statement of changes in equity and in the balance sheet.

Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognised immediately in profit or loss as past service costs.

d) Accruals for unused annual leave

Accruals for unused annual leave are calculated for each employee by multiplying the number of unused vacation days at the end of the reporting year by the average daily salary in the last six months of the reporting year and adding the employer's share of national social insurance mandatory contributions.

2.9. INCOME TAX

Corporate income tax

Corporate income tax is paid on distributed profits (less dividends received from subsidiaries). Both distributed profits and deemed profit distributions are subject to the tax rate of 20% of their gross amount, or 20/80 of net expense.

Corporate income tax on dividends is recognised in the statement of profit or loss as expense in the reporting period when respective dividends are declared, while, as regards other deemed profit distribution items, at the time when expense is incurred in the reporting year.

Deferred corporate income tax

Deferred corporate tax liabilities are recognised in the consolidated financial statements on undistributed profits of the subsidiaries of the Parent Company, which will be subject to taxation upon distribution in foreseeable future. No other deferred tax assets and liabilities are recognised.

2.10. PROVISIONS

Provisions are recognised when the Group or the Parent Company have a present obligation as a result of past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and when a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses.

Provisions are presented in the statement of financial position at the best estimate of the expenditure required to settle the present obligation at the end of reporting period. Provisions are used only for expenditures for which the provisions were originally recognised and are reversed if an outflow of resources is no longer probable.

Provisions are measured at the present value of the expenditures expected to be required for settling the obligation by using pre–tax rate that reflects current market assessments of the time value of the money and the risks specific to the obligation as a discount rate. The increase in provisions due to passage of time is recognised as interest expense.

2.11. REVENUE RECOGNITION

Revenue from contracts with customers in scope for IFRS 15 encompasses sold goods or services provided as output of the entity's ordinary activities. The Group and the Parent Company use the following criteria to identify contracts with customers:

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

b) each party's rights regarding the goods or services to be transferred can be identified;

c) the payment terms for the goods or services to be transferred can be identified;

d) the contract has commercial substance (i.e the risk, timing or amount of the entity's future cash flows is expected to change as a result of the contract);

e) it is probable that the company will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.

When assessing whether collectability of an amount of consideration is probable, the Group and the Parent Company consider only the customer's ability and intention to pay that amount of consideration when it is due.

Performance obligations are promises in the contracts (either explicitly stated or implied) with Group's and the Parent Company's customers to transfer to the customers either distinct goods or services, or series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

Promised goods or services represent separate performance obligations if the goods or services are distinct. A promised good or service is considered distinct if the customer can benefit from the good or service on its own or with other readily available resources (i.e. distinct individually) and the good or service is separately identifiable from other promises in the contract (distinct within the context of the contract). Both of these criteria must be met to conclude that the good or service is distinct.

The Group and the Parent Company recognise revenue when (or as) it satisfies a performance obligation to transfer a promised good or service to a customer. Revenue is recognised when customer obtains control of the respective good or service.

The Group and the Parent Company use output method to measure progress towards complete satisfaction of a performance obligations.

All revenue is recognised over time as a continuous delivery of these goods and services are made over the term of the respective contracts. Revenue from satisfied performance obligations under such contracts is recognised over time, if one of the following criteria is met:

- customer simultaneously receives and consumes the benefits;
- customer controls the asset as it is created or enhanced;

- the Group's and Parent Company's performance does not create an asset with an alternative use and has a right to payment for performance completed.

Revenue from satisfaction of performance obligations is recognised based on identified transaction price (net of value added tax and rebates). Transaction price reflects the amount to which the Group and the Parent Company have rights under the present contract. It is allocated to the distinct performance obligations based on standalone selling prices of the goods or services promised in the contract. The Group and the Parent Company allocate transaction price to the distinct performance obligations in proportion to their observable stand-alone selling prices and recognises revenue as those performance obligations are satisfied.

Payment terms for goods or services transferred to customers according to contract terms are within 20 to 45 days from the provision of services or sale of goods. Invoices are mostly issued monthly.

a) Electricity transmission services (IFRS 15)

Revenues from transmission system services are based on tariffs approved by the Public Utilities Commission, and are accounted for under IFRS 15. The Parent Company is entitled to receive reimbursement from the customer for an amount that directly reflects the value the customer receives from the Parent Company's timely completion of its activities.

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

b) Mandatory procurement component income (IFRS 15)

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 electricity traders, if the end-user has delegated to the trader settlements with the Parent Company for system and ancillary services.

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

Given that the Parent 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.

c) Income from electricity/capacity sales (sale of balancing electricity and sale of regulatory electricity, IFRS 15)

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.

Revenue from the sale of electricity/capacity is recognised on the basis of acceptance notes and bills, which are invoiced each month for the electricity/capacity delivered during the month in accordance with the contracts entered into with each other. The Parent Company has considered that it is a principal in selling electricity as part of providing the balancing service as the Parent Company is ultimately responsible for keeping the electricity transmission system in balance.

d) Transmission asset reconstruction and renovation works (IFRS 15) (until 01.10.2020)

According to Article 13. Section 6 of the Electricity Market Law, the Parent Company was 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 was JSC Latvijas elektriskie tīkli providing financing for investments in the transmission system assets. Within the framework of the service, the Parent Company was providing construction, reconstruction and renovation services of electricity transmission assets to JSC Latvijas elektriskie tīkli utilising its personnel and know-how. The service was provided until the merger with JSC Latvijas elektriskie tīkli on 25 November 2020. Since then, the Parent Company is treating these as constructions and repairs of owned assets.

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.

e) Revenues from connection fees (IFRS 15)

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.

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

Transmission system connection fees are recognised in the statement of financial position as deferred income (contract liability to deliver connection) 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 - 20 years. Advances received for the provision of the service are reflected in the balance sheet as current liabilities.

f) Revenues from transmission of natural gas (IFRS 15)

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 Group 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.

g) Revenues from the storage of natural gas (IFRS 15)

The natural gas storage service shall be considered as a single performance obligation in accordance with IFRS. 15. The Group 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.

h) Revenue from balancing natural gas (IFRS 15)

Group maintains information on the amount of natural gas pumped into and out of from the transmission system by transmission system users and calculates the imbalance. The amount of daily imbalance is the difference between the input and output amounts. Revenue from balancing is recognised for each reporting month when a negative imbalance occurs at the transmission system user, that has resulted in a shortage of natural gas in the transmission system.

Expense from balancing is recognised for each reporting month when a positive imbalance occurs at the transmission system user, that has resulted in an excess of natural gas in the transmission system. In the financial statements, revenue from balancing is reported under the Other income section at net value (less costs for periods when the balance is positive). The net result of balancing represents the amount of administrative costs. In order to comply with the principle of profit neutrality, Group calculates a neutrality fee. The neutrality charge is a charge paid by or to the transmission system operator for the balancing of the transmission system. This charge consists of the difference between the transmission system operator's costs and the revenue from balancing activities. Neutrality charges can be both positive and negative. In the event of a negative neutrality charge, the transmission system operator pays the neutrality charge to the transmission system users. In the event of a positive neutrality charge, the transmission system operator receives a neutrality charge from transmission system users. Common Regulations for the Natural Gas Balancing of Transmission System issued by PUC determines, that the purpose of neutrality charge is to ensure TSO`s financial neutrality.

Group, in the performance of the functions of balancing administration, acts as an agent. Signs that Group acts as an agent are as follows: Group has no control over the services before handing them over to customers; Group is obliged to include services in invoices issued to customers and charge a fee, but is not entitled to revenue; Group does not have the right to determine the price of the services directly or indirectly Evaluating the available information, Group considers itself to be an agent in these transactions, therefore the balancing income is recognized in the income statement on a net basis using the agent's accounting policy.

i) Cross-border electricity perimeter charges and revenue from electricity transit services (IFRS 15)

Starting with November 2020 the Parent Company receives revenue in form of perimeter charge for cross-border electricity trade on the third country border (border of Latvia and Russia). Compensation mechanism is established among transmission system operators (TSO) in accordance with the requirements of the EU Regulation 838/2010 dated 23 September 2010 (inter-transmission system operators compensation mechanism – ITC).

ITC mechanism lays out unified principles compensating TSOs for maintenance of transit electricity flow and ensuring availability of infrastructure required for such transit flows. Based on ITC mechanism perimeter charge is paid to the ITC member state through which trade with third country is made. In addition revenue is received from ensuring availability of infrastructure required for transit of electricity through the network owned by the Parent Company.

The Parent Company receives perimeter charges for monthly sales made on the border of Latvia and Russia. Total amount of charges is directly related to monthly cross-border sales performed by third parties and is charged on a monthly basis. Electricity transit revenue is also charged on a monthly basis and is related to actual amounts of electricity transited through the network.

j) Revenue from reactive electricity (IFRS 15)

In addition to transmission services, charge for reactive electricity is charged to the customer once he submits reactive electricity to the network. Reactive electricity charge is calculated in accordance with the rulings of the Cabinet of Ministers of the Republic of Latvia no.50 "Regulations on sale and use of electricity" (dated 21 January 2014).

Amount of electricity submitted to the network is determined based on readings from meters. Billing is done on a monthly basis with charge for reactive electricity submitted to the network being calculated in accordance with the regulation and set at 0.013 EUR/kVArh.

k) Other services (IFRS 15)

Other services are related to provision of technical laboratory services, maintenance services of equipment and similar services and similar services. Invoices are issued on a monthly basis in accordance with respective customer contracts.

2.12. BORROWINGS AND LOANS

Borrowings and loans 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.

2.13. RELATED PARTIES

The parties are considered related when one party has a possibility to control the other one or has significant influence over the other party in making financial and operating decisions. Related parties of the Group and the Parent Company are Shareholder of the Company who controls the Company in accepting operating business decisions, members of Group entities' management boards, members of the Supervisory board of the Company, members of Supervisory body of the Company– the Audit Committee and close family members of any above–mentioned persons, as well as entities over which those persons have control or significant influence.

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.

2.14. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

In preparing financial statements in accordance with IFRS, the Group's and the Parent 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 amounts of income and expenses in the current period. The following estimates of the Group's and the Parent Company's management have a significant impact on the results of the financial statements:

Post-employment benefit liabilities

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

In the reporting year, the discount rate used to discount post-employment benefit obligations is fixed at 0.501% (in 2020 – 0.392%). 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 government bonds on 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, 7.9% in 2022, 6.1% in 2023, 2.9% in 2024, 2.5% in 2025, thereinafter - 2.5%.

Sensitivity analysis of the total value of post-employment benefit as of 31 December 2021, EUR		
	Increase	**Decrease**
Discount rate (+/-1%)	186,059	(321,940)
	5%	-9%
Monthly salary increase (+/- 1%)	374,027	(315,781)
	11%	-9%
Employee turnover rate (+/- 1%)	411,869	(342,908)
	12%	-10%
Sensitivity analysis of the total value of post-employment benefit as of 31 December 2020, EUR		
	Increase	**Decrease**
Discount rate (+/-1%)	103,014	(230,306)
	4%	-9%
Monthly salary increase (+/- 1%)	248,696	(210,835)
	9%	-8%
Employee turnover rate (+/- 1%)	293,674	(244,688)
	11%	-9%

Carrying value of intangible assets and property, plant and equipment

The Group's and Parent Company's management evaluates the carrying amount of intangible assets and property, plant and equipment and assesses whether there are any indications that the recoverable amount of assets is lower than the carrying amount. The Group's and Parent Company's management calculates and recognises impairment losses of intangible assets and property, plant and equipment based on estimates of their future use, disposal or sale.

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

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

Impairment losses are recognised in the respective reporting period.

Given the projected business volumes and the potential market value of the assets, management believes that no significant adjustments to the value of intangible assets and property, plant and equipment as of 31 December 2021 are required.

In accordance with the Group's accounting policy, the Group companies make estimates regarding the useful lives and residual values of property, plants and equipment. These estimates are based on past experience as well as industry practice and are reviewed at the end of each reporting year. Previous experience has shown that the actual useful lives have sometimes been longer than the estimates. Values of fully depreciated intangible assets and property, plant and equipment are disclosed in notes 10.1 and 10.2. Quantifying an impact of potential changes in the useful lives is deemed impracticable therefore sensitivity analysis is not disclosed.

The Group and the Parent Company do not depreciate emergency repair spare parts. Rationale is based on past experience that potential depreciation charge of such items would not be material in light of these financial statements. Moreover, if required, impairment charge is recognised on damaged items, thus accounting for changes in recoverable amounts of spare parts.

Revaluation for part of the Group's and the Parent Company's property, plant and equipment are performed by independent, external and certified valuation experts by applying the depreciated replacement cost model. Valuation has been performed according to international standards on property valuation, based on current use of property, plant and equipment that is estimated as the most effective and best use of these assets. As a result of valuation, depreciated replacement cost was determined for each asset. Depreciated replacement cost is the difference between the cost of replacement or renewal of similar asset at the time of revaluation and the accumulated loss of an asset's value that encompasses physical deterioration, functional (technological) obsolescence and economic (external) obsolescence. Physical depreciation was determined proportionally to the age of the property, plant and equipment item. In assessment of property, plant and equipment items for which a reconstruction is planned in the near future additional functional depreciation was determined. Remaining useful lives of property, plant and equipment items after revaluation were revised according to estimated total depreciation. The

Group's management assesses annually whether the carrying amount of revalued property, plants and equipment differs materially from its fair value on the balance sheet date.

Further details on revaluation of property, plant and equipment items is provided in Note 10.2.

