



## AKCIJU SABIEDRĪBA "AUGSTSPRIEGUMA TĪKLS"

(incorporated in the Republic of Latvia as a public limited company with registration number 40003575567)

### First Programme for the Issuance of Notes in the Amount of up to EUR 160,000,000

Under this First Programme for the Issuance of Notes in the Amount of up to EUR 160,000,000 (the "**Programme**") described in this base prospectus (the "**Base Prospectus**") akciju sabiedrība "Augstsprieguma tīkls", a public limited company (in Latvian – *akciju sabiedrība*) incorporated in and operating under the laws of the Republic of Latvia, registered with the Commercial Register of the Republic of Latvia under registration number: 40003575567 and having its legal address at Dārziema iela 86, Rīga, LV-1073 (the "**Issuer**" or the "**Company**"), may issue and offer from time to time in one or several series (the "**Series**") non-convertible unsecured and unguaranteed notes denominated in EUR, having maturity up to 10 years and with fixed interest rate (the "**Notes**"). Each Series may comprise one or more tranches of Notes (the "**Tranches**"). The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not at any time exceed EUR 160,000,000.

To the extent not set forth in this Base Prospectus, the specific terms of any Notes will be included in the relevant final terms (the "**Final Terms**") (a form of which is contained herein). This Base Prospectus should be read and construed together with any supplement hereto and with any other documents incorporated by reference herein, and, in relation to any Tranche of Notes and with the Final Terms of the relevant Tranche of Notes.

This Base Prospectus has been prepared in connection with the offering and listing of the Notes pursuant to the requirements of the Regulation (EU) 2017/1129 (the "**Prospectus Regulation**"), the Financial Instruments Market Law (in Latvian - *Finanšu instrumentu tirgus likums*) and the Commission Delegated Regulation No 2019/980/EU (the "**Delegated Regulation**"), in particular the Annexes 6 and 14 thereof. The Financial and Capital Market Commission (in Latvian - *Finanšu un kapitāla tirgus komisija*), as competent authority under the Prospectus Regulation, has approved this Base Prospectus and has notified the approval of the Base Prospectus to the competent authority in Lithuania (the Bank of Lithuania (in Lithuanian - *Lietuvos Bankas*)). The Financial and Capital Market Commission only approves this Base Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the Prospectus Regulation. Such approval should not be considered as an endorsement of the Issuer nor as an endorsement of the quality of any Notes that are the subject of this Base Prospectus. Investors should make their own assessment as to the suitability of investing in the Notes.

This Base Prospectus is valid for a period of twelve months from the date of approval. The obligation to supplement the Base Prospectus in the event of significant new factors, material mistakes or material inaccuracies does not apply when the Base Prospectus is no longer valid.

Application will be made to akciju sabiedrība "Nasdaq Riga", registration number: 40003167049, legal address: Valņu 1, Rīga, LV- 1050, Latvia ("**Nasdaq Riga**") for admitting each Tranche to listing and trading on the official bond list (the Baltic Bond List) of Nasdaq Riga according to the requirements of Nasdaq Riga not later than within 3 (three) months after the Issue Date of the respective Tranche. Nasdaq Riga is a regulated market for the purposes of the Markets in Financial Instruments Directive 2014/65/EU, as amended ("**MiFID II**").

The Notes shall be issued in the bearer dematerialised form and registered with Nasdaq CSD SE, registration number: 40003242879, legal address: Valņu 1, Rīga, LV-1050, Latvia (the "**Depository**") in book-entry form. Investors may hold the Notes through participants of the Depository, including credit institutions and investment brokerage firms.

The Notes have not been, and will not be, registered under the U.S. Securities Act 1933 (as amended) (the "**Securities Act**"), or with any securities regulatory authority of any state of the United States. This Base Prospectus or the Final Terms are not to be distributed to the United States or in any other jurisdiction where it would be unlawful. The Notes may not be offered, sold, pledged or otherwise transferred, directly or indirectly, within the United States or to, for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act (the "**Regulation S**")), except to a person who is not a U.S. Person (as defined in Regulation S) in an offshore transaction pursuant to Regulation S.

Investment in the Notes to be issued under the Programme involves certain risks. Prospective investors should carefully acquaint themselves with such risks before making a decision to invest in the Notes. The principal risk factors that may affect the Issuer's ability to fulfil its obligations under the Notes are discussed in Section "**Risk Factors**" below.

**Arranger and Dealer**

**Luminor Bank AS**

**The date of this Base Prospectus is 21 September 2021**

## TABLE OF CONTENTS

|   |    |
|---|----|
| RESPONSIBILITY STATEMENT .....                                    | 3  |
| IMPORTANT INFORMATION .....                                       | 4  |
| DISTRIBUTION OF THE BASE PROSPECTUS AND SELLING RESTRICTIONS..... | 6  |
| PRESENTATION OF FINANCIAL AND OTHER INFORMATION .....             | 8  |
| FORWARD-LOOKING STATEMENTS .....                                  | 13 |
| OVERVIEW OF THE PROGRAMME .....                                   | 14 |
| RISK FACTORS .....  | 16 |
| GENERAL TERMS AND CONDITIONS OF THE NOTES.....                    | 31 |
| FORM OF FINAL TERMS.....  | 43 |
| USE OF PROCEEDS .....   | 45 |
| INFORMATION ABOUT THE GROUP .....                                 | 46 |
| INFORMATION ABOUT THE GROUP'S BUSINESS OPERATIONS .....           | 50 |
| ORGANISATIONAL STRUCTURE.....                                     | 55 |
| ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES.....            | 56 |
| SELECTED CONSOLIDATED FINANCIAL INFORMATION .....                 | 61 |
| FINANCIAL AND TREND INFORMATION .....                             | 62 |
| ADDITIONAL INFORMATION.....                                       | 63 |
| THE ECONOMY OF THE REPUBLIC OF LATVIA .....                       | 64 |
| TAXATION.....   | 67 |
| GENERAL INFORMATION .....   | 69 |
| INFORMATION INCORPORATED BY REFERENCE.....                        | 71 |
| ANNEX I – FINANCIAL STATEMENTS .....                              | 72 |

## RESPONSIBILITY STATEMENT

This Base Prospectus comprises a base prospectus for the purposes of Article 8 of the Prospectus Regulation and for the purpose of giving information with regard to the Issuer, the Issuer and its subsidiaries taken as a whole (the “**Group**”) and the Notes which, according to the particular nature of the Issuer and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position and profit and losses of the Issuer.

The Issuer, represented by the members of its Management Board, accepts responsibility for the information contained in this Base Prospectus and in any Final Terms which complete this Base Prospectus for each Tranche of Notes issued hereunder and declares that, to the best of its knowledge, the information contained in this Base Prospectus is in accordance with the facts and that the Base Prospectus does not omit anything likely to affect the import of such information.

Management Board of akciju sabiedrība “Augstsprieguma tīkls”:

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Chairperson of the Management Board  
Gunta Jēkabsons

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Member of the Management Board  
Arnis Daugulis

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Member of the Management Board  
Gatis Junghāns

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Member of the Management Board  
Mārcis Kauliņš

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Member of the Management Board  
Imants Zviedris

*This document is signed electronically with secure electronic signatures containing the time stamps.*

## IMPORTANT INFORMATION

To the fullest extent permitted by law, the Arranger and Dealer accepts no responsibility whatsoever for the contents of this Base Prospectus. The Arranger and Dealer accordingly disclaims all and any liability which it might otherwise have in respect of this Base Prospectus.

Neither the Arranger and Dealer nor any of its respective affiliates have authorised the whole or any part of this Base Prospectus and none of them make any representation or warranty or accepts any responsibility as to the accuracy or completeness of the information contained in this Base Prospectus or any responsibility for any acts or omissions of the Issuer or any other person in connection with issue and offering of the Notes.

No person is authorised to give any information or to make any representation not contained in this Base Prospectus and any information or representation not so contained must not be relied upon as having been authorised by or on behalf of the Issuer, the Arranger or the Dealer. Neither the delivery of this Base Prospectus nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer since the date hereof or the date upon which this Base Prospectus has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Issuer since the date hereof or the date upon which this Base Prospectus has been most recently amended or supplemented or that the information contained in it or any other information supplied in connection with the Notes is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

Neither this Base Prospectus, any Final Terms nor any other information supplied in connection with the offering of the Notes (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Issuer or any of the Arranger or Dealer that any recipient of this Base Prospectus, any Final Terms or any other information supplied in connection with the offering of the Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Base Prospectus nor any other information supplied in connection with the offering of the Notes constitutes an offer or invitation by or on behalf of the Issuer or the Arranger or Dealer, to any person to subscribe for or to purchase any Notes.

Each potential investor in the Notes must make their own assessment as to the suitability of investing in the Notes. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this Base Prospectus;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments is different from the potential investor's currency;
- (iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant financial markets; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) Notes are legal investments for it, (ii) Notes can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

The Notes are governed by Latvian law and any disputes arising in relation to the Notes shall be settled exclusively by the courts of the Republic of Latvia in accordance with Latvian law.

## DISTRIBUTION OF THE BASE PROSPECTUS AND SELLING RESTRICTIONS

The distribution of this Base Prospectus and any Final Terms may in certain jurisdictions be restricted by law, and this Base Prospectus and any Final Terms may not be used for the purpose of, or in connection with, any offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such offer or solicitation. No actions have been taken to register or qualify the Notes, or otherwise to permit a public offering of the Notes, in any jurisdiction other than the Republic of Latvia and the Republic of Lithuania. The Issuer, the Arranger and the Dealer expect persons into whose possession this Base Prospectus or any Final Terms comes to inform themselves of and observe all such restrictions. Neither the Issuer nor the Arranger or Dealer accept any legal responsibility for any violation by any person, whether or not a prospective purchaser of the Notes is aware of such restrictions. In particular, this Base Prospectus and any Final Terms may not be sent to any person in the United States, Australia, Canada, Japan, Hong Kong, South Africa, Singapore or any other jurisdiction in which it would not be permissible to deliver the Notes, and the Notes may not be offered, sold, resold, transferred or delivered, directly or indirectly, in or into any of these countries.

The Notes have not been, and will not be, registered under the U.S. Securities Act 1933 (as amended) (the “**Securities Act**”), or with any securities regulatory authority of any state of the United States. This Base Prospectus or the Final Terms are not to be distributed to the United States or in any other jurisdiction where it would be unlawful. The Notes may not be offered, sold, pledged or otherwise transferred, directly or indirectly, within the United States or to, for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act (the “**Regulation S**”)), except to a person who is not a U.S. Person (as defined in Regulation S) in an offshore transaction pursuant to Regulation S.

The Financial and Capital Market Commission (in Latvian - *Finanšu un kapitāla tirgus komisija*), as competent authority under the Prospectus Regulation, has approved this Base Prospectus and has notified the approval of the Base Prospectus to the competent authority in Lithuania (the Bank of Lithuania (in Lithuanian - *Lietuvos Bankas*)). However, in relation to each member state of the European Economic Area (the “**EEA**”) (except the Republic of Latvia and the Republic of Lithuania), the Dealer has represented and agreed that it has not made and will not make any public offer of Notes prior to that EEA member state’s authority receiving a certificate of approval of the Financial and Capital Market Commission attesting that the Base Prospectus has been drawn up in accordance with the Prospectus Regulation together with a copy of the Base Prospectus.

Accordingly, any person making or intending to make an offer within the EEA of Notes which are the subject of an offering contemplated by this Base Prospectus and the relevant Final Terms (other than the offer of Notes in the Republic of Latvia and in the Republic of Lithuania) may only do so in circumstances in which no obligation arises for the Issuer or the Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Regulation or supplement a prospectus pursuant to Article 23 of the Prospectus Regulation, in each case, in relation to such offer.

**MIFID II PRODUCT GOVERNANCE/TARGET MARKET:** A determination will be made in relation to each issue about whether, for the purpose of the MiFID Product Governance rules under EU Delegated Directive 2017/593 (the “**MiFID Product Governance Rules**”), the Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arranger nor the Dealer nor any of their respective affiliates will be a manufacturer for the purpose of the MIFID Product Governance Rules.

The Final Terms in respect of any Notes will include a legend entitled “MiFID II Product Governance” which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a “**distributor**”) should take into consideration the target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

**IMPORTANT – EEA RETAIL INVESTORS –** The Notes are not intended to be offered, sold or otherwise made available to, and should not be offered, sold or otherwise made available to, any retail investor in the EEA. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point

(11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended or superseded), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently, no key information document required by Regulation (EU) No 1286/2014 (the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

## PRESENTATION OF FINANCIAL AND OTHER INFORMATION

With the exception of certain alternative performance measures (“**APMs**”), the financial information included in this Base Prospectus has been derived from:

- the Group's consolidated and the Company's annual report, representing audited consolidated and standalone financial statements for the financial year ending 31 December 2020 prepared in accordance with the International Financial Reporting Standards as adopted by the E.U. (“**IFRS**”) (the “**2020 Financial Statements**”);
- the Company's annual report, representing audited standalone financial statements for the financial year ending 31 December 2019 prepared in accordance with IFRS (the “**2019 Financial Statements**”, and together with the 2020 Financial Statements, the “**Audited Financial Statements**”);
- the Company's consolidated and abridged financial statements, representing unaudited consolidated and standalone financial statements for the six months period ended 30 June 2021 prepared in accordance with the International Accounting Standard 34 (the “**Interim Financial Statements**”, and together with the Audited Financial Statements, the “**Financial Statements**”).