2.15. ADJUSTMENTS MADE AS A RESULT OF PRIOR PERIOD ERROR OR RECLASSIFICATION

Statement of profit or loss

		Parent Company			Group		
		31.12.2020 EUR	**Adjustments EUR**	**Restated 31.12.2020 EUR**	**31.12.2020 EUR**	**Adjustments EUR**	**Restated 31.12.2020 EUR**
Revenue	f)	147,348,276	(499,274)	146,849,002	144,886,178	(499,274)	144,386,904
Other income	f)	849,007	499,274	1,348,281	1,809,530	499,274	2,308,804
Raw materials and consumables used	f)	(22,634,111)	-	(22,634,111)	(26,166,763)	(603,473)	(26,770,236)
Other operating expenses	f)	(66,509,417)	7,380	(66,502,037)	(43,624,394)	616,816	(43,007,578)
EBITDA		**42,343,133**	**7,380**	**42,350,513**	**55,028,430**	**13,343**	**55,041,773**
Depreciation, amortization and impairment, of intangible assets and property, plant and equipment	f)	(37,153,607)	(7,380)	(37,160,987)	(40,626,860)	(13,343)	(40,640,203)
OPERATING PROFIT		**5,189,526**	**-**	**5,189,526**	**14,401,570**	**-**	**14,401,570**
Finance income	f)	352,270	-	352,270	578,817	(334,070)	244,747
Finance costs	f)	(1,147,046)	-	(1,147,046)	(2,175,859)	334,070	(1,841,789)
PROFIT BEFORE TAX		**9,999,392**	**-**	**9,999,392**	**66,211,541**	**-**	**66,211,541**
PROFIT FOR THE YEAR		**9,999,392**	**-**	**9,999,392**	**65,358,485**	**-**	**65,358,485**
Profit attributable to:							
Equity holder of the Parent Company		9,999,392	-	9,999,392	64,051,311	-	64,051,311
Non-controlling interests		-	-	-	1,307,174	-	1,307,174

Statement of financial position

		Parent Company			Group		
		31.12.2020 EUR	Adjustments EUR	Restated 31.12.2020 EUR	31.12.2020 EUR	Adjustments EUR	Restated 31.12.2020 EUR
ASSETS							
NON-CURRENT ASSETS							
Property, plant and equipment	a)	654,359,778	-	654,359,778	1,067,674,394	(2,052,901)	1,065,621,493
Advance payments for property, plant and equipment	a)	-	-	-	-	2,052,901	2,052,901
Non-current financial investments	b)	134,396,393	-	134,396,393	1,210,860	(1,209,438)	1,422
Non-current prepaid costs	b)	-	-	-	-	1,209,438	1,209,438
TOTAL NON-CURRENT ASSETS		**804,403,674**	**-**	**804,403,674**	**1,086,909,012**	**-**	**1,086,909,012**
CURRENT ASSETS							
Receivables from contracts with customers	d)	1,673,797	9,491,039	11,164,836	8,528,491	9,491,039	18,019,530
Other current assets	e)1	31,647,751	560,757	32,208,508	31,740,753	911,250	32,652,003
Deferred expenses	d), e)1	629,093	(629,093)	-	979,586	(979,586)	-
Accrued income	d)	9,422,703	(9,422,703)	-	9,422,703	(9,422,703)	-
TOTAL CURRENT ASSETS		**101,123,503**	**-**	**101,123,503**	**126,606,431**	**-**	**126,606,431**
TOTAL ASSETS		**905,527,177**	**-**	**905,527,177**	**1,213,515,443**	**-**	**1,213,515,443**
EQUITY AND LIABILITIES							
EQUITY							
TOTAL EQUITY		**384,809,362**	**-**	**384,809,362**	**639,202,537**	**-**	**639,202,537**
NON-CURRENT LIABILITIES							
Borrowings	e)3	86,672,207	412,174	87,084,381	86,672,207	412,174	87,084,381
Deferred income from contracts with customers	e)5	279,847,333	(239,852,322)	39,995,011	290,629,069	(250,634,058)	39,995,011
Other deferred income	e)5	-	239,852,322	239,852,322	-	250,634,058	250,634,058
Advance payments received	e)4	162,277	(162,277)	-	162,277	(162,277)	-
TOTAL NON-CURRENT LIABILITIES		**383,079,633**	**249,897**	**383,329,530**	**395,343,715**	**249,897**	**395,593,612**
CURRENT LIABILITIES							
Deferred income from contracts with customers	e)4, e)5	-	3,379,561	3,379,561	-	4,282,726	4,282,726
Other deferred income	e)5	5,973,540	(3,217,284)	2,756,256	7,226,470	(4,120,449)	3,106,021
Trade payables	c)	4,908,151	3,178,230	8,086,381	12,544,628	3,178,230	15,722,857
Taxes and mandatory state social insurance contributions	e)2	1,754,449	(1,754,449)	-	2,811,710	(2,811,710)	-
Advance payments received	e)2	602,252	(602,252)	-	1,255,537	(1,255,537)	-
Other creditors	e)2, e)3	2,232,912	4,075,741	6,308,653	2,963,606	8,699,071	11,662,677
Accrued liabilities	c), e)2	5,309,444	(5,309,444)	-	8,222,228	(8,222,228)	-
TOTAL CURRENT LIABILITIES		**137,638,182**	**(249,897)**	**137,388,285**	**179,131,468**	**(249,897)**	**178,719,294**
TOTAL EQUITY AND LIABILITIES		**905,527,177**	**-**	**905,527,177**	**1,213,515,443**	**-**	**1,213,515,443**

Statement of cash flows

		Parent Company			Group		
		2020 EUR	Adjustments EUR	Restated 2020 EUR	2020 EUR	Adjustments EUR	Restated 2020 EUR
I. CASH FLOWS FROM OPERATING ACTIVITIES							
Profit before taxes		**9,999,392**	**-**	**9,999,392**	**66,211,541**	**-**	**66,211,541**
ADJUSTMENTS:							
Depreciation, amortization and impairment, of intangible assets and property, plant and equipment	g)	37,193,434	(32,447)	37,160,987	(40,626,860)	81,267,063	40,640,203
Financial adjustment, net	h)	259,247	(259,247)	-	(1,597,042)	1,597,042	-
Interest expense	h)	-	1,000,039	1,000,039	-	1,596,847	1,596,847
Interest income	h)	-	(352,270)	(352,270)	-	(244,747)	(244,747)
Disposals of intangible assets and property, plant and equipment	i)	-	36,208	36,208	(113,306)	781,260	667,954
Expenditure on disposal of shares in subsidiaries or associates	h)	172,393	(172,393)	-	172,393	(172,393)	-
Dividends from subsidiaries and associate	o)	(5,604,642)	-	(5,604,642)	(5,604,642)	5,604,642	-
ADJUSTMENTS:							
Decrease/(increase) in receivables from contracts with customers, deposits and other current assets	g)	45,991,954	-	45,991,954	112,695,234	(86,864,325)	25,830,909
Increase/(decrease) in trade payables and other creditors	h), i), j), k), n)	(39,067,283)	(760 446)	(39 827 730)	25,864,252	(8,189,253)	17,674,999
Gross cash flows from operating activities		**48,957,629**	**(540,556)**	**48,417,072**	**103,589,568**	**(4,623,864)**	**98,965,705**
Interest paid	k)	(19,668)	(422,215)	(441,883)	(189,543)	(824,212)	(1,013,755)
Interest paid on leases	k)	-	(145,982)	(145,982)	-	(170,918)	(170,918)
Interest received	k)	-	352,270	352,270	-	18,200	18,200
Corporate income tax payments	l)	(347,192)	347,192	-	(347,192)	347,192	-
Net cash flows from operating activities		**48,590,769**	**(409,291)**	**48,181,477**	**103,052,833**	**(5,253,602)**	**97,799,232**

Statement of cash flows (continued)

		Parent Company			Group		
		2020 EUR	Adjustments EUR	Restated 2020 EUR	2020 EUR	Adjustments EUR	Restated 2020 EUR
II. CASH FLOWS FROM INVESTING ACTIVITIES							
European Union funding received	p)	-	3,022,400	3,022,400	-	3,022,400	3,022,400
Investment in subsidiary, net of cash acquired	q)	(77,000,000)	-	(77,000,000)	(63,004,135)	100,788	(62,903,347)
Interest income	k)	18,200	(18,200)	-	18,200	(18,200)	-
Cash taken over from JSC Latvijas elektriskie tīkli as a result of merger/ acquisition	m)	-	15,054,455	15,054,455	-	132,046	132,046
Net cash flows from/ (used in) investing activities		**(87,375,061)**	**18,058,655**	**(69 316 406)**	**(117,839,081)**	**3,237,034**	**(114 602 047)**
III. CASH FLOWS FROM FINANCING ACTIVITIES							
Repayment of lease liabilities	j)	(27,906,863)	145,981	(27,760,882)	(18,789,303)	3,318,379	(15,470,924)
Interest paid on asset leases	k)	(145,981)	145,981	-	(145,981)	145,981	-
Expenses for repayment of loans	n)	(796,276)	796,276	-	(1,611,035)	1,611,035	-
Interest payments, net	k)	300,917	(300,917)	-	(455,450)	455,450	-
Dividends paid to shareholders	l)	(1,388,766)	(347,192)	(1,735,958)	(1,388,766)	(347,192)	(1,735,958)
European Union funding received	p)	3 035 039	(3 035 039)	-	3 035 039	(3 035 039)	-
Net cash flows (used in)/ from financing activities		**27 738 070**	**(2 594 909)**	**25 143 161**	**33 826 171**	**2 148 614**	**35 974 785**
Increase/(decrease) in net cash and cash equivalents during the reporting period		**(11,046,222)**	**15,054,455**	**4,008,233**	**19,039,923**	**132,046**	**19,171,969**
Cash taken over from JSC Latvijas elektriskie tīkli	m)	15,054,455	(15,054,455)	-	132,046	(132,046)	-
Cash at the beginning of the year		**28,216,327**	**-**	**28,216,327**	**28,216,327**	**-**	**28,216,327**
Cash at the end of the year		**32,224,560**	**-**	**32,224,560**	**47,388,296**	**-**	**47,388,296**

Following restatements were made to the financial statements:

In 2021, several restatements were made in the Parent Company's and the Group's financial statements for 2020:

a) Property, plant and equipment line was amended decreasing it by EUR 2,052,901 for the Group and presenting Advance payments for property, plant and equipment as a separate line under non-current assets. Such amendment made to correct classification misstatement made in 2020 as advances made are prepayments and do not meet the definition of property, plant and equipment.

b) Non-current prepaid costs of EUR 1,209,438 for the Group were separated out of Non-current financial investments and are presented as a separate line under non-current assets. Reclassification made to present on the face of the balance sheet separate lines for those items which are different in their nature and adjust classification misstatement made in 2020.

c) The classification of Trade payables and Accrued liabilities was amended - in 2020 the Parent company and the Group recognised in its balance sheet EUR 3,178,230 trade payables as part of accrued liabilities. These liabilities should have been classified as trade payables as invoices from suppliers were received before preparation of the financial statements for 2020. As the result trade payables were understated and accrued liabilities were overstated as at 31 December 2020 by EUR 3,178,230 for the Parent company and the Group.

d) Accrued income of EUR 9,422,703 and deferred expenses of EUR 68,366 for both Parent company and the Group were added to the line item Trade receivables and renamed to Receivables from contracts with customers (change made within current assets).

e) A number of further amendments and reclassifications were made on the balance sheet in order to ensure more streamlined presentation of financial statements and ensure that financial statements provide comprehensive view of the operations of the Parent company and the Group, are more user friendly and easily readable:

   1. Deferred expenses of EUR 560,757 for the Parent company and EUR 911,250 for the Group were added to the line Other current assets (change made within current assets).
   2. Accrued liabilities of EUR 2,131,214 for the Parent company and EUR 5,043,988 for the Group, Taxes and mandatory state social insurance contributions of EUR 1,754,449 for the Parent company and EUR 2,811,710 for the Group, as well as Advance payments received of EUR 602,252 for the Parent company and EUR 1,255,537 for the Group were reclassified to the line item Other creditors (change made within current liabilities).
   3. Interest accrued on borrowings amounting to EUR 412,174 for both the Parent company and the Group was reclassified out of Other creditors (presented under current liabilities) to Borrowings (presented under non-current liabilities), as it refers to interest accrued under effective interest rate method in order to amend misstatement made in 2020.
   4. Advance payments received as non-current liabilities amounting to EUR 162,277 for both the Parent company and the Group were reclassified to current liabilities as Deferred income from contracts with customers to reflect the nature of advances received in order to amend misstatement made in 2020.

5. In order to enhance presentation under current liabilities and amend classification error, EUR 3,217,284 for the Parent company and EUR 4,120,449 for the Group were reclassified out of Other deferred income to be presented separately as Deferred income from contracts with customers. Similar reclassification made for non-current liabilities, separating Deferred income from contracts with customers from Other deferred income amounting to EUR 239,852,322 for the Parent company and EUR 250,634,058 for the Group.

f) A number of minor reclassifications were made in the statement of profit and loss in order to ensure more streamlined presentation of financial statements and ensure that financial statements are more user friendly and easily readable.

g) Misstatement was made when preparing cash flows from operating activities for the Group - in 2020 the adjustment for amortisation and depreciation in value of intangible assets, property, plant and equipment and rights to use assets was made in the amount of EUR 40,626,860 with a negative sign where it should have been made with a positive sign. Furthermore, the amount has been adjusted through decrease in trade receivables. As the result adjustment for amortisation and depreciation in value of intangible assets, property, plant and equipment and rights to use assets was understated by EUR 81,267,063 and adjustment for decrease in trade receivables were overstated by EUR 81,267,063 within cash flows from operating activities for the Group. The above mentioned does not affect net cash flows from operating activities.

h) Line item within Cash flows from operating activities referring to Financial adjustments, net (EUR 259,247 for the Parent company and EUR 1,597,042 for the Group) was split to present separately Interest expense (EUR 1,000,039 for the Parent company and EUR 1,596,847 for the Group) and Interest income (EUR 352,270 for the Parent company and EUR 244,747 for the Group).

i) Amendments to Increase/ (decrease) in trade payables and other creditors were made (EUR 36,208 for the Parent Company and EUR 781,260 for the Group) to present separately within Cash flows from operating activities line item Impairment, disposals and revaluation of intangible assets and property, plant and equipment.

j) Cash flows from financing activities for the Group related to repayment of lease liabilities were overestimated by EUR 3,318,379, mistakenly classifying repayments of leases as cash flows from operating activities and presenting those as part of Increase/ (decrease) in trade payables and other creditors.

k) Interest paid (EUR 422,215 for the Parent company and EUR 824,212 for the Group), Interest paid on leases (EUR 145,982 for the Parent company and EUR 170,918 for the Group) and Interest received (EUR 352,270 for the Parent company and EUR 18,200 for the Group) were reclassified to be presented under Cash flows from operating activities, as they refer to financing received/ provided for the purposes of operating activities.

l) Adjustments were made to Corporate income tax payments and Dividends paid to shareholders of EUR 347,192 for the Parent Company and the Group in order to reflect interpretation of the State revenue service on the nature of the payment.

m) Classification of cash taken over from JSC Latvijas elektriskie tīkli was changed – it is reclassified to Cash flows from investing activities. Reclassification resulted in adjustment of previously made misstatement amounting to EUR 15,054,455 for the Parent company and EUR 132,046 for the Group.

n) Adjustments to Expenses for repayment of loans were made of EUR 796,276 for the Parent company and EUR 1,611,035 for the Group were made to reflect that no actual cash movement took place during the year, with corresponding adjustment made under Increase/ (decrease) in trade payables and other creditors.

o) Consolidation adjustment was made to the cash flow statement of the Group in order to correct misstatement made in 2020 when dividends received from associate were not excluded from the consolidated results. Adjustment made to Dividends from associate and Decrease/ (increase) in receivables from contracts with customers, deposits and other current assets amounts to 5,604,642 EUR.

p) Correction of classification misstatement was made for European Union funding received by reclassifying it from cash flows from financing activities to cash flows from investing activities in order to more accurately reflect the nature of the transaction.

q) Further minor reclassifications and adjustments were made to the statement of operating cash flows in order to ensure appropriate presentation of statements of cash flows.

3. SEGMENT REPORTING

For segment reporting purposes, the division into operating segments is based on internal management structure, which is the basis for the reporting system, performance assessment and the allocation of resources by the operating segment decision maker – management of the Group's company operating in each of segments. The Management Board of the Parent Company reviews financial results of operating segments.

Reportable segments are operating segments or sets of segments that meet certain criteria. An operating segment is a component of the Group that is engaged in business activities from which it can earn revenues and cover expenses (including income and expenses related to transactions with other components of the Group), the results of which are regularly reviewed by the 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 profit measure monitored by the chief operating decision maker primarily is EBITDA, but it also monitors operating profit. In separate financial statements operating profit excludes the dividend income and interest income from subsidiaries.

The Group divides its operations into three segments - electricity transmission, natural gas storage and natural gas transmission. The Parent Company divides its operations into one main operating segment– electricity transmission. The Group operates geographically only in the territory of Latvia.

Electricity transmission

The electricity transmission segment provides electric power transmission network services and ensuring the balancing and stability within the transmission network.

The electric power transmission network consists of interconnected networks and equipment, including cross-border connections with voltages of and above 110kV, which are used to transmit electric power from the producers of electric power to the relevant distribution network or end-users.

Natural gas transmission

The natural gas transmission segment provides transportation of natural gas through high-pressure pipelines to supply it to Inčukalns underground gas storage, to other countries and to the distribution system.

The modern main natural gas transmission system of the Company is 1,190 km long and is directly connected to the natural gas transmission systems of Lithuania, Estonia and Russia, ensuring both the transmission of natural gas in regional gas pipelines in the territory of Latvia and interconnections with the natural gas transmission systems of neighbouring countries.