SIA “Deloitte Audits Latvia” (“**Deloitte**”) audited the 2020 Financial Statements and issued an unqualified auditor's report on the aforementioned financial statements. In addition, Deloitte audited the 2019 Financial Statements and issued an unqualified auditors' report on the aforementioned financial statements.

### **Changes in accounting policies and presentation of financial information**

#### ***Reform of ownership of transmission system assets***

On October 2019 and December 2019 the Cabinet of Ministers of the Republic of Latvia supported the implementation of the “full ownership unbundling” model for the electricity transmission system operator. Consequently, in June 2020 the owner of the transmission system assets AS Latvijas elektriskie tīkli was separated from AS Latvenergo and all shares of AS Latvijas elektriskie tīkli were transferred to the Ministry of Economics of the Republic of Latvia.

In June 2020 the Ministry of Economics of the Republic of Latvia transferred all shares AS Latvijas elektriskie tīkli to the Ministry of Finance of the Republic of Latvia (the sole shareholder of the Company), and subsequently the Ministry of Finance of the Republic of Latvia invested all shares of AS Latvijas elektriskie tīkli in the value of EUR 222.7 million into the Company by a way of increase of share capital of the Company.

On 25 November 2020, the reorganization of the Company and AS Latvijas elektriskie tīkli was completed by merging AS Latvijas elektriskie tīkli into the Company. As a result of merger AS Latvijas elektriskie tīkli transferred all its property, rights and obligations to the Company and ceased to exist without a liquidation process. Following the merger, the Company continues the commercial activities of AS Latvijas elektriskie tīkli.

Therefore, the 2020 Financial Statements also include the financial results of AS Latvijas elektriskie tīkli from 1 June 2020 to 30 September 2020.

#### ***Investment into AS Conexus Baltic Grid***

In December 2017, the Company acquired 34.36 per-cent shares in AS Conexus Baltic Grid, a unified natural gas transmission and storage operator in Latvia,

On 21 July 2020, pursuant to the decision of the Cabinet of Ministers of the Republic of Latvia of 26 May 2020 the Company acquired additional 34.1 per-cent of shares in AS Conexus Baltic Grid.

As of 21 July 2020, the Company owns 68.46 per-cent of the shares in AS Conexus Baltic Grid and has a decisive influence in the company.



In the 2019 Consolidated Financial Statements the financial investment in AS Conexus Baltic Grid is classified as investment in associate and accounted for using the equity method in accordance with International Accounting Standard 28 “Investments in Associates and Joint Ventures”.

The Company acquired control in AS Conexus Baltic Grid as of 1 August 2020. In the 2020 Consolidated Financial Statements the transaction was accounted as a business combination in accordance with International Financial Reporting Standard 3 “Business Combinations”. The consolidated result for 2020 include the financial results of AS Conexus Baltic Grid from 1 August 2020 to 31 December 2020.

### Alternative performance measures

This Base Prospectus includes certain references to APMs derived from the Financial Statements such as EBITDA, net debt, return on assets (ROA), return on equity (ROE), net debt to equity and net debt to EBITDA. The Group uses these APMs to evaluate its performance, and this additional financial information is presented in this Base Prospectus. This information should be viewed as supplemental to the Financial Statements. Investors are cautioned not to place undue reliance on this information and should note that the APMs, as calculated by the Group, may differ materially from similarly titled measures reported by other companies, including the Group’s competitors.

The APMs presented in this section are not defined in accordance with IFRS. An APM should not be considered in isolation from, or as substitute for any analysis of, financial measures defined according to IFRS. Investors are advised to review these APMs in conjunction with the Financial Statements contained in this Base Prospectus.

The following tables present the selected APMs of the Group and the Company for the indicated periods or as of the indicated dates:

|                        |            | Group                    |         |                        | Company                  |         |                        |
|------------------------|------------|--------------------------|---------|------------------------|--------------------------|---------|------------------------|
|                        |            | Six months ended 30 June |         | Year ended 31 December | Six months ended 30 June |         | Year ended 31 December |
|                        |            | 2021                     | 2020    | 2019                   | 2021                     | 2020    | 2019                   |
| EBITDA                 | € thousand | 42 298                   | 55 028  | 40 515                 | 23 005                   | 42 343  | 40 515                 |
| Net debt               | € thousand | 165 482                  | 152 359 | -                      | 83 884                   | 145 647 | -                      |
| Return on assets (ROA) | per-cent   | 6.4%                     | 8.8%    | 3.8%                   | 8.5%                     | 1.8%    | 3.4%                   |
| Return on equity (ROE) | per-cent   | 13.6%                    | 17.1%   | 9.1%                   | 16.3%                    | 4.4%    | 10.1%                  |
| Net debt to equity     | per-cent   | 27%                      | 24%     | -                      | 19%                      | 38%     | -                      |
| Net debt to EBITDA     | ratio      | 2.2                      | 2.8     | -                      | 1.9                      | 3.4     | -                      |

Management of the Company uses EBITDA, net debt, return on assets (ROA), return on equity (ROE), net debt to equity and net debt to EBITDA measures because the Company believes that these measures are commonly used by lenders, investors and analysts.

These measures are presented for purposes of providing investors with a better understanding of the Group’s financial performance, cash flows or financial position as they are used by the Group when managing its business.

### EBITDA

EBITDA should not be considered as alternative to profit before tax as defined by IFRS or to cash flows from operating activities (or any other performance measure determined in accordance with IFRS) or as indicator of operating performance or as measure of the Group’s liquidity. EBITDA should not be considered as measures of discretionary cash available to the Group to invest in the growth of the Group’s businesses.

EBITDA has certain limitations as an analytical tool, and should not be considered in isolation, or as a substitute for financial information as reported under IFRS. Investors should not place undue reliance on this data.

EBITDA in this Base Prospectus is presented, for each period, as: earnings before interest, corporate income tax, financial income, share of profit or loss of associates, and depreciation and amortisation.

No statement in this Base Prospectus is intended as a profit/EBITDA forecast and no statement in this Base Prospectus should be interpreted to mean that the earnings of the Group for the current or future years would necessarily match or exceed the historical published earnings of the Group.

The table below presents reconciliation of EBITDA to the net profit:

|   |                   | Group                    |                        |               | Company                  |                        |               |
|---|-------------------|--------------------------|------------------------|---------------|--------------------------|------------------------|---------------|
|   |                   | Six months ended 30 June | Year ended 31 December |               | Six months ended 30 June | Year ended 31 December |               |
|   |                   | 2021                     | 2020                   | 2019          | 2021                     | 2020                   | 2019          |
| <b>Net profit,</b>                                | <b>€ thousand</b> | <b>14 135</b>            | <b>65 358</b>          | <b>8 829</b>  | <b>63 805</b>            | <b>9 999</b>           | <b>7 067</b>  |
| <i>Applicable to:</i>                             |                   |                          |                        |               |                          |                        |               |
| <b>Company shareholder</b>                        | € thousand        | 11 568                   | 64 051                 | 8 829         | 63 805                   | 9 999                  | 7 067         |
| <b>Non-controlling interest</b>                   | € thousand        | 2 567                    | 1 307                  | -             | -                        | -                      | -             |
| Corporate income tax                              | € thousand        | -1 779                   | -853                   | -             | -                        | -                      | -             |
| Financial income, net                             | € thousand        | -1 456                   | -1 597                 | -1 639        | -1 342                   | -795                   | -1 639        |
| Income from participation                         | € thousand        |                          | 3 081                  | 5 956         | 58 286                   | 5 605                  | 4 194         |
| Net gain on acquisition of a controlling interest | € thousand        |                          | 50 326                 | -             |                          | -                      | -             |
| Depreciation and amortization                     | € thousand        | -24 928                  | -40 627                | -36 002       | -16 145                  | -37 154                | -36 002       |
| <b>EBITDA</b>                                     | <b>€ thousand</b> | <b>42 298</b>            | <b>55 028</b>          | <b>40 515</b> | <b>23 005</b>            | <b>42 343</b>          | <b>40 515</b> |

### Net debt

Net debt consists of borrowings at the end of period, subtracting cash and cash equivalents at the end of the period. Cash and cash equivalents include placed fixed-term deposits with a maturity of less than 3 months.

It is used for the purpose of calculating the debt ratio by which the Group monitors its capital.

The following table illustrates the methodology the Group uses to determine net debt of the Group and the Company:

|                           |                   | Group                    |                        |          | Company                  |                        |          |
|---------------------------|-------------------|--------------------------|------------------------|----------|--------------------------|------------------------|----------|
|                           |                   | Six months ended 30 June | Year ended 31 December |          | Six months ended 30 June | Year ended 31 December |          |
|                           |                   | 2021                     | 2020                   | 2019     | 2021                     | 2020                   | 2019     |
| Borrowings                | € thousand        | 240 203                  | 224 747                | -        | 156 200                  | 202 872                | -        |
| Cash and cash equivalents | € thousand        | 74 721                   | 72 388                 | 48 216   | 72 316                   | 57 225                 | 48 216   |
| <b>Net DEBT</b>           | <b>€ thousand</b> | <b>165 482</b>           | <b>152 359</b>         | <b>-</b> | <b>83 554</b>            | <b>145 647</b>         | <b>-</b> |

As a result of the reorganisation of AS Latvijas elektriskie tīkli, the Company assumed all assets and liabilities of AS Latvijas elektriskie tīkli. Prior to completion of the reorganisation, the amount of borrowings of AS Latvijas elektriskie tīkli from its former parent company AS Latvenergo was EUR 225.2 million. In 2020, a partial early repayment of the loan was made to AS Latvenergo (in the amount of EUR 138.6 million) using refinancing services from AS SEB banka (in the amount of EUR 116.2 million) and the Company's own funds.

To ensure efficient management of available funds, on 18 June 2021 an agreement on early repayment of the loan was entered into between the Company and AS Latvenergo, according to which the Company in July 2021 completely repaid to AS Latvenergo the remaining part of the loan in the amount of EUR 86.7 million.

### ***Return on assets (ROA)***

Return on assets (ROA) is a measure of profitability of the assets which indicates the efficiency of asset usage in profit generation of the Group and the Company. The ROA is calculated by dividing net profit at the end of the period to the average value of total assets at the beginning and the end of the period. For -six-month period, trailing 12 months (the “**TTM**”) is used to acquire net profit of last 12 months.

### ***Return on equity (ROE)***

Return on equity (ROE) is a measure of profitability of the equity, and indicates the efficiency of equity usage in profit generation of the Group and the Company. The ROE is calculated by dividing net profit at the end of the period to the average value of total equity at the beginning and the end of the period. For six-month period, the TTM is used to acquire net profit of last 12 months.

### ***Net Debt to Equity***

Net debt to equity is the ratio of net debt at the end of the year to equity at the end of the year and is used as a measure of both indebtedness and borrowing capacity.

### ***Net Debt to EBITDA***

Net debt to EBITDA is used as a measure of financial leverage and the Group’s and the Company’s ability to pay off its debt. The ratio is calculated by dividing the net debt by the TTM EBITDA. The ratio gives an indication as to how long the Group and the Company would need to operate at its current level to pay off all its debt.

### **Rounding**

Certain figures included in this Base Prospectus have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

### **Currencies**

In this Base Prospectus, financial information is presented in euro (EUR), the official currency of the European Union Member States in the Eurozone.

### **Date of information**

This Base Prospectus is drawn up based on information which was valid as of the date of the Base Prospectus. Where not expressly indicated otherwise, all information presented in this Base Prospectus (including the consolidated financial information of the Group and financial information of the Company, the facts concerning its operations and any information on the markets in which it operates) must be understood to refer to the state of affairs as of the aforementioned date. Where information is presented as of a date other than the date of the Base Prospectus, this is identified by specifying the relevant date.

### **Certain publicly available information**

Certain statistical data and other information appearing in this Base Prospectus have been extracted from public sources identified in this Base Prospectus. None of the Arranger, the Dealer or the Issuer accepts responsibility for the factual correctness of any such statistics or information, but the Issuer accepts responsibility for accurately extracting and transcribing such statistics and information and believes, after due inquiry, that such statistics and information represent the most current publicly available statistics and information from such sources at the dates and for the periods with respect to which they have been presented. The Issuer confirms that all such third-party information has been accurately reproduced and, so far as the

Issuer is aware and has been able to ascertain from that published information, no facts have been omitted which would render the reproduced information inaccurate or misleading.

### **Websites**

Information contained in any website referred to herein does not form part of this Base Prospectus, other than the Issuer's Green Bond Framework, which is available for viewing on the following website: [www.ast.lv](http://www.ast.lv) and is incorporated by reference to this Base Prospectus and forms a part of the Base Prospectus.

## FORWARD-LOOKING STATEMENTS

This Base Prospectus includes statements that are, or may be deemed to be, “forward-looking statements”. These forward-looking statements may be identified by the use of forward-looking terminology, including the terms “believes”, “estimates”, “plans”, “projects”, “anticipates”, “expects”, “intends”, “may”, “will” or “should” or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions.

These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this Base Prospectus and include, but are not limited to, statements regarding the Group’s or the Issuer’s intentions, beliefs or current expectations concerning, among other things, the Group’s results of operations, financial condition, liquidity, prospects, growth, strategies and the industry in which the Group operates.

By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances. Forward-looking statements are not guarantees of future performance and the financial position and results of operations of the Group, and the development of the markets and the industries in which members of the Group operate, may differ materially from those described in, or suggested by, the forward-looking statements contained in this Base Prospectus.

In addition, even if the Group’s results of operations and financial position, and the development of the markets and the industries in which the Group operates, are consistent with the forward-looking statements contained in this Base Prospectus, those results or developments may not be indicative of results or developments in subsequent periods. A number of risks, uncertainties and other factors could cause results and developments to differ materially from those expressed or implied by the forward-looking statements. See Section “*Risk Factors*” below.

These forward-looking statements are made only as of the date of this Base Prospectus. Except to the extent required by law, the Issuer is not obliged to, and does not intend to, update or revise any forward-looking statements made in this Base Prospectus whether as a result of new information, future events or otherwise.

All subsequent written or oral forward-looking statements attributable to the Issuer, or persons acting on the Issuer’s behalf, are expressly qualified in their entirety by the cautionary statements contained throughout this Base Prospectus. As a result of these risks, uncertainties and assumptions, a prospective purchaser of the Notes should not place undue reliance on these forward-looking statements.

## OVERVIEW OF THE PROGRAMME

The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Base Prospectus and, in relation to the General Terms and Conditions of any particular Tranche of Notes, the applicable Final Terms. This overview must be read as an introduction in conjunction with the other parts of the Base Prospectus (including any documents incorporated therein). Any decision to invest in the Notes should be based on a consideration by the investor of the Base Prospectus as a whole.

Words and expressions defined in the General Terms and Conditions of the Notes below or elsewhere in this Base Prospectus have the same meanings in this overview

This overview constitutes a general description of the Programme for the purposes of Article 25(1) of the Delegated Regulation.

|                                       |   |
|---------------------------------------|---|
| <b>Issuer:</b>                        | Akciju sabiedrība "Augstsprieguma tīkls"  |
| <b>Legal Entity Identifier (LEI):</b> | 64883LC3F12690GATG87  |
| <b>Programme Limit:</b>               | Up to EUR 160,000,000 aggregate nominal amount of Notes outstanding at any one time.  |
| <b>Risk Factors:</b>                  | Investing in Notes issued under the Programme involves certain risks. The principal risk factors that may affect the ability of the Issuer to fulfil its obligations under the Notes are discussed in Section "Risk Factors" below.   |
| <b>Arranger or the Programme:</b>     | Luminor Bank AS   |
| <b>Dealer:</b>                        | Luminor Bank AS   |
| <b>Method of Issue:</b>               | The Notes shall be issued in Series. Each Series may comprise one or more Tranches of Notes. The Notes of each Tranche will all be subject to identical terms, except that the Issue Dates and the Issue Prices thereof may be different in respect of different Tranches.  |
| <b>Form of the Notes:</b>             | The Notes will be issued in dematerialized form and book-entered with Nasdaq CSD SE.  |
| <b>Status and Security:</b>           | The Notes constitute direct, unsecured and unguaranteed obligations of the Issuer ranking <i>pari passu</i> without any preference among each other and with all other unsecured, unguaranteed and unsubordinated indebtedness of the Issuer, save for such obligations as may be preferred by mandatory provisions of law. |
| <b>Currency:</b>                      | EUR   |
| <b>Denomination:</b>                  | The nominal amount of each Note shall be specified in the Final Terms.  |
| <b>Issue Price:</b>                   | The Notes may be issued at their nominal amount or at a discount or a premium to their nominal amount.  |
| <b>Minimum Investment Amount:</b>     | The Notes will be offered for subscription for a minimum investment amount EUR 100,000 (one hundred thousand euro).   |
| <b>Interest:</b>                      | The Notes will bear interest at a fixed annual interest rate.   |
| <b>Maturity:</b>                      | The Notes shall be repaid in full at their nominal amount on the date which will be specified in the Final Terms. Each Series of Notes may have a maturity up to 10 years.  |
| <b>Early Redemption:</b>              | The Issuer is entitled to redeem each Series of Notes, 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, as more fully set out in Clauses 9.3 and 9.4 of the General Terms and Conditions of the Notes.

- Redemption for tax reasons:** The Issuer is entitled to redeem the Notes, in whole but not in part, at a price equal to the nominal amount of the Notes together with the accrued interest for tax reasons as described in Clause 11 of the General Terms and Conditions of the Notes.
- Change of Control:** Following the occurrence of a Change of Control the Noteholders will be entitled to request the Issuer to redeem or, at the Issuer's option, procure the purchase of their Notes, as more fully set out in Clause 14 of the General Terms and Conditions of the Notes.
- Negative Pledge:** The Notes will have the benefit of a negative pledge as described in Clause 15 of the General Terms and Conditions of the Notes.
- Cross Default:** The Notes will have the benefit of a cross default provision as described in Clause 16 of the General Terms and Conditions of the Notes.
- Listing:** Application will be made to Nasdaq Riga for admitting each Tranche to listing and trading on the official bond list (the Baltic Bond List) according to the requirements of Nasdaq Riga not later than within 3 (three) months after the Issue Date of the respective Tranche.
- Taxation:** All payments in respect of the Notes by the Issuer shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature ("**Taxes**"), unless the withholding or deduction of the Taxes is required by the laws of the Republic of Latvia. In such case, the Issuer shall pay such additional amounts as will result in receipt by the Noteholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Note held by or on behalf of a Noteholder which is liable to such Taxes in respect of such Note by reason of its having some connection with the Republic of Latvia other than the mere holding of the Note.
- Rating:** As of the date of this Base Prospectus, the Issuer has a credit rating BBB+ by S&P Global Ratings Europe Limited. The outlook is positive. A Series of Notes to be issued under the Programme may be rated or unrated.
- A rating is not a recommendation to buy or sell or hold Notes and may be subject to suspension, reduction, or withdrawal at any time by the assigning rating agency. Up-to-date information should always be sought by direct reference to the relevant rating agency.
- Governing Law:** Latvian law.
- Dispute Resolution:** Any disputes relating to or arising in relation to the Notes shall be settled solely by the courts of the Republic of Latvia of competent jurisdiction.
- Selling Restrictions:** For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of the Base Prospectus in the United States of America, the EEA (with respect to retail investors), the Republic of Latvia, the Republic of Lithuania and other jurisdictions, see Section "*Distribution of the Base Prospectus and Selling Restrictions*".

## RISK FACTORS

*Prospective investors are advised to carefully consider the risk factors and other information provided in this Base Prospectus. Investing in the Notes involves certain risks including but not limited to the risks described herein.*

*The Issuer believes that if one or more of the risk factors described herein emerges, it could have a negative effect on the Issuer's business operations, financial position and/or business results and, thereby, the Issuer's ability to fulfil its obligations under the Notes as well as the market price and value of the Notes. If these risks were to lead to a decline in the market price of the Notes, prospective investors could lose all or part of their investment.*

*The risks and uncertainties described herein are the risks which the Issuer has deemed material; however, they are not the only factors affecting the Issuer's activities. Therefore, the Issuer does not claim that the statements below regarding the risks of acquiring and/or holding any Notes are exhaustive. Also, other factors and uncertainties than those mentioned herein, which are currently unknown or deemed immaterial, could negatively affect the Issuer's business operations, financial position and/or business results and, thereby, the Issuer's ability to fulfil its obligations under the Notes as well as the market price and value of the Notes.*

*Most of these risk factors are contingencies which may or may not occur and the Issuer is not in a position to assess or express a view on the likelihood of any such contingency occurring.*

*The most material risk factors have been presented at the beginning in each category. The order of presentation of the remaining risk factors in each category in this Base Prospectus is not intended as an indication of the probability of their occurrence or of their potential effect on the Issuer's ability to fulfil its obligations under the Notes.*

*All investors should make their own evaluations of the risks associated with an investment in the Notes and should consult with their own professional advisers if they consider it necessary.*

### **Risks related to macroeconomic conditions**

#### ***Exposure of business results to macroeconomic developments***

The results of the Group's operations are dependent on Latvia's macroeconomic situation. In particular, the Group's operations are affected by such factors as the GDP of Latvia, the level of industrial production, the rate of inflation, electricity prices, the unemployment rate, changes in consumer affluence levels, and the fiscal policy of the Republic of Latvia. The Baltic economy is closely linked to the global economy and especially to the macroeconomic conditions in the Eurozone countries and global developments.

The Group's business is influenced by electricity price trends in local and Nordic markets, commodities prices, consumer behaviour and electricity demand in the Baltic countries, and other indices that may reflect local and global macroeconomic trends and have a material adverse effect on the Group's business and financial position.

The Group has a strong balance sheet and operates in a relatively non-cyclical or late-cyclical industry. However, an unexpected downturn in the economy may have an impact on the Group's customers and negatively affect its growth and results of operations through reduced electricity consumption.

In 2020, the global COVID-19 pandemic had a significant impact on the global economy, including the dynamics of energy prices. Any negative effect of COVID-19 on the economy may decrease incomes of the Group's customers and the demand for the Group's products. Such effects may also result in insolvency of the Group's business partners, which could affect the operations of the Group, as well as its financial standing.

Furthermore, although the Group's operations are affected by macroeconomic conditions, and the related changes in electricity and natural gas consumption, the increase in costs of the Group companies, pursuant to the Tariff Calculation Methodology for Electricity Transmission System Services (in Latvian - *Elektroenerģijas pārvades sistēmas pakalpojumu tarifu aprēķināšanas metodika*), Tariff Calculation



Methodology for Natural Gas Transmission System Service (in Latvian - *Dabaszgāzes pārvades sistēmas pakalpojuma tarifu aprēķināšanas metodika*) and Tariff Calculation Methodology for Natural Gas Storage System Service (in Latvian - *Dabaszgāzes uzglabāšanas sistēmas pakalpojuma tarifu aprēķināšanas metodika*) may be recovered by the Company in the following tariff regulatory periods and also following regulatory period. As a result, although short-term fluctuations within tariff regulatory periods are possible, in the long-term, if the increase in costs is not covered in within next regulatory period, the profitability set forth by the Public Utilities Commission is achieved due to the recovery of increase in costs.

The Group's estimate for the exposure of business results to macroeconomic developments is low.

## **Operational Risks**

### ***Electricity exchange price fluctuation risk***

The Company purchases electricity for transmission losses, technological and economic consumption on the electricity market at market prices. Thus, the discrepancy between the actual and projected electricity prices in the approved tariffs caused by the fluctuations of the market prices creates a liquidity risk in cases when factual electricity costs are higher than the costs included in tariff calculations. The costs related to transmission losses and technological consumption (average EUR 10-12 million) account for around 20 per-cent of the Company's total operational costs.

The fluctuations of the electricity exchange price in Latvia indicate that after the decrease of the electricity price in 2015-2017, in 2018 the electricity exchange price increased by 44 per-cent (year 2018 – EUR/MWh 49.90), compared to 2017 (year 2017 – EUR/MWh 34.68). In 2019-2020 a decrease in the price of electricity followed, and the average price of the electricity exchange in Latvia in 2020 (year 2020 – EUR/MWh 34.05), compared to 2019, decreased by 26 per-cent (year 2019 – EUR/MWh 46.28). However, in 2021 the electricity exchange price once again is increasing.

In June 2021, the average MWh price in the Nord Pool exchange in Latvia was EUR/MWh 76.23, which is 57.4 per-cent more than it was a month ago (May 2021 - EUR/MWh 48.42) and 97.2 per-cent more (June 2020 - EUR/MWh 38.66) than it was in the same month a year ago. This is due to price increase amongst the underlying resources used for electricity generation, such as natural gas and CO2 emission quotes.

Although electricity price increase can affect short term financial liquidity, the Company ensures continuous monitoring of the electricity price in order to react promptly to price changes if necessary. Sufficient funds or credit resources are provided to ensure liquidity.

According to the Tariff Calculation Methodology for Electricity Transmission System Services (in Latvian - *Elektroenerģijas pārvades sistēmas pakalpojumu tarifu aprēķināšanas metodika*), the increase in costs resulting from unplanned changes in the price of electricity is included in the calculation of tariffs in the next regulatory period, thus compensating for the negative impact.

Notwithstanding the foregoing, an inability to cover funding costs through revenue streams may have a material adverse effect on the Company's business, financial condition, and results of operations or prospects, which may impact the ability of the Company to meet its payment obligations under the Notes.

The Company's estimate for the electricity exchange price fluctuation risk profile is medium.

### ***Information system, communication network infrastructure and cyber-attack risks***

The Company has developed, procured and uses a variety of off-the-shelf and custom-made information systems and web-based solutions in carrying out its everyday business operations and providing services to its customers. The main factors that may lead to total or partial loss of information system data are physical infrastructure damage (server, backup, disk array), technological failures, software failures, power failure (power outages, power surges), fire, floods, natural disasters, human error, third party failures to perform their duties (supplying faulty software or hardware, failing to provide support or maintenance service), distributed denial of service attack, cyber-attacks, viruses, ransomware, and other forms of malware.

The Company has made significant investments in developing well-functioning and secure information systems and is constantly working on improving such systems and developing adequate contingency procedures:

- information system infrastructure is located in several data centres;
- various information system virtualization technologies are used;
- backup of information systems according to data backup and a maintenance plan of every information system;
- regular continuity tests of information systems.

The Company applies the contingency procedures mentioned above and this reduces the probability of the information system risk; however, the continuity tests are not able to assess all possible scenarios, and there is a possibility of system unavailability or breakdown. Breakdowns and interruptions in the information systems may negatively affect the business operations of the Company, causing errors in the execution of transactions, loss of customers, production breakdowns and other business interruptions.

The Company manages cyber security activities, which provide for the involvement of the relevant business areas, compliance with legal requirements and recommendations and monitoring critical controls, yet the Company may be subject to cyber-attack and other security threats to its information systems.