Natural gas storage

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

The task of the gas storage is to ensure a permanent supply of gas to consumers, regardless of seasonal changes in consumption, by performing injection of natural gas in summer and withdrawal in winter. Inčukalns UGS is the only functioning underground gas storage in the Baltic States, ensuring the stability of gas supply in the region since 1968.

The following table presents revenue, financial results and profit information and segment assets and liabilities of the Group's and the Parent Company's operating segments. Inter–segment revenue is eliminated on consolidation and reflected in the 'adjustments and eliminations' column. All transactions between segments are made based on the regulated tariffs, where applicable, or on an arm's length principle.

Segment information is presented only for the Group, as the Parent Company is seen as one operating segment – electricity transmission segment.

Group						
	Electricity transmission, EUR	**Natural gas transmission, EUR**	**Natural gas storage, EUR**	**Total segments, EUR**	**Adjustments and eliminations, EUR**	**Total Group, EUR**
2021						
External customers	125,787,322	32,442,743	23,996,365	182,226,430	-	182,226,430
Revenue	**125,787,322**	**32,442,743**	**23,996,365**	**182,226,430**	**-**	**182,226,430**
EBITDA	**35,577,990**	**18,787,080**	**14,778,098**	**69,143,168**	**-**	**69,143,168**
Depreciation and amortisation	36,904,301	10,320,671	7,485,078	54,710,050	-	54,710,050
Segment profit before tax	**(3,440,541)**	**8,287,047**	**7,186,325**	**12,032,831**	**-**	**12,032,831**
Segment assets at the end of the year	774,882,520	250,659,943	217,410,340	1,242,952,803	(10,707,401)	1,232,245,402
Segment liabilities at the end of the year	443 935 884	85,266,066	50,399,910	579,601,860	4,831,232	584,433,092
Capital expenditure	33,848,041	10,579,496	16,772,102	61,199,639	-	61,199,639

Group						
	Electricity transmission, EUR	**Natural gas transmission, EUR**	**Natural gas storage, EUR**	**Total segments, EUR**	**Adjustments and eliminations, EUR**	**Total Group, EUR**
2020						
External customers	146,849,002	12,527,640	8,885,616	168,262,258	(23,875,354)	144,386,904
Revenue	**146,849,002**	**12,527,640**	**8,885,616**	**168,262,258**	**(23,875,354)**	**144,386,904**
EBITDA	**42 350 513**	**6,393,307**	**4,867,100**	**53 610 921**	**1 430 852**	**55 041 773**
Depreciation and amortisation	37 160 987	4,083,223	2,949,202	44 193 412	(3 553 209)	40 640 203
Segment profit before tax	**4,394,750**	**2,278,846**	**1,881,640**	**8,555,236**	**4,249,292**	**12,804,528**
Segment assets at the end of the year	771,130,784	242,138,220	210,953,735	1,224,222,739	(10,707,296)	1,213,515,443
Segment liabilities at the end of the year	520,717,815	30,504,737	17,938,549	569,161,101	5,151,805	574,312,906
Capital expenditure	15,769,487	4,650,889	10,879,311	31,299,687	26,368,803	57,668,490

Adjustments and eliminations

Share of profit of associate, net gain on acquisition of a controlling interest and deferred taxes are not allocated to individual segments as the underlying instruments are managed on a group basis. Taxes and certain financial assets and liabilities are not allocated to those segments as they are also managed on a group basis.

Capital expenditure consists of additions of property, plant and equipment, intangible assets including assets from the acquisition of subsidiaries.

Reconciliation of profit before tax

	Parent Company		Group	
	2021	2020	2021	2020
	EUR	EUR	EUR	EUR
EBITDA	**35,577,990**	**42,350,513**	**69,143,168**	**55,041,773**
Depreciation and amortisation	(36,904,301)	(37,160,987)	(54,710,050)	(40,640,203)
Segment profit before tax and finance items tax	**(1,326,311)**	**5,189,526**	**14,433,118**	**14,401,570**
Finance income	6,905	352,270	7,607	244,747
Finance costs	(2,121,135)	(1,147,046)	(2,407,894)	(1,841,789)
Segment profit before tax	**(3,440,541)**	**4,394,750**	**12,032,831**	**12,804,528**
Dividends from subsidiaries	58,286,236	5,604,642	-	-
Share of profit of associate	-	-	-	3,080,996
Net gain on acquisition of a controlling interest	-	-	-	50,326,017
Profit before tax	**54,845,695**	**9,999,392**	**12,032,831**	**66,211,541**

Reconciliation of assets

	Parent Company		Group	
	31.12.2021.	31.12.2020.	31.12.2021.	31.12.2020.
	EUR	EUR	EUR	EUR
Segment operating assets	774,882,520	771,130,784	1,242,952,803	1,224,222,739
Non-current financial investments	134,396,393	134,396,393	-	-
Property, plant and equipment (impact of PPA adjustment on consolidation)	-	-	(10,708,163)	(10,708,163)
Other assets	-	-	762	867
Total assets	**909,278,913**	**905,527,177**	**1,232,245,402**	**1,213,515,443**

Reconciliation of liabilities

	Parent Company		Group	
	31.12.2021.	31.12.2020.	31.12.2021.	31.12.2020.
	EUR	EUR	EUR	EUR
Segment operating liabilities	443,935,884	520,717,815	579,601,860	569,161,101
Deferred corporate income tax liabilities	-	-	4,841,892	5,152,360
Trade payables	-	-	(660)	(555)
Total liabilities	**443,935,884**	**520,717,815**	**584,433,092**	**574,312,906**

Revenue from 3 major customers in 2021 for the Group amounted to EUR 148,979 thousand and for the Parent Company EUR 105,480 thousand (2020: EUR 153,618 thousand and EUR 137,078 thousand).

Revenue from major customers

	Parent Company		Group	
	2021	2020	2021	2020
	EUR	EUR	EUR	EUR
Electricity transmission	105,480,292	137,078,366	105,480,292	111,594,989
Natural gas transmission	-	-	26,424,607	26,381,639
Natural gas storage	-	-	17,074,136	15,641,575
Total revenue from major customers	**105,480,292**	**137,078,366**	**148,979,035**	**153,618,203**

4. REVENUE

	IFRS applied	Parent Company		Group	
		2021 EUR	Restated 2020 EUR	2021 EUR	Restated 2020 EUR
Revenue from contracts with customers recognised over time:					
Electricity transmission service	IFRS 15	76,145,380	73,377,414	76,145,380	73,377,414
Sale of balancing electricity	IFRS 15	36,928,136	12,549,323	36,928,136	12,549,323
Revenues from transmission of natural gas*	IFRS 15	-	-	32,442,743	12,579,249
Revenues from storage of natural gas*	IFRS 15	-	-	23,996,365	8,885,617
Revenues from connection fee	IFRS 15	3,346,612	829,478	3,346,612	1,952,340
Cross-border electricity perimeter charges	IFRS 15	1,717,020	211,132	1,717,020	211,132
Revenue from reactive electricity	IFRS 15	655,931	615,362	655,931	615,362
Sale of regulatory electricity	IFRS 15	631,946	287,556	631,946	287,556
Electricity transit service	IFRS 15	88,241	698,230	88,241	698,230
Transmission asset reconstruction and renovation works**	IFRS 15	-	53,968,536	-	28,485,159
Other services	IFRS 15	764,419	2,666,345	764,419	3,099,896
TOTAL revenue from contracts with customers		**120,277,685**	**145,203,376**	**176,716,793**	**142,741,278**
Other revenue:					
Congestion management at borders (auction)	IAS 20	3,309,834	1,007,197	3,309,834	1,007,197
Lease of other assets	IFRS 16	1,618,907	226,585	1,618,907	226,585
Liquidation of electrical capacity overload		580,896	411,844	580,896	411,844
TOTAL other revenue		**5,509,637**	**1,645,626**	**5,509,637**	**1,645,626**
TOTAL revenue		**125,787,322**	**146,849,002**	**182,226,430**	**144,386,904**

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

** According to Article 13. Section 6 of the Electricity Market Law, the Company was 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 was JSC Latvijas elektriskie tīkli providing financing for investments in the transmission system assets. Within the framework of the service, the Company was providing construction, reconstruction and renovation services of electricity transmission assets to JSC Latvijas elektriskie tīkli utilising its personnel and know-how. The service was provided until the merger with JSC Latvijas elektriskie tīkli on 25 November 2020. Since then, the Company is treating these as construction and repairs of owned assets.

Gross income and cost from mandatory procurement component by applying agent accounting principle recognized in financial statements in net amount:

	Parent Company		Group	
	2021	2020	2021	2020
	EUR	EUR	EUR	EUR
Income from mandatory procurement component	4,857,584	6,280,984	4,857,584	6,280,984
Cost of mandatory procurement component	4,857,584	6,280,984	4,857,584	6,280,984
Net mandatory procurement component	**-**	**-**	**-**	**-**

5. OTHER INCOME

	Parent Company		Group	
	2021	Restated 2020	2021	Restated 2020
	EUR	EUR	EUR	EUR
Recognition of deferred income from EU financial support related to investment (see Note 19)	3,447,957	586,687	3,831,771	1,473,717
Recognition of deferred congestion income	1,040,506	499,274	1,040,506	499,274
Revenue from natural gas balancing, net	-	-	472,176	103,236
Gain on sale of current assets and property, plant and equipment, net	365,548	211,073	365,548	217,913
EU financial support (training)	840	-	840	-
Other revenue	147,630	51,247	402,654	14,664
TOTAL other income	**5,002,481**	**1,348,281**	**6,113,495**	**2,308,804**

Income and expenses from natural gas balancing, recognised applying agency principle and disclosed on a net basis in the financial statements:

	Parent Company		Group	
	2021	2020	2021	2020
	EUR	EUR	EUR	EUR
Income from natural gas balancing	-	-	18,810,250	4,780,418
Expenses from natural gas balancing	-	-	18,338,074	4,364,680
Natural gas balancing, net	**-**	**-**	**472,176**	**415,738**

6. RAW MATERIALS AND CONSUMABLES USED

	Parent Company		Group	
	2021	2020	2021	Restated 2020
	EUR	EUR	EUR	EUR
Purchase of balancing electricity	27,923,347	8,859,783	27,923,347	8,859,783
Transmission electricity losses and technological consumption	16,395,882	5,751,676	16,395,882	5,751,676
Purchase of regulatory electricity	9,573,605	3,663,722	9,573,605	3,663,722
Natural gas transmission and storage system maintenance services	-	-	5,172,301	2,738,840
Electricity transit losses	4,211,314	1,663,322	4,211,314	1,663,322
Costs of materials used and repairs	2,227,539	2,482,690	3,446,915	3,323,864
Natural gas costs	-	-	769,029	556,111
Electricity for own consumption	373,322	212,918	373,322	212,918
TOTAL raw materials and consumables used	**60,705,009**	**22,634,111**	**67,865,715**	**26,770,236**

7. PERSONNEL EXPENSES

	Parent Company		Group	
	2021	2020	2021	2020
	EUR	EUR	EUR	EUR
Remuneration for work	12,656,478	12,474,088	22,078,405	16,439,638
State social insurance contributions	2,931,714	2,988,062	5,158,783	3,973,460
Contributions to the pension plan determined by the collective agreement (defined contribution plan)	657,497	636,661	1,178,216	843,075
Benefits determined by the collective agreement (defined benefits plan)	215,189	611,811	215,189	611,811
Other personnel expenses	-	-	14,243	8,137
TOTAL personnel expenses	**16,460,878**	**16,710,622**	**28,644,836**	**21,876,121**
including Remuneration to the companies management (board, council)				
Remuneration for work	671,290	698,723	1,228,776	969,101
State social insurance contributions	157,908	170,928	294,007	240,466
Contributions to the pension plan determined by the collective agreement (defined contribution plan)	-	-	45,097	18,404
Other personnel expenses	-	-	-	20,430
TOTAL remuneration to the management of the companies	**829,198**	**869,651**	**1,567,880**	**1,248,401**
Number of employees at the end of the year	529	539	882	888
Average number of employees in the year	534	546	868	887

8. OTHER OPERATING EXPENSES

	Parent Company		Group	
	2021	Restated 2020	2021	Restated 2020
	EUR	EUR	EUR	EUR
Power reserve costs for electricity system safety	4,088,585	4,209,747	4,088,585	4,209,747
Telecommunication services for electricity system safety	2,871,898	2,878,023	2,871,898	2,878,023
Elimination of capacity congestion	3,781,782	1,094,939	3,781,782	1,094,939
IT system maintenance costs	1,279,676	844,508	2,004,598	849,791
Local taxes and fees	187,937	210,290	1,522,873	819,765
Synchronous compensators for electricity system safety	1,269,887	1,087,781	1,269,887	1,087,781
Utilities and related costs	1,046,644	935,908	1,046,644	1,444,304
Transportation costs	721,158	778,999	934,786	778,999
Nature and labour protection costs	120,482	121,587	120,482	121,587
Electricity transmission asset reconstruction and renovation works*	-	53,952,908	-	28,469,531
Other costs	2,677,877	387,347	5,044,671	1,253,111
TOTAL other operating expenses	**18,045,926**	**66,502,037**	**22,686,206**	**43,007,578**

* These expenses are related to the construction and renovation works that were provided by the Parent Company to JSC Latvijas elektriskie tīkli until their merger on 25 November 2020. Since then these are treated as self-constructed property, plant and equipment items.

9. FINANCE INCOME AND COSTS

	Parent Company		Group	
	2021	Restated 2020	2021	Restated 2020
	EUR	EUR	EUR	EUR
a) Finance income				
Interest income from loans*	-	334,070	-	-
Interest income from credit institutions	-	18,200	-	18,200
Other finance income	6,905	-	7,607	226,547
TOTAL finance income	**6,905**	**352,270**	**7,607**	**244,747**
b) Finance costs				
Interest expenses on borrowing (Note 20)	(2,066,651)	(854,057)	(2,328,646)	(1,425,929)
Interest expense on issued debt securities (bonds) (Note 20)	(105 288)	-	(105 288)	-
Expense on issued debt securities (bonds)	(2,630)	-	(2,630)	-
Capitalized interest on borrowings	301,502	-	301,502	-
Interest expense on asset leases (Note 21 b)	(237,971)	(145,982)	(260,822)	(170,918)
Other finance costs	(10,097)	(147,007)	(12,010)	(244,942)
TOTAL finance costs	**(2,121,135)**	**(1,147,046)**	**(2,407,894)**	**(1,841,789)**

*After investment of JSC Latvijas elektriskie tīkli into JSC Augstsprieguma tīkls, the Parent Company ensured provision of financing to its subsidiary. As a result, the Parent Company has provided its subsidiary JSC Latvijas elektriskie tīkli with a loan of EUR 138,560 thousand. Interest income from loans recognised as finance income relates to interest on this loan charged by the Parent Company to its subsidiaries. Interest rate was in line with rates implicit in the financing available to the Parent Company under market conditions.

10. INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT
10.1. INTANGIBLE ASSETS

	Parent Company			
	Computer software EUR	Transmission usage rights EUR	Assets under development EUR	TOTAL EUR
31 December 2019				
Cost	1,163,497	11,493,000	382,708	13 039 205
Accumulated amortisation	(640,782)	(13,095)	-	(653,877)
Closing net book amount as at 31 December 2019	**522,715**	**11,479,905**	**382,708**	**12,385,328**
2020				
Additions	298,526	-	456,164	754,690
Additions as a result of merger (see Note 25b)	-	1,080	-	1,080
Transfers	639,372	-	(639,372)	-
Disposals*	-	(11,048,917)	-	(11,048,917)
Amortisation charge	(225,960)	(431,011)	-	(656,971)
Closing net book amount as at 31 December 2020	**1,234,653**	**1,057**	**199,500**	**1,435,210**
31 December 2020				
Cost	2,108,318	1,892	199,500	2,309,710
Accumulated amortisation	(873,665)	(835)	-	(874,500)
Closing net book amount as at 31 December 2020	**1,234,653**	**1,057**	**199,500**	**1,435,210**
2021				
Additions	887,557	-	256,992	1,144,549
Transfers	135,000	-	(135,000)	-
Amortisation charge	(457,897)	(95)	-	(457,992)
Closing net book amount as at 31 December 2021	**1,799,313**	**962**	**321,492**	**2,121,767**
31 December 2021				
Cost	3,126,796	1,892	321,492	3,450,180
Accumulated amortisation	(1,327,483)	(930)	-	(1,328,413)
Closing net book amount as at 31 December 2021	**1,799,313**	**962**	**321,492**	**2,121,767**

* In accordance with the Transmission System Development Plan approved by the Public Utilities Commission, the Parent 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 were owned by JSC Latvijas elektriskie tīkli, the Parent Company recognised the right to use the transmission assets in the amount of the investments made. During 2020 JSC Latvijas

elektriskie tīkli was merged with the Parent Company (Note 25 b). As a result, 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 EUR	**Transmission usage rights EUR**	**Assets under development EUR**	**TOTAL EUR**
31 December 2019				
Cost	1,163,497	11,493,000	382,708	13,039,205
Accumulated amortisation	(640,782)	(13,095)	-	(653,877)
Closing net book amount as at 31 December 2019	**522,715**	**11,479,905**	**382,708**	**12,385,328**
2020				
Additions resulting from acquisition of JSC Conexus Baltic Grid (see Note 25a)	1,349,772	-	124,205	1,473,977
Additions resulting from acquisition of JSC Latvijas elektriskie tīkli (see Note 25b)	-	1,080	-	1,080
Additions	298,526	-	1,042,403	1,340,929
Transfers	1,343,446	-	(1,343,446)	-
Disposals	-	(11,048,918)	-	(11,048,918)
Amortisation charge	(413,505)	(431,011)	-	(844,516)
Closing net book amount as at 31 December 2020	**3,100,954**	**1,057**	**205,870**	**3,307,881**
31 December 2020				
Cost	9,807,301	1,892	205,870	10,015,063
Accumulated amortisation	(6,706,347)	(835)	-	(6,707,182)
Closing net book amount as at 31 December 2020	**3,100,954**	**1,057**	**205,870**	**3,307,881**
2021				
Additions	887,557	-	1,100,886	1,988,443
Transfers	924,210	-	(924,210)	-
Disposals	(6,357)	-	-	(6,357)
Amortisation charge	(1,126,856)	(95)	-	(1,126,951)
Closing net book amount as at 31 December 2021	**3,779,508**	**962**	**382,546**	**4,163,016**
31 December 2021				
Cost	11,316,084	1,892	382,546	11,700,523
Accumulated amortisation	(7,536,576)	(930)	-	(7,537,507)
Closing net book amount as at 31 December 2021	**3,779,508**	**962**	**382,546**	**4,163,016**

10.2. PROPERTY, PLANT AND EQUIPMENT

	Parent Company						
	Land, buildings EUR	Engineering structures related to electricity transmission EUR	Power transmission lines and related technological equipment EUR	Other equipment related to electricity transmission EUR	Other fixed assets EUR	Assets under construction EUR	TOTAL EUR
31 December 2019							
Cost or revalued amount	-	-	6,815	1,353,397	8,580,572	1,000,165	10,940,949
Accumulated depreciation and impairment	-	-	(6 815)	(954,119)	(4,488,813)	-	(5,449,747)
Net book amount	**-**	**-**	**-**	**399,278**	**4,091,759**	**1,000,165**	**5,491,202**
2020							
Additions as a result of merger (see Note 25)	34,907,876	4,150,155	495,601,436	1,254,658	468,353	106,605,514	642,987,992
Additions	35,100	-	-	307,817	1,328,162	13,343,718	15,014,797
Transfers	1,409,796	58,145	27,540,385	495,874	42,965	(29,547,165)	-
Sold	-	-	-	-	-	(283,386)	(283,386)
Disposals	(60)	-	(34,175)	-	(1,973)	-	(36 208)
Depreciation	(453,293)	(102,216)	(6,280,342)	(329,977)	(1,539,247)	-	(8,705,075)
Transferred	-	-	-	-	-	(109,544)	(109,544)
Closing net book amount as at 31 December 2020	**35,899,419**	**4,106,084**	**516,827,304**	**2,127,650**	**6,517,669**	**91,009,302**	**654,359,778**
31 December 2020							
Cost or revalued amount	39,913,349	7,781,511	1,065,211,783	10,735,329	10,337,446	91,009,302	1,224,988,720
Accumulated depreciation and impairment	(4,013,930)	(3,675,427)	(548,384,479)	(8,607,679)	(5,947,427)	-	(570,628,942)
Net book amount	**35,899,419**	**4,106,084**	**516,827,304**	**2,127,650**	**4,390,019**	**91,009,302**	**654,359,778**
2021							
Additions	-	-	7,729	1,250	5,280,422	27,414,091	32,703,492
Transfers	2,057,299	209,961	93,107,280	484,847	2,061,772	(97,921,159)	-
Sold	-	-	(3,676)	-	-	(92,287)	(95,963)
Disposals	-	-	(256,871)	-	(1,094)	-	(257,965)
Depreciation	(1,475,357)	(541,405)	(26,275,282)	(729,469)	(2,748,523)	-	(31,770,036)
Increase in value of non - current assets due to revaluation	-	987,460	43,873,271	168,764	-	-	45,029,495
Decrease of non-current assets value due to revaluation	-	(3,045)	(14,077,655)	(82,311)	-	-	(14,163,011)
Closing net book amount as at 31 December 2021	**36,481,361**	**4,759,055**	**613,202,100**	**1,970,731**	**8,982,596**	**20,409,947**	**685,805,790**
31 December 2021							
Cost or revalued amount	41,572,109	8,365,473	1,204,172,346	11,471,818	17,669,409	20,409,947	1,303,661,102
Accumulated depreciation and impairment	(5,090,748)	(3,606,418)	(590,970,246)	(9,501,087)	(8,686,813)	-	(617,855,312)
Net book amount	**36,481,361**	**4,759,055**	**613,202,100**	**1,970,731**	**8,982,596**	**20,409,947**	**685,805,790**

	Group								
	Land and buildings EUR	**Engineering structures related to electricity transmission EUR**	**Buildings and structures related to gas transmission EUR**	**Power transmission lines and related technological equipment EUR**	**Other equipment related to electricity transmission EUR**	**Other fixed assets EUR**	**Spare parts emergency reserve EUR**	**Assets under construction EUR**	**TOTAL EUR**
31 December 2019									
Cost or revalued amount	-	-	-	6,815	1,353,397	8,580,572	-	1,000,165	10,940,949
Accumulated depreciation and impairment	-	-	-	(6 815)	(954,119)	(4,488,813)	-	-	(5,449,747)
Net book amount	**-**	**-**	**-**	**-**	**399,278**	**4,091,759**	**-**	**1,000,165**	**5,491,202**
2020									
Additions resulting from acquisition of JSC Conexus Baltic Grid (see Note 25)	1,033,354	-	315,090,692	72,490,889	-	1,987,904	1,404,726	7,929,627	399 937 192
Additions resulting from acquisition of JSC Latvijas elektriskie tīkli (see Note 25)	34,907,876	4,150,155	-	495,601,436	1,254,658	468,353	-	106,605,514	642,987,992
Additions	35,100	-	-	226,151	307,817	1,969,153	-	27,412,030	29,950,251
Transfers	1,409,796	58,145	9,559,651	29,280,214	495,874	42,965	-	(40,846,645)	-
Sold	-	-	-	(6,251)	-	(16)	-	(283,386)	(289,653)
Disposals	(60)	-	(478,878)	(119,006)	-	(2,227)	158,462	(109,545)	(551,254)
Depreciation	(453,294)	(102,216)	(1,851,566)	(7,505,451)	(329,977)	(1,661,734)	-	-	(11 904 238)
Closing net book amount as at 31 December 2020	**36,932,772**	**4,106,084**	**322,319,899**	**589,967,982**	**2,127,650**	**6,896,157**	**1,563,188**	**101,707,760**	**1,065,621,493**
31 December 2020									
Cost or revalued amount	40,946,703	7,781,511	760,911,633	1,196,131,120	10,735 329	17,704,794	1,563,188	101,707,761	2,137,482,039
Accumulated depreciation and impairment	(4,013,930)	(3,675,427)	(438,591,735)	(606,163,138)	(8,607 679)	(10,808,637)	-	-	(1,071,860,546)
Net book amount	**36,932,772**	**4,106,084**	**322,319,898**	**589,967,982**	**2,127,650**	**6,896,157**	**1,563,188**	**101,707,761**	**1,065,621,493**

	Group (continued)								
	Land and buildings EUR	**Engineering structures related to electricity transmission EUR**	**Buildings and structures related to gas transmission EUR**	**Power transmission lines and related technological equipment EUR**	**Other equipment related to electricity transmission EUR**	**Other fixed assets EUR**	**Spare parts emergency reserve EUR**	**Assets under construction EUR**	**TOTAL EUR**
2021									
Additions	-	-	-	405,796	1,250	5,789,868	-	53,004,580	59,201,494
Transfers	2,108,113	209,961	12,852,612	96,249,917	484,847	2,193,704	-	(114,099,154)	-
Sold	-	-	(22,006)	(4,577)	-	(240)	-	(92,287)	(119,110)
Disposals	-	-	(404,182)	(472,559)	-	(2,950)	(24,409)	(83,938)	(988,038)
Depreciation	(1,475,357)	(541,405)	(11,405,968)	(31,156,513)	(729,469)	(3,504,662)	-	-	(48,813,374)
Increase in value of non - current assets due to revaluation	-	987,460	-	43,873,271	168,764	-	-	-	45,029,495
Decrease of non-current assets value due revaluation	-	(3,045)	-	(14,077,655)	(82,311)	-	-	-	(14,163,011)
Closing net book amount as at 31 December 2021	**37,565,528**	**4,759,055**	**323,340,355**	**684,785,662**	**1,970,731**	**11,371,877**	**1,538,779**	**40,436,962**	**1,105,768,949**
31 December 2021									
Cost or revalued amount	42,656,276	8,365,473	771,087,876	1,337,283,799	11,471,818	26,393,089	1,538,779	40,436,961	2,239,234,072
Accumulated depreciation and impairment	(5,090,748)	(3,606,418)	(447,747,521)	(652,498,137)	(9,501,087)	(15,021,212)	-	-	(1,133,465,123)
Net book amount	**37,565,528**	**4,759,055**	**323,340,355**	**684,785,662**	**1,970,731**	**11,371,877**	**1,538,779**	**40,436,962**	**1,105,768,949**

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.

As of 31 December 2021, cost of fully depreciated property, plant and equipment items which are still in use for the Group amounted to 14,011,053 EUR (31 December 2020.: EUR 25,651,643) and for the Parent Company amounted to 6,089,750 EUR (31 December 2020.: 20,752,966 EUR).

In 2021 the Group and the Parent Company have capitalised borrowing costs in the amount of 301,502 EUR (2020: - EUR) (see Note 9b). Rate of capitalised borrowing costs was of 1.14% (2020: -).

The table below summarises the carrying amounts of the revalued groups of Group's assets, assuming that the assets are carried at cost:

	Net book amount as at 31 December 2021 in the absence of revaluation EUR	Net book amount as at 31 December 2021 EUR
Engineering structures related to electricity transmission	1,564,959	4,759,055
Buildings and structures related to gas transmission	159,022,487	323,340,355
Power transmission lines and related technological equipment	630,850,339	684,785,662
Other equipment related to electricity transmission	1,512,509	1,970,731
Total	**792,950,294**	**1,014,855,803**

	Net book amount as at 31 December 2020 in the absence of revaluation EUR	Net book amount as at 31 December 2020 EUR
Engineering structures related to electricity transmission	2,280,646	4,106,084
Buildings and structures related to gas transmission	151,686,892	322,319,898
Power transmission lines and related technological equipment	529,527,760	589,967,982
Other equipment related to electricity transmission	1,202,490	2,127,650
Total	**684,697,788**	**918,521,614**

a) Property, plant and equipment related to electricity transmission system

The following property, plant and equipment of the electricity transmission segment accounted in Power transmission lines and technological equipment are revalued regularly, but not less than once in 5 years:

- engineering structures related to electricity transmission;
- power transmission lines and related technological equipment;
- other equipment related to electricity transmission.

The revaluation of the above groups of property, plant and equipment was performed in 2021, performing valuation of assets as at 1 August 2021. Revaluation was performed by an independent external certified valuer SIA Eiroeksperts.

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

Due to the unique nature and use of the assets, Level 3 data was used for the revaluation, which means that the data is not readily observable in the market for the respective type of assets.

Total fair value of the assets revalued was determined to be EUR 610,732,095. As a result of revaluation increase in value of property, plant and equipment items of EUR 45,029,495 and decrease of EUR 14,163,011 was recognised. Out of these amounts:

- EUR 4,416,052 refer to increase in value of such assets where revaluation loss was previously charged in the statement of profit or loss, while EUR 8,312,289 refer to loss on revaluation of assets without previously recognised revaluation reserve. Both of these were recognised as profit or loss in the statement of profit or loss respectively.
- EUR 34,762,722 refer to the net gain on revaluation of property, plant and equipment that is recognised under comprehensive income for the reporting year and included into revaluation reserve.

Estimation of the replacement value was made based on current material costs and staff costs, which were indexed by increase in material price index and average salary increase rates respectively. Major assumptions made related to the remaining useful life and scrap value remaining at the end of useful life of property, plant and equipment items. It was generally assumed that scrap value remaining at the end of useful life is approximately 5% of cost of respective property, plant and equipment item.

Sensitivity of valuation made towards the following components used in valuation presented below:

- +/- 1 year change in useful life of property, plant and equipment item;
- +/- 1 percentage point change in the value of property, plant and equipment item remaining after deduction of the scrap value at the end of useful life;
- +/- 1% change in proportion of salary costs to other costs in the total replacement costs of property, plant and equipment item;
- +/- 1% change in salary increase rates;
- +/- 1% change in material price index.

Changes in assumptions made	Value if assumption decreases by "-", EUR	Calculated fair value, EUR	Value if assumption increases by "+", EUR
Useful life, years -/+ 1 year	601,324,644	610,732,095	620,669,112
1-scrap value, 96%/94%	605,577,876	610,732,095	615,900,803
Proportion of salaries to other costs, -1%/+1%	609,709,301	610,732,095	611,751,823
Salary increase rates, -1%/+1%	609,810,272	610,732,095	611,653,610
Material price index, -1%/+1%	606,520,890	610,732,095	614,941,851

As evident from the summary above, the factor that affect the fair value the least is the change in salary increase rates and proportion of salaries to other costs, while the factors that affect the fair value calculations the most are useful life estimates, material price index, and scrap value of property, plant and equipment. While analysing the results of valuation made, it should be noted that for all the assumptions except for useful life and scrap value impact, sensitivity was analysed for 1% change. Sensitivity of useful life was assessed for change of one year, which for a property, plant and equipment item with useful life of 40 years implies a change of +/- 2.5%, while sensitivity of scrap value was assessed as change of one percentage point (comparing results for 95% with results for 94% or 96%).

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 2.3 and Note 2.14.