In the event of emergence of the aforementioned circumstances, the Company may be unable to continue conducting its business in an effective manner, or to prevent, respond promptly and adequately to or mitigate the adverse effects of breakdowns or interruptions in its information system infrastructure, with possible adverse effects on its reputation, financial condition, assets, business, and results of operations.

The Company estimate for the information system, communication network infrastructure and cyber-attack risk profile is medium.

### ***Technical risks***

Technical risks are mainly related to the maintenance of the electricity transmission infrastructure and the prevention of potential damage, as a result of which possible disruptions in the transmission of electricity to customers may occur. Disruptions of the electricity transmission system may be caused by natural disasters, illegal actions of individuals and legal entities (for instance, theft of line elements, vandalism, damage) and equipment defects.

Major risks relating specifically to the electricity transmission infrastructure failures include mass failures in the transmission infrastructure caused by atmospheric surges, branches or trees falling on power lines or power equipment, strong winds, ice, and rapid changes in air temperature. During the last 20 years, the largest mass failures in the distribution infrastructure occurred in 2005 and 2010-2011.

Other significant risks relate to timely elimination and prevention of technical defects and damage through the implementation of the technical operation process and timely identification of potential risks.

To minimize the technical risks, the Company has implemented a long-term investment programme for electricity transmission infrastructure renovation and reconstruction projects. The Company has also implemented measures in its operations to improve technical operation processes, as well as prevent the occurrence of technical damage and defects, for instance, improving controls of electric power lines (the “EPL”), monitoring of trees and objects outside the protection zone, and identification of potentially endangered trees off the route, warning of landowners and felling of trees.

The Company constantly improves EPL controls, tracks are actively cleaned to prevent dangerous trees from growing near the lines, communication with landowners and third parties is constantly improved, event recording and data analysis have been significantly developed, new and innovative technical solutions have been introduced, reducing the likelihood and impact of risks, as well as improving risk monitoring. Measures

have been and are being taken for replacement of unsafe elements (330kV bushings of a specific manufacturer and type, 110kV instrument transformers) in the substations.

In certain circumstances, adequate insurance coverage may not be available, as a result of either a lack of relevant insurance or excessive costs. In addition, insurance proceeds received may be inadequate to fully cover replacement costs for damaged assets, sequential financial losses due to business interruption, liabilities to third parties, and similar costs and expenses associated with such asset damages. Should such risk materialise, it could result in a compensation of damages and additional operating costs for the Company, thus adversely affecting the Company's financial position and the Company's ability to fulfil its obligations under the Notes.

The Company's estimate for the exposure of business results to technical risks is low.

### ***System management risks***

System management risks are related to sub-standard power supply or power failure due to frequency or voltage deviation.

System management risks are reviewed systematically and periodically, but in the event of unforeseen circumstances, an extraordinary risk review may be initiated. System management risks are constantly controlled and monitored.

The most significant system management risks are:

- Deviations in power flows that may occur in line, cross-sectional overload;
- Voltage deviation, which may lead to a power supply interruption and be manifested in low-quality electricity – reduced voltage (including voltage drops) or increased voltage (including overvoltage);
- Threats and damage to electrical equipment caused by voltage deviations in 330 kV lines;
- Real-time network status information is not available and operational control and monitoring is not possible due to the unavailability of at least one real-time device or device for more than 30 minutes.

Other significant system management risks are related to implementation of the synchronization process with the continental Europe. Political and/or legislative measures taken by Lithuania, Poland, Estonia, Russia and the European Commission may delay the implementation of synchronization projects in Latvia and the neighbouring countries, as well as a unilateral decision by Russia to disconnect the interconnection from the Russian interconnected electricity system may have a negative effect on the synchronization process.

The Company has implemented measures in its operations that significantly improve system management processes, as well as assist in avoiding potential occurrence of network deviations, such as dispatching management process is constantly improved, training sessions are performed to ensure the competence of employees and to improve actions in emergency and potential danger situations, information systems that are used to ensure the normal state of the network are constantly improved.

During the last 10 years significant measures have been taken in the development of dispatching information systems, staff competence building, the Company capacity building (calculations, planning, accounting, monitoring, provision of additional services), implementation and improvement of emergency automation.

Notwithstanding the foregoing risk mitigation measures taken by the Company, should the system management risk materialise, it may result in claims for damages and additional operating costs for the Company, thus adversely affecting the Company's financial position and the Company's ability to fulfil its obligations under the Notes.

The Company's estimate for the exposure of business results to system management risks is low.

## ***Environmental risks***

The Company's core business activity – electricity transmission, – include operations with certain assets, mixtures, substances and processes that inherently have increased levels of risk, thus exposing the environment to potential damages or harm due to operational accidents or other sudden and unforeseen occurrences. Certain technological processes involve materials, mixtures or substances that are potentially dangerous in uncontrolled chemical processes, such as fires, explosions, emissions, major accidents or failures of equipment or structures.

The following have been identified as significant environmental aspects which may cause environmental risks:

- noise caused by the operation of the equipment (which usually causes inconvenience only in the immediate vicinity of the objects),
- electromagnetic field (which mostly causes inconvenience only in the immediate vicinity of objects and significantly decreases as you move away from them),
- storage and handling of chemicals and mixtures (especially handling of oils due to their volume).

The Company has implemented measures that significantly improve the state of the environment, as well as prevent the occurrence of environmental pollution, for instance focusing on minimising sulphur hexafluoride leaks, localizing and preventing the further spread of the identified historical pollution.

In recent years, significant measures have been taken on transformer oil collection, repair of underground oil catchment pits, arrangement of oil sewers and installation of separators. Further construction and reconstruction works for oil collection and oil drainage are anticipated only in connection with the 10-year development plan of the transmission network.

The consequences of an uncontrolled release of dangerous substances or other environmental risks, such as subsequent loss mitigation activities and clean-up costs, fines, penalties and similar costs imposed in accordance with relevant legislation, third party claims and other legal actions may adversely affect the Company's business and financial position.

The Company's estimate for the environmental risk profile is low.

## ***Counterparty risk***

Counterparty risk is inherent to all business activities the Company is engaged in. A counterparty's financial distress or suspension of its operation by any governmental and/or other institutional body due to, among other things, enforced economic sanction laws, regulations or embargoes could have a material adverse effect on the Company's business and/or financial position. Counterparty risk could result in material financial losses to the Company, including, but not limited to, revenues not being received from customers, the Company's own funds not being accessible in its current accounts, committed funding not being available, committed capital expenditure projects being suspended or delayed, etc. Suspension of or material delay in any counterparty's committed capital expenditure project that is significant in nominal amount could harm not only the Company's financial position but also its business operations, thus further affecting the quality of services provided by the Company itself or harming the Company's reputation. The Company assesses its counterparties to mitigate risks. The Company has internal procedures in place for identifying and assessing counterparties.

The Company has a significant concentration of receivables risk in relation to a single counterparty or a group of similar counterparties. However, this risk to certain extent is limited due to the fact that the main cooperation partner of the Company is AS Latvenergo, a state-owned company, as well as its group companies.

As to financial counterparties, the Company's policy is, among other things, to evaluate and group financial counterparties by the credit rating assigned to them by an independent credit rating agency. In accordance with the Company's 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.

Although, the Company monitors and manages its counterparty risk, an occurrence of the risk may have an adverse impact on the Company's business and financial position.

The Company's estimate for the financial counterparty risk profile is medium, while for other counterparties – low.

## **Legal and Regulatory Risks**

### ***Claim of LITGRID AB***

There is a possibility of a formal investigation being commenced against the Company under the European Parliament and Council Regulation No 1227/2011 on Wholesale Energy Market Integrity and Transparency (REMIT) on basis of claim of LITGRID AB.

On 11 May 2021, the Company received a claim from LITGRID AB, a Lithuanian electricity transmission system operator, containing allegations regarding electricity market manipulation in the Baltic States and possible breach of legal acts of the Republic of Lithuania limiting the trade in electricity with Belarus. The respective regulatory framework in Lithuania was adopted as a reaction to construction of a nuclear power plant in Astravyets, Belarus, in close proximity to the border with Lithuania. Lithuania's aim is to limit, to the extent possible, trade with the Belarussian electricity produced in the respective nuclear power plant on the territory of EU.

In its claim, LITGRID AB has reproached the Company for:

- 1) calculating capacity for the trade with Russia, that exceeds Latvian-Russian interconnection capacity. From this LITGRID AB concludes, that the Company does not comply with the Lithuanian national legislation, that prohibits import of electricity produced in Belarus; and
- 2) using inapplicable (from LITGRID AB point of view) Capacity Calculation Methodology, which is being used to determine capacity for the trade with Russia. LITGRID AB considers the said methodology as being inapplicable, because it has not been approved by Lithuanian regulatory authority. At the same time, the methodology has been endorsed by Latvian and Estonian regulatory authorities as being correct and appropriate for the purposes of calculating capacity for the trade with Russia. Notwithstanding the latter, LITGRID AB concludes, that by applying this methodology and calculating a technically unreasonable capacity, the Company has contributed to a significant price difference between the Latvian and Lithuanian price zones and has therefore unduly received congestion management revenues of EUR 2.6 million and violated the Commission Regulation (EU) 2015/1222 of 24 July 2015 establishing a guideline on capacity allocation and congestion management.

In the light of these arguments, LITGRID AB concludes that, as a result of these Company's activities, electricity produced in Belarus was illegally imported into Lithuania and consumed by Lithuanian electricity users. Since electricity trade with Russia is organized in cooperation with Estonian transmission system operator "Elering" AS, the Company evaluated the Claim together with "Elering" AS and on 21 May 2021 sent common reply, in which the Company and "Elering" AS concluded, that arguments provided in the claim are completely unjustified and the claim as unfounded.

Further, on 22 July 2021 the Lithuanian National Energy Regulatory Council (NERC) published conclusions of the market investigation conducted by it. Pursuant to the NERC's public statement, starting from 2020 there has been a noticeable electricity price difference in Latvia and Lithuania. In NERC's consideration, such difference in electricity prices between Lithuanian and Latvian bidding zones occurred due to the methodology for calculation and allocation of cross-zonal capacity with Russia applied by the Company and Estonian electricity transmission system operator. It was also alleged that the Company 1) might be creating commercial congestion on the Latvian-Lithuanian interconnection, and 2) is applying different environmental and State aid rules in a discriminatory manner, benefiting third-country producers, rather than producers from the EU.

As of the date of this Base Prospectus the abovementioned claims have not resulted in a REMIT case being opened against the Company. Moreover, on 10 September 2021, the Public Utilities Commission of the

Republic of Latvia, along with the Estonian Competition Authority, published a joint statement concluding that allegations of NERC are unsubstantiated. Pursuant to the joint statement of Latvian and Estonian regulatory authorities, the difference in electricity prices between Lithuanian and Latvian bidding zones that occurred during the period of January-May 2021, was not caused by the methodology applied by the Company and AS "Elering" AS, the Estonian electricity transmission system operator, but was rather the result of such factors, as capacity restrictions in Sweden, decreased generation capacity in the Baltic States, significant changes in electricity flows on Lithuania – Poland interconnection and overall trends in the Nordic and Baltic electricity markets. Both national regulators have confirmed in their joint statement that operations of the Company, as well as of "Elering" AS, are compliant with the applicable EU Regulations.

Also, in September 2021 LITGRID AB has introduced new Methodology on cross-zonal capacity calculation and allocation with third countries, aimed at preventing physical flow from Belarus to Lithuania of electricity produced at Astravyets nuclear power plant. The Company, as well as "Elering" AS, has not supported LITGRID AB approach to the respective methodology, because current transmission capacity solutions and applicable regulation already provided sufficient safeguards against entry into electricity market of the Baltic States of electricity produced at Astravyets nuclear power plant. However, the Company together with "Elering" AS updated the existing Methodology on cross-zonal capacity calculation and allocation with Russia aiming to prevent potential overlapping of transmission capacity restriction and initiated public consultation with market participants. Afterwards updated methodology will be submitted to the Public Utilities Commission and Estonian competition authority. It is expected that national regulatory authorities of Latvia and Estonia should provide their endorsement for the updated methodology in the nearest future.

Further discrepancies with LITGRID AB on the issue of transmission capacity calculation cannot be excluded, carrying along potential reputational, legal and financial risks for the Company.

Furthermore, according to the Electricity Market Law (in Latvian – *Elektroenerģijas tirgus likums*) a possible penalty for the breach of REMIT Regulation would be between EUR 300 and 10 percent of the Company's net turnover of the previous financial year. This penalty can be imposed only by Public Utilities Commission of the Republic of Latvia.

The Company's estimate for the risk of commencement of REMIT case on the basis of LITGRID AB claim is low; however, the risk for further escalation of the situation by the Lithuanian side is medium.

### **Regulated company risk**

In accordance with the Electricity Market Law (in Latvian – *Elektroenerģijas tirgus likums*) and pursuant to the license issued by the Public Utilities Commission to the Company, the Company is the only transmission system operator providing electricity transmission system services in the territory of Latvia, and is operating in Latvia as a regulated company. Therefore, the Company's revenues are significantly dependent on the transmission system tariffs. According to the Electricity Market Law (in Latvian – *Elektroenerģijas tirgus likums*) and the law "On Regulators of Public Utilities" (in Latvian – *likums "Par sabiedrisko pakalpojumu regulatoriem"*) transmission system tariffs are approved by the Public Utilities Commission. Draft tariffs are calculated and evaluated in accordance with the Tariff Calculation Methodology for Electricity Transmission System Services (in Latvian - *Elektroenerģijas pārvades sistēmas pakalpojumu tarifu aprēķināšanas metodika*), developed and approved by the Public Utilities Commission. The calculation methodology is based on the revenue cap model. The usual regulatory periods are 5 years consisting of 5 tariff periods. The calculation methodology foresees the requirement for tariff to include only costs that are necessary for provision of efficient transmission services and economically justified. Therefore, there is a risk that not all costs of the Company will be covered under the tariff.

The calculation methodology also foresees the requirement for the Public Utilities Commission to evaluate the level of regulated asset base and an obligation for the Company to use rate of return on capital that has been approved by the Public Utilities Commission. Therefore, there is a risk that not all costs will be covered by such regulated tariffs due to an unduly low regulatory asset base or because the rate of return on capital included in the calculation of the transmission system service tariffs will not correspond to the market rate.

Also, there is a risk of material adverse effect on the Company due to delayed regulatory decisions by state authorities or due to changes in the local or EU legislative environment governing relevant regulatory matters.

The electricity transmission system service tariffs are set by the Public Utilities Commission, *inter alia*, by evaluating the submitted draft tariffs and requesting additional information substantiating the draft tariffs. The total review and approval period of the tariff is 150 days, which can be extended in case of requesting additional information.

Hence, the Company may not regulate its revenues flexibly enough to respond to changes in costs by changing the prices of services provided, as a result of which the Company's net sales may be affected. Given that the calculation methodology does not provide for inclusion of financial costs in the tariff, the amount of return on capital must be sufficient to effectively attract financing, as well as to cover financing. An insufficient rate of return on capital may pose a threat to the ability to attract financing for the realization of capital investments, burning of liabilities, creating liquidity risk. Thus, it is essential that the rate of return on capital set by the Public Utilities Commission corresponds to the market situation, to ensure a proper return on assets.

The Company's estimate for the regulated market risk profile is medium.

### ***Regulatory actions and investigations risk***

Several authorities (such as the Public Utilities Commission, the State Audit Office, the Competition Council, and the State Revenue Service) regularly perform investigations, examinations, inspections or audits of the Company's business, including, but not limited to, certification requirements, payments, reporting, corporate governance, etc. Any determination by the authorities that the Company have not acted in compliance with all the applicable laws and regulations could have serious legal, reputational and financial consequences for the Company, including exposure to fines, criminal and civil penalties and other damages, increased prudential requirements or even business disruption in the respective fields.

### ***International and national sanctions risk***

Pursuant to the Law on International Sanctions and National Sanctions of the Republic of Latvia (in Latvian - *Starptautisko un Latvijas Republikas nacionālo sankciju likums*) all persons, including the Company, have the obligation to comply with and enforce the international and national sanctions. Failure to comply with Latvian national sanctions or international sanctions (UN, EU, US) may have serious legal and reputational consequences for the Group, including exposure to fines as well as criminal and civil penalties. To mitigate this risk the Group has developed internal control system – a package of measures including activities to be taken to ensure compliance with sanctions requirements.

### ***General Data Protection Regulation (GDPR) risk***

Pursuant to the General Data Protection Regulation (EU) 2016/679 (GDPR) the Company must adhere to rules relating to the protection of natural persons with regard to the processing of personal data. Failure in establishing and implementing appropriate technical and organizational measures to meet the data protection requirements of the GDPR may have serious financial, legal and reputational consequences for the Company, including exposure to fines and penalties.

### ***Fraud risk***

Notwithstanding all the detection and prevention activities implemented within the Company the aim to prevent any corruptive, fraudulent, coercive or collusive practices on the part of the Company's employees, board and council members, and with respect to any transaction the Company is involved in, there is a risk of such prohibited practices being performed. This could adversely affect the Company's reputation, business and financial position, as well as involve the Company in legal proceedings and disputes, including claims in relation to actions by regulatory and supervisory institutions. To mitigate this risk Company has developed and implemented fraud and corruption risk management rules.

### *Competition risk*

Considering the historically existing transmission system service monopoly in Latvia, as established also by the Electricity Market Law (in Latvian - *Elektroenerģijas tirgus likums*), in the Latvian transmission system service market the Company has a dominant position within the meaning of the Competition Law (in Latvian – *Konkurences likums*). If the Competition Council found violations of the Competition Law, this could have serious legal, financial and reputational consequences for the Company. As at the date of this Base Prospectus no violations of the Competition Law committed by the Company has been found by the Competition Council.

### *REMIT regulation risk*

As the Company as transmission system operator operates in the wholesale energy market, there is a risk of a potential breach of the European Parliament and Council Regulation No 1227/2011 on Wholesale Energy Market Integrity and Transparency (REMIT), including a prohibition on market manipulation and a duty to publish inside information as well as provide information to the regulator and the Agency for the Cooperation of Energy Regulators. This could have serious legal, financial and reputational consequences for the Company.

The Company's estimate for the regulatory actions and investigations risk profile is medium.

### **Changes in legislation**

The Company is dependent on the legislative environment in the electricity market and on political and social decisions, as well as in the EU. One of such initiatives is the European Green Deal, aimed at transforming the EU into a fair and prosperous society, with a modern, resource-efficient and competitive economy where there are no net emissions of greenhouse gases in 2050 and where economic growth is decoupled from resource use. This will significantly change electricity market and availability of capacities for ancillary services, diverse energy sources and therefore the Company as a backbone of electricity market will have to provide appropriate technical and IT solutions for grid security and stability as well as availability of optimal transmission system capacity and flexibility. This exposes the Company to additional costs that might negatively impact the Company's financial situation.

The Company's estimate for pertaining to changes in legislation risk is low.

### **Financial Risks**

#### ***Mandatory prepayment of the Company's debt portfolio***

The Company has a valid loan agreement with AS SEB banka (outstanding principal amount EUR 116.2 million). The loan agreement contains certain financial covenant clauses and other obligations and representations, the violation of which could lead to an event of default and acceleration of repayment of the loan.

While the Company has not breached such provisions in the past, its ability to comply with covenants and restrictions contained in the loan agreements may be affected by events beyond its control, including prevailing economic, financial, legal, and industry conditions. If these obligations were to be breached, the creditors involved would be able to declare an event of default pursuant to the relevant loan agreements and require prepayment of the entire outstanding loan amounts and redemption of the outstanding bonds. Due to the cross-default clauses in the loan agreements, the Company might need to refinance a substantial part of its outstanding debt. The ability to raise funding for the refinancing of bank and market debt or negotiate other terms with existing lenders might be limited, thus causing significant going concern risk for the Company. The Company has a policy for raising and managing borrowed funds to address the risk of mandatory prepayment of the Company's debt portfolio. The Company's policy is, among other things, to maintain a common list of covenants included in the loan agreements and bond documentation. Furthermore, financial covenants are considered in the business planning process.

The Company's estimate for the mandatory prepayment of the Company's debt portfolio risk profile is medium.



### ***Downgrade of the Company's credit rating***

A downgrade of the Company's credit rating could increase costs of funding and/or reduce its access to funding and could require the Company to provide additional security for contracts, which could increase the costs of transactions.

In addition to a deterioration in the Company's own credit quality, the Company's credit rating might be downgraded if the credit rating of the Republic of Latvia is downgraded due to weaker macroeconomic conditions or a change of the support assumptions provided by the Republic of Latvia.

The Company's estimate for downgrade of the Company's credit rating risk profile is low.

### ***Financing and refinancing risk***

The Company will need to raise further debt from time to time in order, among other things:

- to finance or refinance capital expenditures;
- to refinance debt.

Therefore, the Company is exposed to financial and capital market risk resulting from mismatches between the capital requirements of the Company and its access to capital. The ability of the Company to raise funding may be influenced by, among other things, its own operating performance and general economic, financial, legal and industry conditions. If these conditions deteriorate, there could be an adverse effect on the Company's ability to finance or refinance capital expenditures and/or to refinance its existing debt as and when they are due. The Company has a strategy for raising and managing borrowed funds to address the funding issues and financing risk.

The Group has a Financial Risk Management Policy in place to address refinancing risk. The Group's policy is, among other things, to diversify funding sources.

The Company's estimate for the financing and refinancing risk profile is low.

### ***Liquidity risk***

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

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

As of the date of this Base Prospectus, the Company's current liabilities exceed current assets, as current liabilities include a loan agreement with AS SEB banka in the amount of EUR 116,200,000 with a maturity date of 18 December 2021, which was arranged in order to refinance the loans (liabilities) assumed as a result of merger with AS Latvijas elektriskie tīkli. The Company's management has approved the Fundraising Strategy for 2021–2025 pursuant to which the Company intends to refinance this loan in 2021. After refinancing, the Company's current assets will exceed current liabilities, and thus it does not pose a risk of going concern. Notwithstanding the foregoing, an inability to cover funding costs through revenue streams could have a material adverse effect on the Company's business, financial condition, and results of operations or prospects, which could impact the ability of the Company to meet its payment obligations under the Notes.

The Company's estimate for the liquidity risk profile is low.

### ***Interest rate risk***

The Group is subject to the interest rate risk which primarily arises from borrowings with variable interest rates. There is a risk that an increase in interest rates may result in a significant increase in finance costs, thus adversely affecting the financial position of the Group.

The Group's estimate for the interest rate risk profile is low.

### ***Risk of decrease of investment value in AS Conexus Baltic Grid***

The Company's sole subsidiary, AS Conexus Baltic Grid, is the unified natural gas transmission and storage operator in Latvia, managing natural gas storage facility – the Inčukalns underground gas storage facility, and the main natural gas transmission system which directly connects the Latvian natural gas market with Lithuania, Estonia and the North-West region of Russia. AS Conexus Baltic Grid offers its customers natural gas transmission and storage services in accordance with the tariffs set by the Public Utilities Commission.

Although, a unified financial risk management policy is implemented within the Group which reduces the potential negative impact of operational and financial risks on financial results, materialisation of certain operational risks (macroeconomic, technical or other) or financial risks (liquidity, counterparty or other), as a result of which AS Conexus Baltic Grid incurs losses, may have a negative impact on the Group's financial results.

The Company's estimate for the risk of decrease of investment value in AS Conexus Baltic Grid is low.

### **Risks related to the Notes**

#### ***Possibility to forfeit interest and principal amount invested***

Should the Issuer become insolvent, legal protection proceedings or out-of-court legal protection proceedings of the Issuer are initiated during the term of the Notes, an investor may forfeit interest payable on, and the principal amount of, the Notes in whole or in part. An investor is always solely responsible for the economic consequences of its investment decisions.

#### ***No guarantee or security***

The Notes will not constitute an obligation of anyone other than the Issuer and they will not be guaranteed. No one other than the Issuer will accept any liability whatsoever in respect of any failure by the Issuer to pay any amount due under the Notes.

The Notes are unsecured debt instruments and the Noteholders would be unsecured creditors in the event of the Issuer's insolvency.

#### ***Claims cannot be enforced against the Issuer's key assets***

The Issuer holds a number of assets which under applicable laws of the Republic of Latvia can be owned only by the Issuer. Pursuant to Section 20.<sup>1</sup> (4) of the Energy Law (in Latvian - *Enerģētikas likums*) the infrastructure objects of the electricity transmission system belonging the Issuer cannot be disposed or used as a collateral for securing of loans or other liabilities. Because of their non-transferable nature, no claims, either on the ground of the Notes or otherwise, can be enforced against these assets. Furthermore, in case of the Issuer's insolvency these assets will not be used for settling the creditors' claims.

#### ***The Notes do not contain covenants governing the Issuer's operations and do not limit its ability to merge or otherwise affect significant transactions that may have a material adverse effect on the Notes and the Noteholders***

The Notes do not contain provisions designed to protect the Noteholders from a reduction in the creditworthiness of the Issuer. In particular, the General Terms and Conditions of the Notes do not, except for the Change of Control (see Clause 14 the General Terms and Conditions of the Notes), restrict the Issuer's

ability to increase or decrease its share capital, to enter into a merger or other significant transaction that could materially alter its existence, jurisdiction of organization or regulatory regime and/or its composition and business. In the event that the Issuer enters into such a transaction, Noteholders could be materially adversely affected. Furthermore, the Change of Control condition does not restrict the current shareholder of the Issuer, namely, the Republic of Latvia, from disposing any or all of its shareholdings, in case the law, which at the date of this Base Prospectus restricts privatisation or alienation of the shares of the Issuer, is changed.

#### ***No limitation on issuing additional debt***

The Issuer is not prohibited from issuing further debt. If the Issuer incurs significant additional debt of an equivalent seniority with the Notes, it will increase the number of claims that would be equally entitled to receive the proceeds, including those related to the Issuer's possible insolvency. Further, any provision which confers, purports to confer, or waives a right to create security interest in favour of third parties, such as a negative pledge, is ineffective against third parties since: (i) it is an issue of a contractual arrangement only being binding upon the parties to such contractual arrangement; (ii) there is no specific legislation in Latvia providing beneficiaries of negative pledge undertakings or covenants with a preferred position vis-a-vis the claims of third parties; and (iii) no registry or public record exists in Latvia through which negative pledge undertakings or covenants could be filed to obtain a preferred position. Should the Issuer breach its obligations under such undertakings and covenants and create a security interest in favour of a third party, such third party would obtain a valid and enforceable security interest over the pledged asset.