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

	Cost in the absence of revaluation EUR	Accumulated depreciation if no revaluation was performed EUR	Net book amount as at 31 December 2021 in the absence of revaluation EUR	Net book amount as at 31 December 2021 EUR
Engineering structures related to electricity transmission	6,034,892	4,469,933	1,564,959	4,759,055
Power transmission lines and related technological equipment	1,136,669,755	560,896,132	575,773,623	613,202,100
Other equipment related to electricity transmission	9,542,738	8,030,229	1,512,509	1,970,731
Total	**1,152,247,385**	**573,396,294**	**578,851,091**	**619,931,886**

	Cost in the absence of revaluation EUR	Accumulated depreciation if no revaluation was performed EUR	Net book amount as at 31 December 2020 in the absence of revaluation EUR	Net book amount as at 31 December 2020 EUR
Engineering structures related to electricity transmission	5,095,399	2,814,753	2,280,646	4,106,084
Power transmission lines and related technological equipment	1,034,298,208	559,490,430	474,807,778	516,827,304
Other equipment related to electricity transmission	5,489,164	4,286,674	1,202,490	2,127,650
Total	**1,044,882,771**	**566,591,857**	**478,290,914**	**523,061,038**

Property, plant and equipment related to natural gas transmission and storage

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 related to gas transmission, power transmission lines and related technological equipment.

The revaluation of fixed assets in the natural gas transmission and storage segment was performed in 2020. Due to the unique nature and use of the assets, Level 3 data was used for the revaluation, which means that the data is not readily observable in the market for the respective type of assets. During this revaluation (the previous one took place in 2016, when the assets were owned by JSC Latvijas Gāze) the level of data used in making 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 the 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 the average construction cost at the time of the revaluation. Data on the construction of similar facilities in recent years available to Conexus are also used to determine the values. 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 construction costs fall or material costs fall, the value of the assets will also fall.

In addition to the initial value, the accumulated depreciation of each asset was determined, taking into account the physical, functional and technical depreciation of the asset as the main factors here. If the revalued assets are used significantly differently or are functionally depreciated, the value of the revalued assets may decrease or increase significantly.

When an item of property, plant and equipment is revalued in accordance with IAS 16, the carrying amount of the asset is adjusted for the revalued amount. In recognizing the results of revaluation of property, plant and equipment, the initial value and residual value of the property, plant and equipment are replaced by valuation values. The accumulated depreciation on a disproportionate basis at the revaluation date is adjusted to equal the difference between the initial carrying amount of the asset and the remaining carrying amount of the asset, after deducting any accumulated impairment losses.

The average increase in construction costs was determined on the basis of various sources, including projects implemented by Conexus, comparative indicators of equivalent market participants, data of the Central Statistical Bureau (hereinafter - CSB). Changes in material, labour and machinery costs were taken into account. The average cost increase was calculated taking into account the impact percentage of each calculation model. Overall, the average cost increase applied in the revaluation of gas pipelines compared to the valuation performed in 2016 was 19%. The increase in the value of wells was determined by analysing the information provided by Conexus on well reconstruction works and CSB information (2017-2019). The precautionary principle has been observed in the calculations, applying the increase of the CSB average construction costs (materials, labour, machinery) in 2017-2019, i.e. ~ 12%.

Management has assessed the price level of pipelines and general construction in 2021 and has not identified any significant changes compared to January 2020, when the revaluation was performed. 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.

10.3. DEPRECIATION AND AMORTIZATION

	Parent Company		Group	
	2021	2020	2021	2020
	EUR	EUR	EUR	EUR
Depreciation of property, plant and equipment (Note 10.2)	(31,770,036)	(8,705,075)	(48,813,374)	(11,904,238)
Amortisation of intangible assets (Note 10.1)	(457,992)	(656,971)	(1,126,951)	(844,516)
Depreciation of right-of use assets (Note 21)	(780,036)	(27,798,940)	(873,488)	(27,891,451)
Depreciation and amortisation	**(33,008,064)**	**(37,160,987)**	**(50,813,813)**	**(40,640,203)**
Decrease in value of non - current assets due to revaluation (Note 10.2a)	(8,312,289)	-	(8,312,289)	-
Increase of non-current assets value due to revaluation (Note 10.2a)	4,416,052	-	4,416,052	-
TOTAL depreciation, amortization and impairment, of intangible assets and property, plant and equipment	**(36,904,301)**	**(37,160,987)**	**(54,710,050)**	**(40,640,203)**
Disposals and other adjustments	(257,965)	(36,208)	(994,393)	(667,954)
Impairment of intangible assets and property, plant and equipment	**(4,154,202)**	**(36,208)**	**(4,890,630)**	**(667,954)**

11. NON-CURRENT FINANCIAL INVESTMENTS

	Parent Company		Group	
	31.12.2021. EUR	31.12.2020. EUR	31.12.2021. EUR	31.12.2020. EUR
Participation in the capital of subsidiaries:	**134,394,971**	**134,394,971**	**-**	**-**
JSC Conexus Baltic Grid	134,394,971	134,394,971	-	-
Ownership in the capital of other companies:	**1,422**	**1,422**	**1,422**	**1,422**
JSC Pirmais slēgtais pensiju fonds	1,422	1,422	1,422	1,422
At the end of the year	**134,396,393**	**134,396,393**	**1,422**	**1,422**

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

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%

Summarised financial information for subsidiaries:

Name of the Company	Equity		Net profit for the year		Dividends from subsidiaries (in 2020 dividends from associate)	
	31.12.2021.	31.12.2020.	2021	2020	2021	2020
JSC Conexus Baltic Grid	332,404,307	404,648,669	13,216,732	13,111,806	58,286,236	5,604,642

In 2021 dividends from subsidiaries received in cash in the amount EUR 58,286,236 (dividends from associate in 2020: EUR 5,604,642 received in cash). Dividends paid to non-controlling interest amounted to EUR 26,855,994 (2020: EUR 10,707,655).

Summarised financial information for non-controlling interests:

Name of the Company	Non-current assets		Current assets		Non-current liabilities		Current liabilities	
	31.12.2021.	31.12.2020.	31.12.2021.	31.12.2020.	31.12.2021.	31.12.2020.	31.12.2021.	31.12.2020.
JSC Conexus Baltic Grid (31.54%)	436,611,515	427,608,472	31,458,768	25,483,483	80,261,106	12,264,082	55,404,870	36,179,204

Prior to 21 July 2020 JSC Conexus Baltic Grid was associate company of the Group with percentage of ownership being 34.36%. Financial information and legal information on associate is the same as presented for the subsidiary above. Changes in the value of the investment in the associate JSC Conexus Baltic Grid before the acquisition of control are presented below. For more details on acquisition of control refer to Note 25a):

	EUR
31 December 2019	**110,780,752**
Share of profit of associate	3,080,996
Share of other comprehensive income of associate	28,120,629
Dividends	(5,604,592)
Carrying amount as at 31 July 2020	**136,377,785**

Despite the fact that control over subsidiary was obtained by the Parent Company on 21 July 2020, consolidation was commenced from 1 August 2020. There were no material transactions recorded by the subsidiary from 21 July until 1 August 2020.

12. INVENTORIES

	Parent Company		Group	
	31.12.2021. EUR	31.12.2020. EUR	31.12.2021. EUR	31.12.2020. EUR
Materials and spare parts	517,327	514,087	2,214,542	2,137,535
Natural gas	-	-	983,496	1,477,709
Advances paid for inventories	-	-	30,051	-
Impairment of slow-moving inventories	-	-	(84,223)	(80,154)
TOTAL inventories	**517,327**	**514,087**	**3,143,866**	**3,535,090**

13. RECEIVABLES FROM CONTRACTS WITH CUSTOMERS

	Parent Company		Group	
	31.12.2021. EUR	31.12.2020. EUR	31.12.2021. EUR	31.12.2020. EUR
Receivables from contracts with customers				
Electricity transmission system service debt	21,083,293	10,632,993	21,083,293	10,632,993
Other receivables	429,929	547,461	13,803,063	7,402,155
TOTAL receivables from contracts with customers	**21,513,222**	**11,180,454**	**34,886,356**	**18,035,148**
Expected credit losses				
For other trade receivables	(4,350)	(15,617)	(4,350)	(15,617)
TOTAL expected credit losses	**(4,350)**	**(15,617)**	**(4,350)**	**(15,617)**
Receivables from contracts with customers, net				
Electricity transmission system service debt	21,083,293	10,632,993	21,083,293	10,632,993
Other trade receivables	425,579	531,843	13,798,713	7,386,537
TOTAL receivables from contracts with customers, net	**21,508,872**	**11,164,836**	**34,882,006**	**18,019,530**

Expected credit losses on receivables from contracts with customers	Parent Company		Group	
	31.12.2021. EUR	31.12.2020. EUR	31.12.2021. EUR	31.12.2020. EUR
At the beginning of the reporting year	15,617	31,154	15,617	31,154
Included in the profit or loss statement	(11,267)	(15,537)	(11,267)	(15,537)
At the end of the reporting year	**4,350**	**15,617**	**4,350**	**15,617**

14. OTHER RECEIVABLES

	Parent Company		Group	
	31.12.2021. EUR	31.12.2020. EUR	31.12.2021. EUR	31.12.2020. EUR
Deposits	-	25,000,000	-	25,000,000
Receivables related to European Union funded projects (see Note 19)	1,174,056	31,570,973	1,174,056	31,570,973
Other financial assets	**1,174,056**	**56,570,973**	**1,174,056**	**56,570,973**
Overpaid corporate income tax	11,512	11,512	11,512	11,512
Deferred expenses	528,957	629,093	946,096	979,586
Other receivables	64,879	8,442	430,065	101,444
Other non-financial assets	**605,348**	**649,047**	**1,387,673**	**1,092,542**
TOTAL other receivables	**1,779,404**	**57,220,020**	**2,561,729**	**57,663,515**

15. INCOME TAX

	Parent Company		Group	
	2021 EUR	2020 EUR	2021 EUR	2020 EUR
Corporate income tax	-	-	(2,256,640)	-
Deferred corporate income tax	-	-	320,468	(853,056)
TOTAL income tax	**-**	**-**	**(1,936,172)**	**(853,056)**

Corporate income tax refers to tax paid by the subsidiary of the Group on dividend distribution made during the reporting period.

Deferred corporate income tax

Deferred tax for the Group is calculated as tax on retained earnings of subsidiaries to be paid out in dividends during following three years, taking into account percentage of dividends determined by the strategy of the subsidiary as approved by the Parent company – for the Group it is stated that 90%

of profit for the year of subsidiary is to be distributed as dividends. Portion of deferred tax attributable to the dividends receivable by the non-controlling interest is attributed to the value of non-controlling interest within equity.

	2021	2020
Deferred corporate income tax at the beginning of the reporting year	5,152,360	-
Deferred corporate income tax from acquisition of subsidiary	-	4,299,304
Increase in deferred corporate income tax during the reporting year	(320,468)	853,056
Deferred corporate income tax at the end of the reporting year	**4,831,892**	**5,152,360**

16. CASH

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

17.EQUITY

Share capital

Share capital of the Parent Company is comprised of the following:

	Number of outstanding shares	Ordinary shares, EUR
At 1 January 2020	**64,218,079**	**64,218,079**
New shares issued	299,678,000	299,678,000
At 31 December 2020	**363,896,079**	**363,896,079**
New shares issued	1,999,878	1,999,878
At 31 December 2021	**365,895,957**	**365,895,957**

The Group's share capital consists of the Parent Company's ordinary shares. All shares have been fully paid.

In accordance with the decision of the Shareholders' Meeting of 28 May 2021 of JSC Augstsprieguma tīkls (Minutes No. 1, § 1 and § 2), an investment in the share capital of the Company in the amount of EUR 1,999,878 has been made via capitalisation of retained earnings.

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 (out of this EUR 77,000,000 as cash payment and EUR 222,678,000 as a contribution in kind investing shares of JSC Latvijas elektriskie tīkli).

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

In 2020 – EUR 1,735,958;

In 2021 – EUR 7,999,514.

Reserves

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

The Group's reserves consist of the revaluation reserve for property, plant and equipment, 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.

Non-controlling interests

Information on non-controlling interest is disclosed in Note 11. Apart from dividends paid, there were no other transactions with non-controlling interests.

18. EMPLOYEE BENEFIT OBLIGATIONS

	Parent Company		Group	
	31.12.2021. EUR	31.12.2020. EUR	31.12.2021. EUR	31.12.2020. EUR
At the beginning of the year	**2,636,255**	**2,709,686**	**3,664,749**	**3,824,202**
Credited to the Statement of Comprehensive Income	1,075,235	(384,250)	1,403,457	(410,488)
Credited to the Statement of Profit or Loss	(285,013)	310,819	(267,594)	251,035
At the end of the year	**3,426,477**	**2,636,255**	**4,800,612**	**3,664,749**

	Parent Company		Group	
	31.12.2021. EUR	31.12.2020. EUR	31.12.2021. EUR	31.12.2020. EUR
At the beginning of the year	**2,636,255**	**2,709,686**	**3,664,749**	**3,824,202**
Termination benefits paid	(325,546)	(92,041)	(428,438)	(244,772)
Changes in provisons	1,115,768	18,610	1,564,301	85,319
At the end of the year	**3,426,477**	**2,636,255**	**4,800,612**	**3,664,749**

Further details on underlying assumptions and sensitivity analysis of those are provided in Note 2.14.

19. DEFERRED INCOME

	Parent Company		Group	
	31.12.2021. EUR	Restated 31.12.2020. EUR	31.12.2021. EUR	Restated 31.12.2020. EUR
a) Non-current deferred income				
- from connection fees	38,249,840	39,995,011	38,249,840	39,995,011
Non-current deferred income from contracts with customers	**38,249,840**	**39,995,011**	**38,249,840**	**39,995,011**
- on financing from European Union funds	140,707,294	112,672,698	158,863,339	123,454,434
- on financing receivable from European Union funds	-	31,570,973	-	31,570,973
- from congestion charge revenue	105,094,610	95,608,651	105,094,610	95,608,651
Non-current other deferred income	**245,801,904**	**239,852,322**	**263,957,949**	**250,634,058**
TOTAL non-current deferred income	**284,051,744**	**279,847,333**	**302,207,789**	**290,629,069**
b) Current deferred income				
- from connection fees	3,375,254	3,379,561	3,612,539	3,379,561
- from IPGK (Inčukalns underground gas storage) reserved capacity charges	-	-	-	903,165
Current deferred income from contracts with customers	**3,375,254**	**3,379,561**	**3,612,539**	**4,282,726**
- unfinished projects funded from European Union, including	950,636	162,277	950,636	162,277
Project "Implementation of Baltic Synchronisation Project Phase II"	*777,947*	-	*777,947*	-
Project "EU-SysFlex "Pan-European system with an efficient coordinated use of flexibilities for the integration of a large share of RES"	*37,812*	*37,812*	*37,812*	*37,812*
Project "Study on Dynamic behaviour of synchronously interconnected Baltic States and Continental European electricity network"	*26,250*	*26,250*	*26,250*	*26,250*
Project "TSO-DSO-Consumer INTERFACE aRchitecture to provide innovative grid services for an efficient power system"	*108,628*	*98,215*	*108,628*	*98,215*
- completed projects funded by European Union	2,443,153	2,320,835	2,978,118	2,670,600
- on financing receivable from European Union funds	1,174,056	-	1,174,056	-
- from congestion charge revenue	1,187,754	273,144	1,187,754	273,144
- from another project financing	-	-	4,652	-
Current other deferred income	**5,755,599**	**2,756,256**	**6,295,216**	**3,106,021**
TOTAL current deferred income	**9,130,853**	**6,135,817**	**9,907,755**	**7,388,747**

Movement of deferred income from contracts with customers (non-current and current part):	Parent Company 31.12.2021. EUR	Parent Company 31.12.2020. EUR	Group 31.12.2021. EUR	Group 31.12.2020. EUR
At the beginning of the reporting year	**43,374,572**	**44,219,190**	**43,374,572**	**44,219,190**
Connection fees are included in the profit or loss statement	(3,409,718)	(844,618)	(3,409,718)	(844,618)
At the end of the reporting year	**39,964,854**	**43,374,572**	**39,964,854**	**43,374,572**

Movement of other deferred income (non-current and current part):	Parent Company 31.12.2021. EUR	Parent Company 31.12.2020. EUR	Group 31.12.2021. EUR	Group 31.12.2020. EUR
At the beginning of the reporting year	**242,608,578**	**245,382,093**	**254,643,244**	**256,814,564**
EU financing receivable*	1,207,955	4,647,102	1,207,955	4,647,102
Receipt of prior period accrued EU financing*	(31,604,872)	-	(31,604,872)	-
Received deferred income from European Union financing (cash)	32,393,231	3,022,400	40,210,739	3,022,400
Deferred revenue from connection fees received	1,660,242	40,667	1,660,242	40,667
Congestion management revenue received	11,441,072	1,640,602	11,441,072	1,640,602
IPGK reserved capacity charges	-	-	237,284	903,165
Capitalized co-financed project	-	-	130,468	-
Long-term deferred revenue from usage rights is excluded (see Note 10.1)	-	(11,043,332)	-	(11,043,332)
Revenue from congestion charges is included in the profit or loss statement	(1,040,506)	(499,274)	(1,040,506)	(499,274)
European Union funding is included in the profit or loss statement	(3,447,957)	(581,681)	(4,734,936)	(882,651)
At the end of the reporting year	**253,217,743**	**242,608,578**	**272,150,690**	**254,643,244**
TOTAL At the end of the reporting period	**293,182,597**	**285,983,150**	**312,115,544**	**298,017,816**

* Financing receivable from the European Union (related to assets) is recognized once the Group and the Parent Company have fulfilled all the conditions associated with the receipt of the said financing and have an unconditional right of receiving the funding. The conditions associated with the financing are as follows: the Parent Company and the Group ensure the management, application of internal controls and accounting for the Group's and the Parent Company's projects financed by the European Union funds, according to the guidelines of the European Union and legislation of the Republic of

Latvia. Accounting of the transactions related to the projects financed by the European Union is ensured using separately identifiable accounts. The Parent Company and the Group ensure separate accounting of financed projects with detailed eligible income and expense, non-current investments and value added tax. If the funds are not received by the end of the reporting period, receivable is recognized on the balance sheet within "Other receivables".

Maturity of deferred income:

	Parent Company		Group	
	31.12.2021. EUR	31.12.2020. EUR	31.12.2021. EUR	31.12.2020. EUR
Deferred income on financing from European Union funds				
1 year or less	4,567,845	2,483,112	5,102,810	2,832,877
1-5 years	14,119,928	14,189,710	14,119,928	14 189 710
More than 5 years	126,587,366	130,053,961	144,743,411	140 835 697
Deferred income from congestion charge revenue				
1 year or less	1,187,754	273,144	1,187,754	273,144
1-5 years	4,642,837	6,604,559	4,642,837	6,604,559
More than 5 years	100,451,773	89,004,092	100,451,773	89,004,092
Deferred income from connection fees				
1 year or less	3,375,254	3,379,561	3,612,539	3,379,561
1-5 years	13,555,075	13,615,486	13,555,075	13,615,486
More than 5 years	24,694,765	26,379,525	24,694,765	26,379,525
Deferred income from IPGK reserved capacity charges				
1 year or less	-	-	-	903,165
Deferred income from another project financing				
1 year or less	-	-	4,652	-
Total deferred income	**293,182,597**	**285,983,150**	**312,115,544**	**298,017,816**

20. BORROWINGS

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

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

After the investment of JSC Latvijas elektriskie tīkli shares in JSC Augstsprieguma tīkls in June 2020, JSC Augstsprieguma tīkls ensured the attraction of the borrowed capital necessary for financing capital investments. On 18 June 2020, a loan agreement was concluded with JSC SEB banka for EUR 116 200 thousand with a maturity of 18 months (repayment date of the principal amount on 18 December 2021), interest rate of 0.74% plus 3 months EURIBOR. The purpose of this loan was to partially refinance the liabilities of JSC Latvijas elektriskie tīkli to JSC Latvenergo. The loan was unsecured.

In October 2021, the loan from JSC SEB banka was refinanced by issuing unsecured green bonds in the amount of EUR 100 000 thousand.

The total amount of the Bond Issue programme is in the amount of up to EUR 160 000 thousand within possibility of additional issues once required. The bonds are listed on the Nasdaq Riga stock exchange with a fixed coupon rate of 0.5% per annum and a maturity date of 20 January 2027. The Parent Company is entitled to redeem each series of bonds issued, in whole but not in part, at any time during the period of 3 (three) month prior to their maturity at a price equal to the nominal amount of the notes together with the accrued interest.

In addition to the events of default conditions, the Cross-default condition is included if the outstanding debts of the Parent Company and its subsidiary individually or in total exceed EUR 20 000 thousand.

For the financing of working capital, an overdraft agreement was concluded between JSC Augstsprieguma tīkls and JSC SEB banka for up to EUR 20 000 thousand with a maturity until 18 June 2023, at interest rate of 0.35% plus 3 months EURIBOR. The overdraft is unsecured. During the reporting period and till authorisation of these financial statements the specified covenants (DEBT/EBITDA ≤ 6 ; DSCR≥ 1,2; Equity ratio ≥ 25%; 100% State owned) of the contract are met, JSC Augstsprieguma tīkls has fulfilled all covenants (see Key financial and operational indicators). JSC Augstsprieguma tīkls did not use the funding available under this facility during the year.

The subsidiary of the Parent Company natural gas operator JSC Conexus Baltic Grid attracts external financing. During the reporting year, JSC Conexus Baltic Grid received loans from the Nordic Investment Bank, JSC SEB banka, OP Corporate Bank plc Latvia Branch and JSC Swedbank. At the year end Conexus has overdraft agreements with JSC SEB banka, OP Corporate Bank plc Latvia Branch; however, none of these facilities were used during the year. All loans of JSC Conexus Baltic Grid are denominated in euros and unsecured.

At the end of the reporting period, the Parent Company weighted average interest rate on long-term loans is 0.5% (in 2020: 1.1%). 100% of long-term loans have a fixed loan interest rate (on 31 December 2020: 43%).

At the end of the reporting period, the Group's weighted average interest rate on long-term loans is 0.44% (in 2020: 1.1%). 75% of Group's long-term loans have a fixed loan interest rate (on 31 December 2020: 39%). All loans of the Group are denominated in euros and unsecured.

Borrowings from credit institutions and related parties:

	Parent Company		Group	
	31.12.2021. EUR	31.12.2020. EUR	31.12.2021. EUR	31.12.2020. EUR
Non-current borrowings from related parties	-	86,672,207	-	86,672,207
Non-current borrowings from credit institutions	-	-	60,282,986	-
Non-current portion of issued debt securities (bonds)	99,866,288	-	99,866,288	-
Current borrowings from credit institutions	-	116,200,000	37,772,866	138,075,000
TOTAL borrowings	**99,866,288**	**202,872,207**	**197,922,140**	**224,747,207**
Non-current accrued interest on borrowings from related parties	-	412,174	-	412,174
Non – current accrued liabilities for coupon interest expenses on issued debt securities (bonds)	100,000	-	100,000	-
Current accrued interest on borrowings from credit institutions	-	-	37,369	-
TOTAL	**99,966,288**	**203,284,381**	**198,059,509**	**225,159,381**
Of which				
Non-current	99,966,288	87,084,381	160,249,274	87,084,381
Current	-	116,200,000	37,810,235	138,075,000

Movement in borrowings

	Parent Company		Group	
	31.12.2021. EUR	31.12.2020. EUR	31.12.2021. EUR	31.12.2020. EUR
At the beginning of the reporting year	**203,284,381**	**-**	**225,159,381**	**23 333 333**
Borrowings received from related parties*	-	225,232,207	-	225,232,207
Borrowings received from credit institutions	-	116,200,000	84,949,950	116 200 000
Receipt from issue of debt securities (bonds)	99,861,000	-	99,861,000	-
Borrowings repaid to related parties	(86,672,207)	(138,560,000)	(86,672,207)	(138,560,000)
Borrowings repaid to credit institutions	(116,200,000)	-	(124,969,097)	(1 458 333)
Calculated borrowing interest rates for related parties	1,340,530	412,174	1,340,530	984,046
Calculated borrowing interest rates for credit institutions	726,121	441,883	988,116	441,883
Interest accrued on issued bonds	105,288		105,288	
Paid interest on loans to related parties	(1,752,704)	-	(1,752,704)	-
Paid interest on loans to credit institutions	(726,121)	(441,883)	(950,748)	(1,013,755)
Changes in borrowings, net	**(103,318,093)**	**203,284,381**	**(27,099,872)**	**201,826,048**
At the end of the reporting year	**99,966,288**	**203,284,381**	**198,059,509**	**225,159,381**

Movement in lease liabilities is presented separately in Note 21.

* Borrowings received from related parties refer to loan taken over from JSC Latvijas Elektriskie Tīkli as a result of merger for the Parent Company / acquisition for the Group.

Maturity of borrowings:

	Parent Company		Group	
	31.12.2021. EUR	31.12.2020. EUR	31.12.2021. EUR	31.12.2020. EUR
Non-current and current borrowings with fixed interest rates:				
1 year or less (short-term portion of non-current borrowings)	100,000	-	100,000	-
1–5 years	-	87,084,381	8,000,000	87,084,381
more than 5 years	99,866,288	-	121,866,288	-
Total	**99,966,288**	**87,084,381**	**129,966,288**	**87,084,381**
Non-current and current borrowings with variable interest rates:				
1 year or less (non-current borrowings)	-	-	24,949,950	-
1 year or less (short-term portion of non-current borrowings)	-	116,200,000	12,860,285	138,075,000
1–5 years	-	-	30,282,986	-
Total	**-**	**116,200,000**	**68,093,221**	**138,075,000**
Total borrowings	**99,966,288**	**203,284,381**	**198,059,509**	**225,159,381**

21. LEASE OF ASSETS

	Parent Company		Group	
	31.12.2021. EUR	31.12.2020. EUR	31.12.2021. EUR	Restated 31.12.2020. EUR
21 a) Right-of-use assets				
Carrying value at the beginning of the reporting period	**14,212,293**	**35,920,323**	**14,715,877**	**36,453,057**
Additions as a result of merger	-	14,398,775	-	14,398,775
Consolidation of JSC Latvijas elektriskie tīkli*	-	-	-	(12,272,204)
Amendments made to lease contract terms	57,729	(8,307,865)	98,705	(8,250,468)
Additions to right-of-use assets	1,145,431	-	1,145,431	-
Depreciation	(780,036)	(27,798,940)	(873,488)	(15,613,283)
Carrying value at the end of the reporting period	**14,635,417**	**14,212,293**	**15,086,525**	**14,715,877**
21 b) Non-current and current lease liabilities				
Liabilities at the beginning of the reporting period	**14,418,995**	**37,475,766**	**14,933,065**	**38,019,221**
Increase in lease liabilities due to merger	-	14,580,829	-	14,580,829
Consolidation of JSC Latvijas elektriskie tīkli	-	-	-	(12 376 739)
Amendments made to lease contract terms	57,729	(9 876 719)	98,705	(9 819 322)
New lease contracts	1,145,431	-	1,145,431	-
Repayment of lease	(683,173)	(27 760 881)	(770,882)	(15 470 924)
Interest paid	(237,970)	(145,982)	(260,821)	(170,918)
Interest calculated	237,970	145,982	260,821	170,918
Liabilities at the end of the reporting period	**14,938,982**	**14,418,995**	**15,406,319**	**14,933,065**
Of which				
Non-current	14,199,182	13,761,561	14,647,122	14,215,413
Current	739,800	657,434	759,197	717,652

*The Group and the Parent Company have concluded several agreements for lease of land and real estate, including significant agreement concluded with JSC Latvenergo (property owner) in 2011 with maturity term until 2044 on a lease of fiber in combined optical cable (OPGW - optical ground wire with dual function) ensuring electricity transmission and located on electricity transmission line with its metallic wiring ensuring 330 kV and 110 kV electricity transmission line safety against overload from lightning strikes.

Maturity of future lease payments on a discounted cash flow basis:

	Parent Company		Group	
	31.12.2021. EUR	31.12.2020. EUR	31.12.2021. EUR	31.12.2020. EUR
1 year or less	739,800	657,434	759,197	717,652
1-5 years	2,149,613	2,333,079	2,597,553	2,786,931
More than 5 years	12,049,569	11,428,482	12,049,569	11,428,482
Total lease payments	**14,938,982**	**14,418,995**	**15,406,319**	**14,933,065**

22. TRADE PAYABLES AND OTHER CREDITORS

	Parent Company		Group	
	31.12.2021. EUR	Restated 31.12.2020. EUR	31.12.2021. EUR	Restated 31.12.2020. EUR
Financial liabilities				
Payables for electricity and natural gas	17 595 113	2 147 989	17 639 639	2 227 195
Payables for materials and services	8,036,035	5,938,088	15,281,343	13,495,359
Total accounts payable	**25,631,148**	**8,086,077**	**32,920,983**	**15,722,557**
Accrued expenses	15,902	-	6,108,141	2,912,784
Other financial current payables	2,907,326	1,591,212	3,931,938	2,321,906
TOTAL financial liabilities	**28,554,376**	**9,677,289**	**42,961,061**	**20,957,244**
Non–financial liabilities				
State social security contributions and other taxes	299,430	1,754,449	504,163	2,021,595
Connection fee advances received	1,247,950	602,252	1,247,950	602,252
Advances received	131	-	956,942	653,285
Other non–financial current payables	2,319,653	2,361,044	3,549,100	3,151,159
TOTAL non-financial liabilities	**3,867,164**	**4,717,745**	**6,258,155**	**6,428,291**
TOTAL trade and other current payables	**32,421,540**	**14,395,034**	**49,219,216**	**27,385,534**

Movement in connection fee advances received:

	Parent Company		Group	
	31.12.2021. EUR	31.12.2020. EUR	31.12.2021. EUR	31.12.2020. EUR
At the beginning of the reporting period	**602,252**	**1,095,621**	**602,252**	**1,095,621**
Connection fee advances received	985,256	1,163,218	985,256	1,163,218
Advances transferred to deferred income upon completion of construction of connection object	(339,558)	(1,656,587)	(339,558)	(1,656,587)
At the end of the reporting period	**1,247,950**	**602,252**	**1,247,950**	**602,252**

23. FAIR VALUE CONSIDERATIONS

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 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.

Fair value of financial assets and liabilities and assets measured at fair value

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

The fair value of borrowings and leases liabilities is assessed by discounting future cash flows by applying market interest rates. As the interest rates applied to borrowings were determined recently and do not differ materially from market interest rates (although being fixed), while interest rates applied to lease liabilities are assessed as similar to current market interest rates, with the risk premium applied to the Group and the Parent Company not changed significantly, the fair value of non-current liabilities approximates their carrying amount.

Despite bonds (included into borrowings) being listed, market transactions are rare and cannot be considered representative of an active market. Thus Level 1 measurements are not applied to bonds issued. As a result fair value of bonds is determined by discounting future cash flows by applying market interest rates. As the interest rates applied to bonds were determined during 2021 and do not differ materially from market interest rates and risk premium applied to the Group and the Parent Company has not changed significantly, the fair value of bonds approximates their carrying amount.