***In respect of any Notes issued as Green Bonds, there can be no assurance that such use of proceeds will be suitable for the investment criteria of an investor. Any failure to use the net proceeds of any Tranche of Notes issued as Green Bonds in connection with green projects, and/or any failure to meet, or to continue to meet, the investment requirements of certain environmentally focused investors with respect to such Green Bonds may affect the value and/or trading price of the Green Bonds, and/or may have consequences for certain investors with portfolio mandates to invest in green assets***

The Issuer may issue Notes under the Base Prospectus where the use of proceeds is specified in the applicable Final Terms to be for the financing and/or refinancing, in part or in full, Eligible Green Projects providing distinct environmental benefits, in accordance with certain prescribed eligibility criteria set out in the Issuer's Green Bond Framework (as defined below) (any Notes which have such a specified use of proceeds are referred to as "**Green Bonds**").

In respect of any Notes issued as Green Bonds, there can be no assurance that such use of proceeds will be suitable for the investment criteria of an investor. The Final Terms relating to any specific Tranche of Notes may provide that it will be the Issuer's intention to apply the proceeds from an offer of those Notes specifically for one or more Eligible Green Projects (as defined under the Issuer's Green Bond Framework available on its website from time to time (the "**Green Bond Framework**")). Prospective investors should have regard to the information set out on the Issuer's website and must determine for themselves the relevance of such information for the purpose of any investment in the Notes together with any other investigation such investor deems necessary.

In particular, no assurance is given by the Issuer that the use of such proceeds for any Eligible Green Projects will satisfy, whether in whole or in part, any present or future investor expectations or requirements as regards any investment criteria or guidelines with which such investor or its investments are required to comply, whether by any present or future applicable law or regulations or by its own by-laws or other governing rules or investment portfolio mandates, in particular with regard to any direct or indirect environmental, sustainability or social impact of any projects or uses, the subject of or related to, any Eligible Green Projects.

Furthermore, a basis for the determination of the definitions of "green" and "sustainable" has been established in the EU with the publication in the Official Journal of the EU on 22 June 2020 of Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 (the "**Sustainable Finance Taxonomy Regulation**") on the establishment of a framework to facilitate sustainable investment (the "**EU Sustainable Finance Taxonomy**"). The EU Sustainable Finance Taxonomy is subject to further development by way of the implementation by the European Commission through delegated regulations of technical screening criteria for

the environmental objectives set out in the Sustainable Finance Taxonomy Regulation. While the intention is that the applicable green projects would be in alignment with the relevant objectives for the EU Sustainable Finance Taxonomy, until the technical screening criteria for such objectives have been developed it is not known whether the Eligible Green Projects will satisfy those criteria. Accordingly, alignment with the EU Sustainable Finance Taxonomy, once the technical screening criteria are established, is not certain.

No assurance or representation is given as to the suitability or reliability for any purpose whatsoever of any opinion or certification of any third party (whether or not solicited by the Issuer) which may be made available in connection with the issue of any Notes and in particular with any Eligible Green Projects to fulfil any environmental, sustainability, social and/or other criteria. For the avoidance of doubt, any such opinion or certification is not, nor shall be deemed to be, incorporated in and/or form part of this Base Prospectus. Any such opinion or certification is not, nor should be deemed to be, a recommendation by the Issuer or any other person to buy, sell or hold any such Notes. Any such opinion or certification is only current as of the date that opinion was initially issued. Prospective investors must determine for themselves the relevance of any such opinion or certification and/or the information contained therein and/or the provider of such opinion or certification for the purpose of any investment in such Notes. Currently, the providers of such opinions and certifications are not subject to any specific regulatory or other regime or oversight.

While it is the intention of the Issuer to apply the proceeds of any Notes so specified for Eligible Green Projects in, or substantially in, the manner described in this Base Prospectus, there can be no assurance that the relevant project(s) or use(s) the subject of, or related to, any Eligible Green Projects will be capable of being implemented in or substantially in such manner and/or accordance with any timing schedule and that accordingly such proceeds will be totally or partially disbursed for such Eligible Green Projects. None of the Arranger or the Dealer will verify or monitor the proposed use of proceeds of the Notes issued under the Base Prospectus. Nor can there be any assurance that such Eligible Green Projects will be completed within any specified period or at all or with the results or outcome (whether or not related to the environment) as originally expected or anticipated by the Issuer. Any such event or failure by the Issuer will not constitute an Event of Default under the Notes.

Any such event or failure to apply the proceeds of any issue of Notes for any Eligible Green Projects as aforesaid and/or withdrawal of any such opinion or certification or any such opinion or certification attesting that the Issuer is not complying in whole or in part with any matters for which such opinion or certification is opining or certifying on may have a material adverse effect on the value of such Notes and also potentially the value of any other Notes which are intended to finance Eligible Green Projects and/or result in adverse consequences for certain investors with portfolio mandates to invest in securities to be used for a particular purpose.

### ***Refinancing risk***

The Issuer may be required to refinance certain or all of its outstanding debt, including the Notes. The Issuer's ability to successfully refinance its debt depends on the conditions of debt capital markets and its own financial condition. The Issuer's inability to refinance its debt obligations on favourable terms, or at all, could have a negative impact on the Group's operations, financial condition, earnings and on the Noteholders' recovery under the Notes.

### ***Since the Notes bear interest at a fixed interest rate, movements in market interest rates can adversely affect the value of the Notes***

The Notes bear interest on their outstanding principal amount at a fixed interest rate. A holder of a security with a fixed interest rate is exposed to the risk that the value of such security could fall as a result of changes in the market interest rate. While the nominal compensation rate of the Notes is fixed during the life of the Notes, the current interest rate on the capital market (market interest rate) typically changes on a daily basis. If the market interest rate increases, the value of a security such as the Notes typically falls, until the yield of such security is approximately equal to the market interest rate. If the market interest rate falls, the value of a security such as the Notes typically increases, until the yield of such a security is approximately equal to the

market interest rate. Consequently, Noteholders should be aware that movements of the market interest rate can adversely affect the value of the Notes and can lead to losses for the Noteholders if they sell their Notes.

### ***The market price of the Notes may be volatile***

The market price of the Notes could be subject to significant fluctuations in response to actual or anticipated variations in the Group's operating results and those of its competitors, adverse business developments, changes to the regulatory environment in which the Group operates, changes in financial estimates by securities analysts and the actual or expected sale of a large number of the Notes, as well as other factors. In addition, in recent years the global financial markets have experienced significant price and volume fluctuations, which, if repeated in the future, could adversely affect the market price of the Notes without regard to the Group's results of operations, prospects or financial condition. Factors including increased competition or the Group's operating results, the regulatory environment, general market conditions, natural disasters, pandemics, terrorist attacks and war may have an adverse effect on the market price of the Notes.

### ***An active market for the Notes may not develop***

Although application(s) will be made for the Notes to be admitted to trading on Nasdaq Riga stock exchange, there is no assurance that such application(s) will be accepted and the Notes will be admitted to trading. In addition, admission of the Notes on a regulated market will not guarantee that a liquid public market for the Notes will develop or, if such market develops, that it will be maintained, and neither the Issuer, nor the Arranger or Dealer is under any obligation to maintain such market. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. A lack of liquidity may have a material adverse effect on the market value of the Notes.

### ***Exchange rate risk***

The Issuer will pay principal and interest on the Notes in EUR. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "Investor's Currency") other than EUR. These include the risk that exchange rates may significantly change (including changes due to devaluation of EUR or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify currency exchange controls. An appreciation in the value of the Investor's Currency relative to EUR would decrease the Investor's Currency-equivalent: (i) yield on the Notes; (ii) value of the principal payable on the Notes; and (iii) market value of the Notes.

### ***Credit ratings***

The Issuer's credit ratings are an assessment by the relevant rating agency of its ability to pay its debts when due. Consequently, real or anticipated changes in its credit ratings will generally affect the market value of the Notes. One or more independent credit rating agencies may assign credit ratings to the Notes. In case the Notes are rated by credit rating agencies, such ratings may not reflect the potential impact of all risks related to the structure, market, additional factors discussed above, or other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time. Any adverse change in an applicable credit rating of the Issuer could adversely affect the trading price of the Notes.

### ***No assurance on change of laws or practices***

The Notes are governed by the laws of the Republic of Latvia. Latvian laws (including but not limited to tax laws) and regulations governing the Notes may change during the life of the Notes, and new judicial decisions can be issued and/or new administrative practices may be adopted. No assurance can be given as to the impact of any of such possible changes of laws or regulations, or new judicial decision or administrative practice taking place after the date of this Base Prospectus. Hence, such change may have a material adverse effect on the Issuer's business, financial condition, results of operations and/or future prospects and, thereby,

the Issuer's ability to fulfil its obligations under the Notes, as well as taxation of the Notes, and the market price of the Notes. Such events may also result in material financial losses or damage to the Noteholders.

### ***Redemption prior to maturity***

The Notes are redeemable at the Issuer's option at a price equal to the nominal amount of the Notes together with the accrued interest (as more fully set out in Clauses 9.3 and 9.4 of the General Terms and Conditions of the Notes). The Notes are also redeemable due to tax reasons at a price equal to the nominal amount of the Notes together with the accrued interest (as more fully set out in Clause 11 of the General Terms and Conditions of the Notes). In addition, the Notes are redeemable on the occurrence of a Change of Control at a price equal to the nominal amount of the Notes together with the accrued interest (as more fully set out in Clause 14 of the General Terms and Conditions of the Notes). Furthermore, if 75 (seventy-five) per-cent or more in principal amount of the Notes then outstanding have been redeemed based on a Change of Control, the Issuer is entitled to redeem the remaining Notes at a price equal to the nominal amount of the Notes together with the accrued interest.

It is possible that the Notes are redeemed at a time when the prevailing interest rates may be relatively low. In such circumstances an investor may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as that of the Notes. It is further possible that the Issuer will not have sufficient funds at the time of the occurrence of a Change of Control to make the required redemption of Notes.

### ***No voting rights***

Only the shareholder of the Issuer has voting rights in the shareholders' meetings of the Issuer. The Notes carry no such voting rights. Consequently, the Noteholders cannot influence any decisions by the Issuer's shareholder concerning, for instance, the capital structure of the Issuer.

### ***Amendments to the Notes bind all Noteholders***

The General Terms and Conditions of the Notes contain provisions for Noteholders to consider matters affecting their interests generally. The decisions of Noteholders (including amendments to the General Terms and Conditions of the Notes), subject to defined majorities requirements, will be binding to all Noteholders, including Noteholders who did not vote and Noteholders who voted in a manner contrary to the majority. This may cause financial losses, among other things, to all Noteholders, including the Noteholders who did not vote and Noteholders who voted in a manner contrary to the majority.

### ***Certain material interests***

The Arranger and the Dealer have engaged in, and may in the future engage in, investment banking and/or commercial banking or other services provided to the Group in the ordinary course of business. Therefore, conflicts of interest may exist or may arise as a result of the Arranger's or the Dealer's current or future engagement in transactions with other parties, having multiple roles or carrying out other transactions for third parties with conflicting interests.

### ***Risks relating to the clearing and settlement in the Depository's book-entry system***

The Notes will be affiliated to the account-based system of the Depository, and no physical notes will be issued. Clearing and settlement relating to the Notes will be carried out within the Depository's book-entry system as well as payment of interest and repayment of the principal. Investors are therefore dependent on the functionality of the Depository's account-based system.

## GENERAL TERMS AND CONDITIONS OF THE NOTES

### 1. Principal amount and issuance of the Notes

- 1.1. Under this first programme for the issuance of notes (the “**Programme**”) the Issuer may issue notes up to an aggregate principal amount of EUR 160,000,000 (one hundred sixty million euro) (the “**Notes**”).
- 1.2. The Notes shall be issued in series (the “**Series**”).
- 1.3. Each Series may comprise one or more tranches of Notes (the “**Tranches**”). The Notes of each Tranche will all be subject to identical terms, except that the Issue Dates (as defined below) and the Issue Prices (as defined below) thereof may be different in respect of different Tranches.
- 1.4. In order to identify each Series and Tranches, the Final Terms (as defined below) shall stipulate a serial number of the respective Series and a serial number of the respective Tranche.
- 1.5. The terms and conditions of each Tranche shall consist of these general terms and conditions of the Notes (the “**General Terms and Conditions**”) and the final terms (the “**Final Terms**”). The General Terms and Conditions shall apply to each Tranche.
- 1.6. Each Final Terms will be approved by the Management Board of the Issuer, published on the Issuer’s website [www.ast.lv](http://www.ast.lv) and submitted to the Financial and Capital Market Commission, which will forward them to the Bank of Lithuania (in Lithuanian - *Lietuvos Bankas*).
- 1.7. The aggregate principal amount of a Tranche shall be specified in the Final Terms.
- 1.8. The nominal amount of each Note shall be specified in the Final Terms.
- 1.9. The Notes will be offered for subscription for a minimum investment amount EUR 100,000 (one hundred thousand euro) (the “**Minimum Investment Amount**”).