Management assessed that cash and short–term deposits, receivables, trade payables, bank overdrafts and other current liabilities approximate their carrying amounts largely due to the short–term maturities of these instruments.

	Parent Company			
	Carrying amount EUR	Level 1, EUR	Level 2, EUR	Level 3, EUR
31.12.2020.				
Assets that are measured at fair value:				
Revalued property, plant and equipment (Note 10.2 (a))	523,061,038	-	-	523,061,038
Financial assets:				
Cash (Note 16)	32,224,560	-	32,224,560	-
Receivables from contracts with customers (Note 13)	11,164,836	-	-	11,164,836
Deposit (Note 14)	25,000,000	-	25,000,000	-
Other long-term financial investments (Note 11)	1,422	-	-	1,422
Other receivables (Note 14)	31,570,973	-	-	31,570,973
Financial liabilities:				
Borrowings (Note 20)	203,284,381	-	203,284,381	-
Lease liabilities (Note 21)	14,418,995	-	-	14,418,995
Trade payables and other creditors (Note 22)	9,677,289	-		9,677,289
31.12.2021.				
Assets that are measured at fair value:				
Revalued property, plant and equipment (Note 10.2 (a))	619,931,886	-	-	619,931,886
Financial assets:				
Cash (Note 16)	48,513,943	-	48,513,943	-
Receivables from contracts with customers (Note 13)	21,508,872	-	-	21,508,872
Other long-term financial investments (Note 11)	1,422	-	-	1,422
Other receivables (Note 14)	1,174,056	-	-	1,174,056
Financial liabilities:				
Borrowings (Note 20)	99,966,288	-	99,966,288	-
Lease liabilities (Note 21)	14,938,982	-	-	14,938,982
Trade payables and other creditors (Note 22)	28,554,376	-	-	28,554,376

Balance item	Group			
	Carrying amount EUR	Level 1, EUR	Level 2, EUR	Level 3, EUR
31.12.2020.				
Assets that are measured at fair value:				
Revalued property, plant and equipment (Note 10.2)	918,521,615	-	-	918,521,615
Financial assets:				
Cash (Note 16)	47,388,296	-	47,388,296	-
Receivables from contracts with customers (Note 13)	18,019,530	-	-	18,019,530
Deposits (Note 14)	25,000,000	-	25,000,000	-
Other long-term financial investments (Note 11)	1,422	-	-	1,422
Other receivables (Note 14)	31,570,973	-	-	31,570,973
Financial liabilities:				
Borrowings (Note 20)	225,159,381	-	225,159,381	-
Lease liabilities (Note 21)	14,933,065	-	-	14,933,065
Trade payables and other creditors (Note 22)	20,957,244	-	-	20,957,244
31.12.2021.				
Assets that are measured at fair value:				
Revalued property, plant and equipment (Note 10.2)	1,014,855,803	-	-	1,014,855,803
Financial assets:				
Cash (Note 16)	63,190,053	-	63,190,053	-
Receivables from contracts with customers (Note 13)	34,882,006	-	-	34,882,006
Other long-term financial investments (Note 11)	1,422	-	-	1,422
Other receivables (Note 14)	1,174,056	-	-	1,174,056
Financial liabilities:				
Borrowings (Note 20)	198,059,509	-	198,059,509	-
Lease liabilities (Note 21)	15,406,319	-	-	15,406,319
Trade payables (Note 22)	42,961,061	-	-	42,961,061

There have been no transfers for assets between Level 1, Level 2 and Level 3 during the reporting period.

24. FINANCIAL RISK MANAGEMENT

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

Group companies, in which the participation of JSC Augstsprieguma tīkls is less than 100%, but which are controlled by the Parent Company develop and approve their Financial Risk Management Policies, if necessary, which are in line with the basic principles of the Group's policy.

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

The Group and the Parent Company comply with prudential liquidity risk management, ensuring that appropriate financial resources are available to it for the settlement of liabilities when they fall due.

Liquidity risk

Liquidity risk is related to the Group's and Parent Company's ability to meet their obligations when those are due. To mitigate unpredictable cash flow fluctuations caused by operational risk and minimise short-term liquidity risk, the Group and the Parent Company provide availability of a reserve resources in the form of either cash or available credit facility for the next 24 months.

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

In order to refinance the liabilities taken over as a result of the reorganisation, to ensure the availability of capital, the Group 's and the Parent Company's management has approved the Fundraising Strategy for 2021–2025. The Group's and the Parent Company's management believes that the Group and the Parent Company will have sufficient financial resources to ensure their liquidity is not endangered.

Analysis of the terms of financial and lease liabilities by their contractual cash flows, including interest payments, eur

	Carrying value	Parent Company				
		2021	2022	2023	2024 -...	Total
31.12.2020.						
Lease liabilities	14,418,995	876,130	742,341	698,041	15,042,382	17,358,894
Borrowings from banks	116,200,000	117,040,772	-	-	-	117,040,772
Borrowing from JSC Latvenergo	87,084,381	1,386,755	44,181,639	43,478,631	-	89,047,025
Trade payables and others creditors	9,677,289	9,677,289	-	-	-	9,677,289
Total	**227,380,665**	**128,980,946**	**44,923,980**	**44,176,672**	**15,042,382**	**233,123,980**
		2022	**2023**	**2024**	**2025 -...**	**Total**
31.12.2021.						
Lease liabilities	14,938,982	838,508	806,478	764,375	15,461,699	17,871,060
Non-current portion of issued debt securities (bonds)	99,966,288	98,630	472,603	472,603	101,417,883	102,461,719
Trade payables and others creditors	28,554,376	28,554,376	-	-	-	28,554,376
Total	**143,459,646**	**29,491,514**	**1,279,081**	**1,236,978**	**116,879,582**	**148,887,155**
		Group				
	Carrying value	**2021**	**2022**	**2023**	**2024 -...**	**Total**
31.12.2020.						
Lease liabilities	14,933,065	986,409	781,607	723,105	15,908,126	18,399,247
Borrowings from banks	138,075,000	139,029,716	-	-	-	139,029,716
Borrowing from JSC Latvenergo	87,084,381	1,386,755	44,181,639	43,478,631	-	89,047,025
Trade payables and others creditors	20,957,244	20,957,244	-	-	-	20,957,244
Total	**261,049,690**	**162,360,124**	**44,963,246**	**44,201,736**	**15,908,126**	**267,433,232**
		2022	**2023**	**2024**	**2025 -...**	**Total**
31.12.2021.						
Lease liabilities	15,406,319	877,774	831,542	789,439	16,302,379	18,801,134
Borrowings from banks	98,093,221	38,022,412	31,423,136	2,108,646	27,718,781	99,272,975
Non-current portion of issued debt securities (bonds)	99,966,288	98,630	472,603	472,603	101,417,883	102,461,719
Trade payables and others creditors	42,961,061	42,961,061	-	-	-	42,961,061
Total	**256,426,889**	**81,959,877**	**32,727,281**	**3,370,688**	**145,439,043**	**263,496,889**

Interest rate risk

Interest rate risk arises primarily from borrowings with a floating interest rate, with the risk that an increase in interest rates will result in a significant increase in finance costs. To limit the risk, the Group 's Financial Risk Management Regulations stipulate that the share of fixed rate or rate with limited increase in the loan portfolio may not be less than 35%. At the same time, the Financial Risk Management Regulations stipulate that deviations from this indicator are allowed in the process of restructuring the liabilities taken over in the process of reorganization of the ownership rights of transmission assets.

On 31 December 2020, the Parent Company has the loan from JSC SEB banka in the amount of EUR 116,200 thousand with a variable interest rate and loan from JSC Latvenergo in the amount of EUR 87,084 thousand with a fixed interest rate (see Note 20). The share of fixed rate in the long-term loan portfolio was 43%.

On 31 December 2021, the Parent Company has the bonds in the amount of EUR 99,866 thousand (nominal value EUR100,000 thousand) with a maturity of 5.25 years, a fixed annual interest rate (coupon) of 0.5% and a yield of 0.527%. The share of fixed rate in the long-term loan portfolio is 100%.

On 31 December 2020, the Group has the loans in the amount of EUR 138,075 thousand with a variable interest rate and loans in the amount of EUR 87,084 thousand with a fixed interest rate and. The share of fixed rate in the long-term loan portfolio was 39%.

On 31 December 2021, the Group has the loans in the amount of EUR 129,966 thousand with a fixed interest rate and loans in the amount of EUR 68,093 thousand with a variable interest rate and. The share of fixed rate in the long-term loan portfolio was 75%.

The following table sets out the sensitivity of the Group's and Parent Company's pre-tax profit to reasonably possible changes in interest rates at the end of each reporting period, provided that all other variables remain unchanged. The Group's and the Parent Company's own funds, equity, except for the result of the reporting year, is not affected.

The Parent Company's liabilities as at 31 December 2021 are all with fixed annual interest rate, thus the Parent Company is not exposed to interest rate risk as at 31 December 2021.

	Parent Company			
	Base rate increase/ decrease (base points)	Effect on profit before tax (EUR)	Base rate increase/ decrease (base points)	Effect on profit before tax (EUR)
	2021		2020	
EURIBOR	(+50)	-	(+50)	(438,153)
	(-50)	-	(-50)	
	Group			
	Base rate increase/ decrease (base points)	Effect on profit before tax (EUR)	Base rate increase/ decrease (base points)	Effect on profit before tax (EUR)
	2021		2020	
EURIBOR	(+50)	(213,917)	(+50)	(559,288)
	(-50)		(-50)	

Credit risk

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

In carrying out its economic activities, the Group and the Parent Company cooperate 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 Group and the Parent 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 Group's or the Parent Company's partner banks.

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

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

In carrying out economic activities, the Group and the Parent Company cooperates with local and foreign merchants. As a result, there is a risk of business partners or **debtor risk** - in case of insolvency or suspension of business partners, the Group and the Parent 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 Group and the Parent Company, as well as legal and reputational risks.

Although the Group and the Parent Company has a significant concentration of receivables risk in relation to one counterparty or a group of similar counterparties, this risk is assessed as limited, taking into account the fact that the most important cooperation counterparty is a state-owned company - JSC Latvenergo, as well as its group companies with good external credit ratings of Baa2 (investment grade rating) and stable future outlook as assigned by Moody's to JSC Latvenergo group.

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.

Balance item	Parent company			
	Bank	Credit rating (Moody's)	31.12.2021. EUR	31.12.2020. EUR
Cash:				
Cash in current accounts	SEB banka	Aa3	28,032,575	9,887,191
	Swedbank	Aa3	20,474,629	22,337,369
	Luminor bank JSC Latvian Branch	Baa1	6,739	-
Total cash			**48,513,943**	**32,224,560**
Short-term accounts receivable:				
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**

Balance item	Group			
	Bank	Credit rating (Moody's)	31.12.2021. EUR	31.12.2020. EUR
Cash:				
Cash in current accounts	SEB banka	Aa3	28,961,980	10,822,773
	Swedbank	Aa3	21,026,627	33,419,549
	Latvian branch of OP Corporate bank plc	Aa3	996,872	696,523
	Citadele banka	Baa2	999,999	949,544
	Luminor bank JSC Latvian Branch	Baa1	11,204,575	1,499,907
Total cash			**63,190,053**	**47,388,296**
Short-term accounts receivable:				
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**

	Parent Company	
	31.12.2021. EUR	31.12.2020. EUR
Cash (Note 16)	48,513,943	32,224,560
Deposits (Note 14)	-	25,000,000
Receivables from contracts with customers (gross amount) (Note 13)	21,513,222	11,180,454
Other financial receivables (Note 14)	1,174,056	31,570,973
Total	**71,201,221**	**99,975,987**

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

	Parent Company	
	31.12.2021. **EUR**	**31.12.2020.** **EUR**
Debts that are not overdue	22,679,504	42,682,448
Overdue debts		
Up to 3 months	3,424	53,362
From 3 to 12 months	-	-
From 1 to 5 years	4,350	15,617
More than 5 years	-	-
TOTAL	**22,687,278**	**42,751,427**

	Group	
	31.12.2021. **EUR**	**31.12.2020.** **EUR**
Cash (Note 16)	63,190,053	47,388,296
Deposits (Note 14)	-	25,000,000
Receivables from contracts with customers (gross amount) (Note 13)	34,886,356	18,035,148
Other financial receivables (Note 14)	1,174,056	31,570,973
Total	**99,250,465**	**121,994,417**

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

	Group	
	31.12.2021. **EUR**	**31.12.2020.** **EUR**
Debts that are not overdue	36 052 210	49 532 036
Overdue debts		
Up to 3 months	3,852	58,468
From 3 to 12 months	-	-
From 1 to 5 years	4,350	15,617
More than 5 years	-	-
TOTAL	**36,060,412**	**49,606,121**

The Group and the Parent Company continuously monitors the balances of receivables in order to minimise the possibility of incurring irrecoverable receivables arising. Possible impairment of receivables from contracts with customers and other receivables is constantly analysed. The Group and the Parent Company has not received pledges as collateral for the trade receivables.

The Group and the Parent Company has not developed an internal credit rating system for assessing trade receivables.

In 2021, there were no significant changes in the expected credit losses in relation to trade receivables. Write-off of trade receivables occurs only if their recovery is not expected. Indicators indicating the impossibility of recovery include, among others, the debtor's inability to agree on a repayment schedule, which is accompanied by the debtor's insolvency, bankruptcy or liquidation.

At 31 December 2021, expected credit losses were determined by applying the following expected credit loss rates:

	Parent Company						
Owerdue days under IFRS 9	**On time***	**Overdue up to 44 days**	**Overdue up to 90 days**	**Overdue from 91 to 180 days**	**Overdue from 181 to 359 days**	**Overdue more than 360 days**	**Total**
	EUR	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**
Expected credit loss rate	0%	0%	0%	0.027%	0.046%	100%	
Receivables from contracts with customers and other receivables (gross amounts)	22,679,504	3,424	-	-	-	4,350	22,687,278
Expected credit loss	**-**	**-**	**-**	**-**	**-**	**4,350**	**4,350**
	Group						
Owerdue days under IFRS 9	**On time***	**Overdue up to 44 days**	**Overdue up to 90 days**	**Overdue from 91 to 180 days**	**Overdue from 181 to 359 days**	**Overdue more than 360 days**	**Total**
	EUR	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**
Expected credit loss rate	0%	0%	0%	0.027%	0.046%	100%	
Receivables from contracts with customers and other receivables (gross amounts)	36,052,210	-	3,852	-	-	4,350	36,060,412
Expected credit loss	**-**	**-**	**-**	**-**	**-**	**4,350**	**4,350**

At 31 December 2020, expected credit losses were determined by applying the following expected credit loss rates:

	Parent Company						
Owerdue days under IFRS 9	**On time**	**Overdue up to 44 days**	**Overdue up to 90 days**	**Overdue from 91 to 180 days**	**Overdue from 181 to 359 days**	**Overdue more than 360 days**	**Total**
	EUR	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**
Expected credit loss rate	0%	0%	0%	0.027%	0.046%	100%	
Receivables from contracts with customers and other receivables (gross amounts)	42,682,448	53,362	-	-	-	15,617	42,751,427
Expected credit loss	**-**	**-**	**-**	**-**	**-**	**15,617**	**15,617**
	Group						
Owerdue days under IFRS 9	**On time**	**Overdue up to 44 days**	**Overdue up to 90 days**	**Overdue from 91 to 180 days**	**Overdue from 181 to 359 days**	**Overdue more than 360 days**	**Total**
	EUR	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**
Expected credit loss rate	0%	0%	0%	0.027%	0.046%	100%	
Receivables from contracts with customers and other receivables (gross amounts)	49,532,036	58,468	-	-	-	15,617	49,606,121
Expected credit loss	**-**	**-**	**-**	**-**	**-**	**15,617**	**15,617**

Capital Risk Management

The shareholder of the Parent Company is the Ministry of Finance in the name of the Republic of Latvia (100%). The purpose of capital risk management is to ensure the sustainable operation and development of the Group and the Parent Company, the financing necessary for the implementation of the development plan in transmission assets, and the fulfilment of covenants specified in the loan agreements. Covenants set out in the loan agreements have not been violated. In order to ensure the fulfilment of covenants specified in the loan agreements, a regular analysis of the equity ratio is performed. According to the Augstsprieguma tīkls group's Financial Risk Management Policy, equity must be maintained at a level of at least 35%. As of 31 December 2021, the share of JSC Augstsprieguma tīkls equity in the balance sheet is 50%, of the Group - 51% (as at 31 December 2020 it was 42% and 53% respectively).