### 2. Form of the Notes and ISIN

- 2.1. The Notes are freely transferable non-convertible debt securities, which contain payment obligations of the Issuer towards the holders of the Notes (the “**Noteholders**”).
- 2.2. The Notes are dematerialized debt securities in bearer form which are disposable without any restrictions and can be pledged. However, the Notes cannot be offered, sold, resold, transferred or delivered in such countries or jurisdictions or otherwise in such circumstances in which it would be unlawful or require measures other than those required under Latvian laws, including the United States, Australia, Japan, Canada, Hong Kong, South Africa, Singapore and certain other jurisdictions. In addition, the Noteholders are prohibited to resell, transfer or deliver the Notes to any person in a manner that would constitute a public offer of securities.
- 2.3. The Notes shall be book-entered with Nasdaq CSD SE (registration number: 40003242879, legal address: Valņu 1, Rīga, LV-1050, Latvia) (the “**Depository**”).
- 2.4. A separate ISIN will be assigned to each Series, which will be different from ISIN of other Series.
- 2.5. Before commencement of the offering of the Notes of the first Tranche of each Series, the Depository upon request of the Issuer will assign ISIN to the respective Series. Where a further Tranche is issued, which is intended to form a single Series with an existing Tranche at any point after the Issue Date of the existing Tranche, a temporary ISIN may be assigned to the Notes of such further Tranche, which is different from ISIN assigned to the relevant Series, until such time as the Tranches are consolidated and form a single Series.
- 2.6. ISIN of the respective Series and a temporary ISIN of the respective Tranche, if applicable, will be specified in the Final Terms.

### 3. Status and security

The Notes constitute direct, unsecured and unguaranteed obligations of the Issuer ranking *pari passu* without any preference among each other and with all other unsecured, unguaranteed and unsubordinated indebtedness of the Issuer, save for such obligations as may be preferred by mandatory provisions of law.

### 4. Currency of the Notes

The Notes will be issued in EUR.

### 5. Issue price and yield

- 5.1. The Notes may be issued at their nominal amount or at a discount or a premium to their nominal amount (the “**Issue Price**”). The Issue Price shall be determined by the Issuer and specified in the Final Terms.
- 5.2. The yield of each Tranche set out in the applicable Final Terms will be calculated as of the relevant Issue Date on an annual basis using the relevant Issue Price. It is not an indication of future yield.

### 6. Underwriting

None of the Tranches will be underwritten.

### 7. Issue date

The issue date of each Tranche (the “**Issue Date**”) shall be specified in the Final Terms.

### 8. Interest

- 8.1. The Notes shall bear interest at a fixed annual interest rate (the “**Interest Rate**”) which shall be determined by the Issuer and specified in the Final Terms.
- 8.2. The interest on the Notes will be paid annually on the dates specified in the Final Terms (“**Interest Payment Date**”) until the Maturity Date (as defined below) and will be calculated on the aggregate outstanding principal amount of the Notes of the respective Series.
- 8.3. Interest shall accrue for each interest period from and including the first day of the interest period to (but excluding) the last day of the interest period on the principal amount of the Notes of the respective Series outstanding from time to time. The first interest period commences on the Issue Date and ends on a day preceding the first Interest Payment Date (the “**First Interest Period**”). Each consecutive interest period begins on the previous Interest Payment Date and ends on a day preceding the following Interest Payment Date. The last interest period ends on the Maturity Date (as defined below).
- 8.4. Interest in respect of the Notes will be calculated on the basis of the actual number of days elapsed in the relevant interest period divided by 365 (or, in the case of a leap year, 366), i.e. a day count convention Act/Act (ICMA) will be used.
- 8.5. When interest is required to be calculated in respect of a period of less than a full year (other than in respect of the First Interest Period) it shall be calculated on the basis of (i) the actual number of days in the period from and including the date from which interest begins to accrue (the “**Accrual Date**”) to but excluding the date on which it falls due, divided by (ii) the actual number of days from and including the Accrual Date to, but excluding the next following Interest Payment Date.
- 8.6. Interest on the Notes shall be paid through the Depository in accordance with the applicable rules of the Depository. The Noteholders list eligible to receive the interest on the Notes will be fixed at the end of the 5<sup>th</sup> (fifth) Business Day immediately preceding the Interest Payment Date.



- 8.7. Should any Interest Payment Date fall on a date which is not a Business Day, the payment of the interest due will be postponed to the next Business Day. The postponement of the payment date shall not have an impact on the amount payable.

“**Business Day**” means a day on which the Depository system is open and operational.

## 9. Redemption

- 9.1. The Notes shall be redeemed in full at their nominal amount on the date which will be specified in the Final Terms (the “**Maturity Date**”), unless the Issuer has redeemed the Notes in accordance with Clauses 9.3 and 9.4, Clause 14 (*Change of control*) or Clause 16 (*Events of Default*) below or in case the Noteholders, upon proposal of the Issuer, pursuant to Clause 22 (*Decisions of the Noteholders*) have decided that the Notes shall be redeemed prior to the Maturity Date.
- 9.2. Each Series of Notes may have a maturity up to 10 (ten) years.
- 9.3. The Issuer may redeem each Series of Notes, in whole but not in part, at any time during the period commencing on the first Business Day falling 3 (three) months prior to the Maturity Date (such Business Day included) and ending on the Maturity Date (the Maturity Date excluded) (the “**Voluntary Redemption Period**”), at an amount equal to 100 (one hundred) per-cent of their nominal amount together with any accrued but unpaid interest to, but excluding, the date of voluntary redemption (the “**Voluntary Redemption Date**”).
- 9.4. Redemption in accordance with Clause 9.3 shall be made by the Issuer giving not less than 30 (thirty) but no more than 60 (sixty) calendar days’ irrevocable notice specifying the Voluntary Redemption Date, which shall be a Business Day within the Voluntary Redemption Period, to the Noteholders in accordance with Clause 20 (*Notices*).
- 9.5. The principal of the Notes shall be paid through the Depository in accordance with the applicable rules of the Depository. The Noteholders list eligible to receive the principal of the Notes will be fixed at the end of the Business Day immediately preceding the payment of the principal of the Notes.
- 9.6. Should the payment date fall on a date which is not a Business Day, the payment of the amount due will be postponed to the next Business Day. The postponement of the payment date shall not have an impact on the amount payable.

## 10. Taxation

All payments in respect of the Notes by the Issuer shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature (“**Taxes**”), unless the withholding or deduction of the Taxes is required by the laws of the Republic of Latvia. In such case, the Issuer shall pay such additional amounts as will result in receipt by the Noteholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Note held by or on behalf of a Noteholder which is liable to such Taxes in respect of such Note by reason of its having some connection with the Republic of Latvia other than the mere holding of the Note.

## 11. Redemption for tax reasons

- 11.1. The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time on giving 30 (thirty) but no more than 60 (sixty) calendar days’ irrevocable notice to the Noteholders at an amount equal to 100 (one hundred) per-cent of their nominal amount together with any accrued but unpaid interest to, but excluding, the date of redemption, if:
- (i) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Clause 10 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of the Republic of Latvia or any political subdivision or any authority thereof or therein having power to

tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date of issue of the first Tranche of the Notes; and

(ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it,

**provided, however, that** no such notice of redemption shall be given earlier than 90 (ninety) days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Notes were then due.

11.2. Prior to the publication of any notice of redemption pursuant to this Clause 11, the Issuer shall obtain an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment.

11.3. Upon the expiry of any such notice as is referred to in this Clause 11, the Issuer shall be bound to redeem the Notes in accordance with this Clause 11.

## **12. Placement of the Notes**

12.1. Initially the Notes of the respective Tranche will be book-entered in the distribution account of the Dealer with the Depository.

12.2. The placement period for each Tranche (the "**Placement Period**") will be specified in the Final Terms. The Issuer may decide on shortening or lengthening the Placement Period.

12.3. The investors wishing to purchase the Notes shall submit their orders to the Dealer to purchase the Notes (the "**Purchase Orders**") at any time during the Placement Period.

12.4. Total amount of the Notes to be purchased and provided in each Purchase Order shall be no less than the Minimum Investment Amount.

12.5. Purchase Orders by the same legal entity or person will be aggregated into one if all order parameters (except the purchase amount) are the same.

12.6. All Purchase Orders are binding and irrevocable commitment to acquire the allotted Notes.

12.7. On the same Business Day following the Placement Period the Issuer will decide whether to proceed with the issuance of the Notes of a respective Tranche or cancel the issuance. In case the issuance of the Notes of a respective Tranche is cancelled, the Issuer will publish an announcement on the Issuer's website [www.ast.lv](http://www.ast.lv).

12.8. The Issuer in consultation with the Dealer will decide on allotment of the Notes to the investors. The Issuer reserves a right to reject any Purchase Order, in whole or in part, at its sole discretion without an obligation to provide any explanations to the investors.

12.9. The Dealer shall send to each investor by way of e-mail or through Bloomberg system a confirmation which will contain information on the extent of satisfaction or rejection of the Purchase Order submitted by the investor, the number of Notes allotted to the investor and the amount (price) payable for the Notes.

12.10. The settlement for the Notes will take place on the Issue Date and will be carried out by the Dealer in accordance with the DVP (*Delivery vs Payment*) principle pursuant to the applicable rules of the Depository.

12.11. All paid up Notes shall be treated as issued. The Notes which are not paid up shall be cancelled.

12.12. Information about the placement results of the Notes will be published on the Issuer's website [www.ast.lv](http://www.ast.lv) within 1(one) Business Day following the Placement Period.

### 13. Admission to trading

- 13.1. The Issuer shall submit an application regarding inclusion of each Tranche in the Baltic Bond List of akciju sabiedrība “Nasdaq Riga”, registration number: 40003167049, legal address: Valņu 1, Riga, LV-1050, Latvia (“**Nasdaq Riga**”). An application shall be prepared according to the requirements of Nasdaq Riga and shall be submitted to Nasdaq Riga within 3 (three) months after the Issue Date of the respective Tranche.
- 13.2. The Issuer shall use its best efforts to ensure that the Notes remain listed in the Baltic Bond List of Nasdaq Riga or, if such listing is not possible, to obtain or maintain, listed or traded on another regulated market. The Issuer shall, following a listing or admission to trading, take all reasonable actions on its part required as a result of such listing or trading of the Notes.
- 13.3. The Issuer will cover all costs which are related to the admission of the Notes to the relevant regulated market.

### 14. Change of control

- 14.1. If at any time while any Note remains outstanding: (i) there occurs a Change of Control (as defined below), and (ii) within the Change of Control Period (as defined below), a Rating Event (as defined below) in respect of that Change of Control occurs (such Change of Control and Rating Event not having been cured prior to the expiry of the Change of Control Period, together, a “**Change of Control Put Event**”), each Noteholder will have the option (the “**Change of Control Put Option**”) (unless, prior to the giving of the Change of Control Put Event Notice (as defined below), the Issuer gives notice to redeem the Notes according to Clauses 9.3 and 9.4) to require the Issuer to redeem or, at the Issuer’s option, to procure the purchase of, all or part of its Notes, on the Optional Redemption Date (as defined below) at an amount equal to 100 (one hundred) per-cent of their nominal amount together with any accrued but unpaid interest to, but excluding, the Optional Redemption Date.

A “**Change of Control**” shall be deemed to have occurred if at any time following the Issue Date of the first Tranche of the Notes, the Republic of Latvia ceases to own, directly or indirectly, at least 51 (fifty-one) per-cent of the issued share capital of the Issuer or ceases to have the power, directly or indirectly, to cast, or control the casting of, at least 51 (fifty-one) per-cent of the maximum number of votes that might be casted at a Shareholders’ Meeting of the Issuer.

“**Change of Control Period**” means the period beginning on the date of the first public announcement by or on behalf of the Issuer by any bidder or any designated advisor, of the relevant Change of Control and ending 90 (ninety) days after completion of the relevant Change of Control.

A “**Rating Event**” shall be deemed to have occurred in respect of a Change of Control if (within the Change of Control Period) either:

- (i) (A) the rating previously assigned to the Issuer by any Rating Agency solicited by the Issuer is (x) withdrawn or (y) changed from an investment grade rating (BBB-/Baa3 or its equivalent for the time being, or better) to a non-investment grade rating (BB+/Ba1 or its equivalent for the time being, or worse) or (z) (if the rating previously assigned to the Issuer by any Rating Agency solicited by the Issuer was below an investment grade rating (as described above)), lowered by at least one full rating notch (for example, from BB+ to BB, or their respective equivalents) and (B) such rating is not subsequently upgraded (in the case of a downgrade) or reinstated (in the case of a withdrawal) within the Change of Control Period either to an investment grade credit rating (in the case of (x) and (y)) or to its earlier credit rating or better (in the case of (z)) by such Rating Agency; or
- (ii) the Issuer has not been previously assigned a credit rating solicited by the Issuer, and no Rating Agency assigns the Issuer an investment grade rating solicited by the Issuer within the Change of Control Period;

provided that the Rating Agency making the reduction in rating or deciding not to assign an investment grade rating announces or publicly confirms or, having been so requested by the Issuer, informs the Issuer in writing that the lowering or failure to assign an investment grade rating was the result, in whole or in part, of any event or circumstance comprised in or arising as a result of, or in respect of, the applicable Change of Control (whether or not the applicable Change of Control shall have occurred at the time of the Rating Event).

**“Rating Agency”** means S&P Global Ratings Europe Limited, Moody’s Investor Services or Fitch Ratings Ireland Limited, or any of their affiliates.