Currency risk

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

25. ACQUISITION AND MERGER OF SUBSIDIARIES

a) JSC Conexus Baltic Grid

On 12 and 22 December 2017, the Parent Company acquired 18.31% (for a total consideration of EUR 27,394 thousand paid in cash) and 16.05% (for a total consideration of EUR 30,000 thousand paid in cash), respectively, acquiring a total of 34.36% of JSC Conexus Baltic Grid shares.

An additional 34.1% of JSC Conexus Baltic Grid shares were acquired for a total consideration of EUR 77,000 thousand, respectively, as of 21 July 2020, as a result the Parent Company owns 68.46% of JSC Conexus Baltic Grid shares and has control over the company. Total consideration of EUR 77 million paid is included in the Parent Company statement of cash flows under cash flows from investing activities. Investment in subsidiary, net of cash acquired in amount of EUR 62.9 million (EUR 77 million less cash taken over from JSC Conexus Baltic Grid as a result of acquisition in amount of EUR 14.1 million) is included the Group's statement of cash flows under cash flows from investing activities.

The consolidated financial statements of the Group include the financial results of the subsidiary JSC Conexus Baltic Grid starting from 1 August 2020.

At the moment when control was obtained, the following assets and liabilities were recognised:

	EUR
Intangible assets	1,527,925
Property, plant and equipment	406,277,500
Non-current prepaid costs	1,209,438
Right-of-use assets	452,150
Inventories	3,037,511
Advances paid for inventories	24,677
Receivables from contracts with customers	6,239,666
Other current assets	797,913
Cash and its equivalents	14,096,653
Non-current portion of deferred income	(9,279,112)
Employee benefit obligations	(1,114,516)
Non-current portion of borrowings	(19,833,333)
Current portion of borrowings	(3 500 000)
Trade payables	(2,338,728)
Deferred corporate income tax liabilities*	(5,152,000)
Other creditors	(2,679,889)
Accrued liabilities	(1,813,516)
Current portion of deferred income	(2,083,221)
Advance payments received from customers	(741,890)
Long-term lease liabilities	(452,830)
Short-term lease liabilities	(56,625)

* 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).

	EUR
Fair value of identifiable net assets of JSC Conexus Baltic Grid	**384,617,773**
Total remuneration paid	**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
Carrying value of investment before acquisition of control	136,377,785
Loss on disposal of the associate as a result of gaining control	**(58,792,999)**
Net income from the transaction recognised in the profit or loss statement	**50,326,017**

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 "Property, plant and equipment" was determined taking into account the valuation 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 was included in the profit or loss statement. During the revaluation, 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. Further details are provided in Note 10.2b.

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).

Bargain purchase gain from a significant acquisition is recognised in profit or loss item ''Net gain on acquisition of a controlling interest'' 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
Carrying 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.

b) JSC Latvijas elektriskie tīkli

On 15 June 2020, former JSC Latvenergo subsidiary, transmission system asset owner JSC Latvijas elektriskie tīkli was separated from the Latvenergo Group and was invested in JSC Augstsprieguma tīkls via increase of share capital as an investment in kind.

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 owned companies, for accounting purposes in accordance with IFRS requirements it is considered a transaction between companies under common control. Thus, applying the pooling of interest method, the carrying amounts of the acquired company (JSC Latvijas elektriskie tīkli) were added to the amounts 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
Property, plant and equipment	626,814,386
Right-of-use assets	14,647,417
Inventories	60,074
Receivables from contracts with customers	52,612,404
Other current assets	22,825
Cash and its equivalents	132,046
Non-current portion of deferred income	(178,036,368)
Employee benefit obligations	(39,262)
Long-term borrowings	(112,616,103)
Short-term borrowings	(112,858,380)
Trade payables	(43,728,687)
Current portion of deferred income	(5,950,564)
Lease liabilities	(14,796,608)
Net assets at the date of acquisition	**226,264,293**

Cash taken over from JSC Latvijas elektriskie tīkli as a result of acquisition in amount of EUR 132,046 is included in the Group's statement of cash flows under cash flows from investing activities.

Subsequently as of 1 October 2020 JSC Latvijas elektriskie tīkli was merged with JSC Augstsprieguma tīkls.

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 million, as well as recognised corporate income tax liabilities in the amount of EUR 1.3 million and excluded an investment in the amount of EUR 222.7 million. The result of the merger was recognised in Parent's Company equity, recognising the long-term investment revaluation reserve of EUR 28.7 million, a negative reorganisation reserve of EUR 27.3 million and retained earnings of EUR 5.2 million. Due to consolidation adjustments and corporate income tax effects on consolidation, the JSC Latvijas elektriskie tīkli acquisition result recognised in the Group's equity was the long-term investment revaluation reserve of EUR 28.9 million, and a negative reorganisation reserve of EUR 25.8 million. Cash taken over from JSC Latvijas elektriskie tīkli as a result of merger in amount of EUR 15,054,455 is included in the Parent Company statement of cash flows under cash flows from investing activities.

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. TRANSACTIONS WITH RELATED PARTIES

Related parties are state-owned entities that are controlled, jointly controlled, or substantially influenced by the state.
Trading transactions taking place under normal business activities with the Latvian government including its departments and agencies and transactions between state–controlled entities and providers of public utilities are excluded from the scope of related party quantitative disclosures based on provisions of IAS 24 para 25. The Group and the Parent Company enter into transactions with many of these bodies on an arm's length basis. Transactions with government related entities include taxes and other duties. Income taxes are disclosed in the statement of financial position and statement of profit or loss as disclosed in note 15 and note 14, social security insurance contributions are disclosed in note 7, taxes payable are disclosed in note 22.

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

Remuneration to the Augstsprieguma tīkls Group's management includes remuneration to the members of the Management Boards the Group entities, the Supervisory Board and the Supervisory body (Audit Committee) of the Parent Company. Remuneration to the Parent Company's management includes remuneration to the members of the Parent Company's Management Board, the Supervisory Board and the Supervisory body (Audit Committee). Information disclosed in Note 7.

Revenue and expenses from transactions with related parties (other state owned enterprises)

	Parent Company		Group	
	2021 EUR	Restated 2020 EUR	2021 EUR	Restated 2020 EUR
Revenue				
Electricity transmission service	74,971,551	72,255,404	74,971,551	72,255,404
Sale of balancing electricity	8,637,314	4,874,031	8,637,314	4,874,031
Sale of regulatory electricity	427,517	75,474	427,517	75,474
Revenue from reactive electricity	613,795	585,459	613,795	585,459
Mandatory procurement component	3,325,574	4,240,315	3,325,574	4,240,315
Transmission asset reconstruction and renovation works	-	28,488,231	-	28,488,231
Revenue from other services	1,993,613	2,615,743	1,993,613	2,615,743
Total revenue from transactions with related companies	**89,969,364**	**113,134,657**	**89,969,364**	**113,134,657**
Expenses				
Purchase of balancing electricity	10,834,310	2,154,780	10,834,310	2,154,780
Purchase of regulatory electricity	9,572,336	3,663,682	9,572,336	3,663,682
Electricity for own consumption	136,949	140,153	136,949	140,153
Electricity capacity reserve maintenance costs	4,080,085	4,179,522	4,080,085	4,179,522
Mandatory procurement component	4,857,584	6,280,984	4,857,584	6,280,984
Communication expenses	3,094,890	3,111,304	3,094,890	3,111,304
Long-term loan interest payments	1,340,530	299,071	1,340,530	299,071
Lease of fixed assets and land	795,693	15,443,757	795,693	15,443,757
Other costs	1,443,792	1,210,451	1,443,792	1,210,451
Total expenses from transactions with related companies	**36,156,169**	**36,483,705**	**36,156,169**	**36,483,705**

Revenue and expenses from transactions with subsidiaries

	Parent Company	
	2021 EUR	2020 EUR
Revenue	-	
Transmission asset reconstruction and renovation works	-	25,483,377
Revenue from other services	-	50,216
Total revenue from transactions with subsidaries	**-**	**25,533,593**
Expenses	-	
Depreciation on right-of-use assets	-	13,294,887
Interest expenses on lease	-	24,690
Other costs	-	109,594
Total expenses from transactions with related companies	**-**	**13,429,171**

There were no transactions between Parent company and its subsidiaries in 2021.

balances at the end of the year arising from related company transactions (other state owned enterprises)

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

Information on intercompany loans is presented in Note 20, while information on dividends paid is presented in Note 17 and information on dividends received in the Note 11.

27. COMMITMENTS AND CONTINGENT LIABILITIES

As of 31 December 2021, the Group had commitments amounting to EUR 64,345 thousand (31.12.2020.: EUR 119,615 thousand) and the Parent Company had commitments amounting to EUR 40,671 thousand (31.12.2020.: EUR 92,508 thousand) for capital expenditure contracted but not delivered at the end of the reporting period.

In accordance with paragraph 6 of section 13 of Electricity market law the Parent Company as electricity transmission system operator, while developing transmission system is responsible for planning, building and completion of new transmission infrastructure objects. Taking this into account, the Parent Company is investing into transmission system assets in accordance with the 10 year transmission system development plan approved by the Public Utilities regulation commission and available on the webpage of the Parent Company: https://www.ast.lv/en/content/power-transmission-system-development-plan.

Major upcoming project is synchronisation of Baltic electricity grid with continental Europe, during which it is planned to finalise the following until 2025:

- project "Synchronisation of Baltic state electricity transmission system with European grid, phase 1" – total planned project costs amount to EUR 77,000 thousand. EU co-financing is attracted to this project: Agreement with INEA (Innovation and Networks Executive Agency) signed on 19 March 2019 on receipt of 75% co-financing from European Union compensating for applicable costs amounting to EUR 57,750 thousand. In addition it is planned to use accrued congestion fees amounting to EUR 18,459 thousand towards implementation of this project, thus decreasing credit risk. Project is to be completed by the end of 2025.
- project "Synchronisation of Baltic state electricity transmission system with European grid, phase 2" – total planned project costs amount to EUR 164,965 thousand. EU co-financing is attracted to this project amounting to EUR 92,620 thousand. In addition it is planned to use accrued congestion fees amounting to EUR 25,000 thousand towards implementation of this project, thus decreasing credit risk. Project is to be completed by the end of 2025.

In addition, according to signed inter-operator agreement for Gas Interconnection Poland-Lithuania (GIPL) project cost sharing, investments amounting EUR 14,700 thousand are planned (the expected completion date – 2023).

Pursuant to the participation in the Nord Pool power exchange, a guarantee agreement in the amount of EUR 2,000 thousand has been concluded between the Parent Company and JSC "SEB banka".

28. 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 PricewaterhouseCoopers (SIA Deloitte Audits Latvia in 2020), the fee for the audit of the Parent Company annual report, consolidated report and sustainability report of 2021 is set at 26,500 EUR (12,763 EUR for 2020). Within the framework of the agreement concluded in 2020, in year 2021 the Parent Company received an audit services for the evaluation of the digital transformation strategy from SIA PricewaterhouseCoopers (EUR 12,200). Consultancy services were also received for the solution concept development of the balance management information system, preparation of the materials necessary for the procurement procedure and supervision of the implementation project (EUR 44,000). In addition to that, in year 2021, prior to the election of SIA PricewaterhouseCoopers as the auditor of the annual report for 2021, consulting services, related to the improvement of accounting policy, were received (EUR 1,200).

	Parent Company	
	2021 EUR	2020 EUR
Audit service	26,500	12,763
Consulting service	57,400	-
TOTAL REMUNERATION TO THE COMMERCIAL COMPANY OF SWORN AUDITORS	**83,900**	**12,763**

29. EVENTS AFTER THE END OF THE REPORTING PERIOD

On February 24, 2022, escalated the military conflict between Russia and Ukraine. As a result of Russia's invasion of Ukraine, Russia and Belarus are subject to severe economic and political sanctions from the European Union, the United States, and other countries. Although this event is a non-adjusting event after the balance sheet date, it is expected to have an impact on the Group and the Parent Company.

The management of the Group continuously performs the necessary activities to ensure the continuity of operations of both the electricity transmission system operator and the unified natural gas transmission and storage operator and the availability of the provided services.

Considering that currently the Latvian power system operates synchronously with Russia unified (IPS / UPS) system, JSC Augstsprieguma tīkls has assessed the possible risks related to Russia's military aggression against Ukraine. In the current situation, it is not possible to assess the level of risk of possible unplanned disconnection of the Baltic power systems from the Russian unified (IPS / UPS) system, however, JSC Augstsprieguma tīkls together with the electricity transmission system operators of the Baltic States and Poland, has prepared for the operation of the Baltic electricity systems in the event of an emergency desynchronization.

Urgent synchronization of the Baltic energy systems with the Continental European electricity system is expected to lead to an increase in energy supply costs, but given the uncertain and complex situation, it is currently not possible to assess the magnitude of the financial impact. The Group provides strategically important public services. The parent company is a state-owned (100%) capital company and according to the Electricity Market Law is the only electricity transmission system operator in Latvia. The management believes that the impact of volatility in the electricity markets will be mitigated and ensuring the security and stability of energy supply as a nationally important function will be supported by ensuring the long-term financial stability of the Parent Company.

Also, due to Russian aggression in Ukraine, the Latvian government on April 19, 2022 took a decision to suspend the supply of natural gas from Russia from 1 January 2023. Although these are significant changes in the Baltic and Finnish single natural gas market, it is not expected, that the importance of the Subsidiary in the Latvian energy system, as well as the impact on its business continuity and financial stability, will decrease.

In the near future, the Latvian government plans to make decisions on alternative solutions for ensuring the supply of natural gas, which, in turn, will ensure the continued use of natural gas as an important energy resource. Also, in accordance with the initiatives of the European Union energy policy, JSC "Conexus Baltic Grid" has already started work on the evaluation of the possibility to inject alternative energy resources to natural gas, i.e. biomethane and hydrogen, into the transmission system and storage.

By suspending the supply of natural gas from Russia, a revision of the value of the Subsidiary's assets related to the natural gas supply from Russia, which makes up 6% of the total value of the Subsidiary's assets, is possible. Decisions on the future strategic use of these assets and the determination of the appropriate value will be taken after an assessment of the current situation and consultations with the Estonian natural gas transmission system operator Elering AS.

To mitigate cyber security risks, the Parent Company and its Subsidiary JSC Conexus Baltic Grid, as critical infrastructure companies, perform enhanced risk assessment and appropriate risk management. In order to reduce energy supply risks, the Parent Company and its Subsidiary JSC Conexus Baltic Grid have taken the necessary actions to increase the volume of natural gas in the storage facility and from 27 February 2022 gas injection has been started at Inčukalns Storage.

Although the uncertainty about the future impact of events on the Group's and the Parent Company's operations has increased, no circumstances have been identified that would jeopardize the continuity of operations and the performance of functions determined by law.

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

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