- 14.2. Promptly upon the Issuer becoming aware that a Change of Control Put Event has occurred, the Issuer shall give notice (a **“Change of Control Put Event Notice”**) to the Noteholders in accordance with Clause 20 (*Notices*) specifying the nature of the Change of Control Put Event and the circumstances giving rise to it, and the procedure for exercising the Change of Control Put Option.
- 14.3. To exercise the Change of Control Put Option, a Noteholder within the period (the **“Change of Control Put Period”**) of 45 (forty-five) days after a Change of Control Put Event Notice is given must provide to the Issuer in writing a notice on exercise of the Change of Control Put Option (a **“Change of Control Put Option Notice”**).
- 14.4. A Change of Control Put Option Notice once given shall be irrevocable. The Issuer shall redeem or, at the option of the Issuer procure the purchase of, the Notes in respect of which the Change of Control Put Option has been validly exercised as provided above by the date which is the 5<sup>th</sup> (fifth) Business Day following the end of the Change of Control Put Period (the **“Optional Redemption Date”**).
- 14.5. For the avoidance of doubt, the Issuer shall have no responsibility for any cost or loss of whatever kind (including breakage costs) which the Noteholder may incur as a result of or in connection with such Noteholder’s exercise or purported exercise of, or otherwise in connection with, any Change of Control Put Option (whether as a result of any purchase or redemption arising therefrom or otherwise).
- 14.6. If 75 (seventy-five) per-cent or more in principal amount of the Notes then outstanding have been redeemed pursuant to this Clause 14, the Issuer may, on not less than 30 (thirty) nor more than 60 (sixty) days’ irrevocable notice to the Noteholders in accordance with Clause 20 (*Notices*) given within 30 (thirty) days after the Optional Redemption Date, redeem on a date to be specified in such notice at its option, all (but not some only) of the remaining Notes at 100 (one hundred) per-cent of their nominal amount, together with interest accrued to, but excluding, the date of redemption.

## 15. Negative pledge

So long as any Note remains outstanding, the Issuer shall not, and shall procure that none of its Material Subsidiaries create or permit to subsist mortgage, pledge or any other security interest (each a **“Security Interest”**), other than a Permitted Security Interest, upon the whole or any part of its present or future business, undertaking, assets or revenues to secure any Relevant Indebtedness or Guarantee of Relevant Indebtedness without (a) at the same time or prior thereto securing the Notes equally and rateably therewith, or (b) providing such other security for the Notes or other arrangement (whether or not it includes the granting of a security) as may be approved by the Noteholders pursuant to Clause 22 (*Decisions of the Noteholders*).

**“Subsidiary”** means a company:

- (i) whose affairs and policies the Issuer controls or has the power to control, whether by ownership of share capital, contract, the power to appoint or remove members of the governing body or otherwise; or
- (ii) whose financial statements are, in accordance with applicable law and generally accepted accounting principles, consolidated with those of the Issuer.

**“Material Subsidiary”** means at any time any Subsidiary:

- (i) whose total consolidated (or, if applicable, unconsolidated) assets (excluding intercompany loans, intercompany payables, intercompany receivables and intercompany unrealised gains and losses in inventories) represent not less than 10 (ten) per-cent of the total consolidated assets of the Issuer, or whose gross consolidated EBITDA (or, if applicable, unconsolidated) represents not less than 10 (ten) per-cent of the gross consolidated EBITDA of the Issuer, in each case as determined by reference to the most recent publicly available annual or interim financial statements of the Issuer prepared in accordance with IFRS and the latest financial statements of the Subsidiary determined in accordance with IFRS; or
- (ii) to which is transferred the whole or substantially all of the assets and undertakings of a Subsidiary which, immediately prior to such transfer, is a Material Subsidiary.

**“EBITDA”** means (i) the consolidated operating profit of the Group or (ii) in the case of a Material Subsidiary, the consolidated or unconsolidated operating profit of such Material Subsidiary, in the case of both (i) and (ii) before taking into account:

- (a) depreciation and amortisation;
- (b) finance income and finance costs;
- (c) revaluation of property, plant and equipment, and investment property;
- (d) impairment of property, plant and equipment;
- (e) current year income tax expense and deferred income tax (expense)/benefit;
- (f) any revaluation of non-current assets; and
- (g) exceptional items, as defined by IFRS or separately identified as such within the most recent publicly available annual or interim financial statements of the Issuer or the relevant Material Subsidiary (as the case may be), prepared in accordance with IFRS.

**“Group”** means the Issuer and its Subsidiaries from time to time.

**“IFRS”** means the International Financial Reporting Standards as adopted by the European Union.

**“Permitted Security Interest”** means any Security Interest created over any asset of any company which becomes a Subsidiary after the Issue Date of the first Tranche of the Notes, where such Security Interest is created prior to the date on which the company becomes a Subsidiary, provided that:

- (i) such Security Interest was not created in contemplation of the acquisition of such company; and
- (ii) the principal amount secured was not increased in contemplation of or since the acquisition (or proposed acquisition) of that company.

**“Indebtedness”** means any indebtedness (whether principal, premium, interest or other amounts) in respect of any bonds, notes or other debt securities or borrowed money by the Issuer or any of its Subsidiaries (other than from the Issuer to any of its wholly-owned Subsidiaries and from any of the Issuer’s wholly-owned Subsidiaries to the Issuer or to another wholly-owned Subsidiary).

**“Relevant Indebtedness”** means any Indebtedness which is in the form of, or represented by any bond, note or other debt security which is, or is capable of being, quoted, listed or traded on any stock exchange or in any securities market (including, without limitation, any over-the-counter market).

**“Guarantee”** means, in relation to any Indebtedness, any obligation to pay such Indebtedness including (without limitation):

- (i) any obligation to purchase such Indebtedness;
- (ii) any obligation to lend money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness;
- (iii) any indemnity against the consequences of a default in the payment of such Indebtedness; and
- (iv) any other agreement to be responsible for such Indebtedness.

## 16. Events of Default

16.1. If an Event of Default (as defined below) occurs, any Noteholder may by written notice to the Issuer declare any Note held by it and the interest accrued on such Note to be prematurely due and payable at the earliest on the 10<sup>th</sup> (tenth) Business Day from the date such notice was received by the Issuer, provided that an Event of Default is continuing on the date of receipt of the notice by the Issuer and on the early repayment date (the “**Early Repayment Date**”). Interest on such Note accrues until the Early Repayment Date (excluding the Early Repayment Date).

16.2. The Issuer shall notify the Noteholders about the occurrence of an Event of Default (and the steps, if any, taken to remedy it) in accordance with Clause 20 (*Notices*) promptly upon becoming aware of its occurrence.

16.3. Each of the following events shall constitute an event of default (an “**Event of Default**”):

- (i) **Non-payment:** the Issuer fails to pay any amount of principal in respect of the Notes on the due date for payment thereof or fails to pay any amount of interest in respect of the Notes on the due date for payment thereof and the default continues for a period of 5 (five) days in the case of principal and for a period of 14 (fourteen) days in the case of interest;
- (ii) **Breach of other obligations:** the Issuer defaults in the performance or observance of any of its other obligations in respect of the Notes, and such default is not capable of remedy or remains unremedied for at least 30 (thirty) days after written notice thereof, addressed to the Issuer by any Noteholder, has been received by the Issuer;
- (iii) **Cross-default:**
  - (a) any Indebtedness of the Issuer or any of its Material Subsidiaries is not paid when due or (as the case may be) within any originally applicable grace period;
  - (b) any such Indebtedness becomes due and payable prior to its stated maturity otherwise than at the option of the Issuer or (as the case may be) the relevant Material Subsidiary or (**provided that** no event of default, howsoever described, has occurred) any person entitled to such Indebtedness;
  - (c) the Issuer or any of its Material Subsidiaries fails to pay when due any amount payable by it under any Guarantee of any Indebtedness;

**provided that** the amount of Indebtedness referred to in sub-paragraph (a) and/or sub-paragraph (b) above and/or the amount payable under any Guarantee referred to in sub-paragraph (c) above individually or in the aggregate exceeds EUR 20,000,000 (twenty million euro) (or its equivalent in any other currency or currencies);

- (iv) **Security enforced:** a secured party enforces a security over the whole or any substantial part of the undertaking, assets and revenues of the Issuer or any of its Material Subsidiaries;
- (v) **Cessation of business:** the Issuer or any of its Material Subsidiaries cease to carry on its current business in its entirety or a substantial part thereof, other than:

- (a) pursuant to any sale, disposal, demerger, amalgamation, reorganization or restructuring or any cessation of business in each case on a solvent basis and within the Group; or
  - (b) for the purposes of, or pursuant to any terms approved by the Noteholders in accordance with Clause 22 (*Decisions of the Noteholders*);
- (vi) **Liquidation:** an effective resolution is passed for the liquidation of the Issuer or any of its Material Subsidiaries other than, in case of a Material Subsidiary:
- (a) pursuant to an amalgamation, reorganization or restructuring in each case within the Group; or
  - (b) for the purposes of, or pursuant to any terms approved by the Noteholders in accordance with Clause 22 (*Decisions of the Noteholders*);
- (vii) **Insolvency:**
- (a) the Issuer or any of its Material Subsidiaries is declared insolvent or bankrupt by a court of competent jurisdictions or admits inability to pay its debts; or
  - (b) the Issuer or any of its Material Subsidiaries enters into any arrangement with at least 75 (seventy-five) per-cent of its creditors by value in relation to restructuring of its debts or any meeting is convened to consider a proposal for such arrangement; or
  - (c) an application to initiate insolvency, restructuring (including proceedings such as legal protection proceedings and out-of-court legal protection proceedings) or administration of the Issuer or any of its Material Subsidiaries or any other proceedings for the settlement of the debt of the Issuer or of any of its Material Subsidiaries is submitted to the court by the Issuer or any of its Material Subsidiaries.

16.4. In case of the Issuer's liquidation or insolvency the Noteholders shall have a right to receive payment of the outstanding principal amount of the Notes and the interest accrued on the Notes according to the relevant laws governing liquidation or insolvency of the Issuer.

## 17. Further Issues

The Issuer may from time to time, without the consent of and notice to the Noteholders, create and issue further Notes whether such further Notes form a single Series with already issued Notes or not. For the avoidance of doubt, this Clause 17 shall not limit the Issuer's right to issue any other notes.

## 18. Purchases

The Issuer or any of its Subsidiaries may at any time purchase the Notes in any manner and at any price in the secondary market. Such Notes may be held, resold or surrendered by the purchaser through the Issuer for cancellation. Notes held by or for the account of the Issuer or any of its Subsidiaries for their own account will not carry the right to vote at the Noteholders' Meetings or within Written Procedures and will not be taken into account in determining how many Notes are outstanding for the purposes of these General Terms and Conditions.

## 19. Time bar

In case any payment under the Notes has not been claimed by the respective Noteholder entitled to this payment within 10 (ten) years from the original due date thereof, the right to such payment shall be forfeited by the Noteholder and the Issuer shall be permanently released from such payment.

## 20. Notices

Noteholders shall be advised of matters relating to the Notes by a notice published in English and Latvian in the Central Storage of Regulated Information, on the website of Nasdaq Riga and on the Issuer's

website [www.ast.lv](http://www.ast.lv). Any such notice shall be deemed to have been received by the Noteholders when published in the manner specified in this Clause 20.

## **21. Representation of the Noteholders**

The rights of the Noteholders to establish and/or authorize an organization/person to represent interests of all or a part of the Noteholders are not contemplated, however, such rights are not restricted. The Noteholders should cover all costs/fees of such representative(s) by themselves.

## **22. Decisions of the Noteholders**

### **22.1. General provisions**

- (i) The decisions of the Noteholders (including decisions on agreement with the Issuer on amendments to these General Terms and Conditions or the Final Terms of the Tranches of the relevant Series or granting of consent or waiver) shall be passed at a meeting of the Noteholders (the **"Noteholders' Meeting"**) or in writing without convening the Noteholders' Meeting (the **"Written Procedure"**) at the choice of the Issuer. However, the Issuer shall have a right to amend the technical procedures relating to the Notes in respect of payments or other similar matters without the consent of the Noteholders, if such amendments are not prejudicial to the interests of the Noteholders.
- (ii) The Issuer shall have a right to convene the Noteholders' Meeting or instigate the Written Procedure at any time and shall do so following a written request from the Noteholders who, on the day of the request, represent not less than one-tenth of the principal amount of the Notes outstanding or the principal amount of the Notes of the relevant Series outstanding (as applicable) (excluding the Issuer and its Subsidiaries).
- (iii) In case convening of the Noteholders' Meeting or instigation of the Written Procedure is requested by the Noteholders, the Issuer shall be obliged to convene the Noteholders' Meeting or instigate the Written Procedure within 1 (one) month after receipt of the respective Noteholders' written request.
- (iv) Only those who were registered as the Noteholders by the end of the 6<sup>th</sup> (sixth) Business Day prior to the date of the Noteholders' Meeting or the first date when the Noteholder must reply to the request pursuant to the Written Procedure or proxies authorised by such Noteholders, may exercise their voting rights at the Noteholders' Meeting or in the Written Procedure.
- (v) Quorum at the Noteholders' Meeting or in respect of the Written Procedure only exists if one or more Noteholders holding 50 (fifty) per-cent in aggregate or more of the principal amount of the Notes outstanding or the principal amount of the Notes of relevant Series outstanding (as applicable):
  - (a) if at the Noteholders' Meeting, attend the meeting; or
  - (b) if in respect of the Written Procedure, reply to the request.
- (vi) If the Issuer and/or its Subsidiaries are the Noteholders, their principal amount of the Notes will be excluded when a quorum is calculated.
- (vii) If quorum does not exist at the Noteholders' Meeting or in respect of the Written Procedure, the Issuer shall convene a second Noteholders' Meeting (in accordance with Clause 22.2) or instigate a second Written Procedure (in accordance with Clause 22.3), as the case may be. The quorum requirement in paragraph (iv) above shall not apply to such second Noteholders' Meeting or Written Procedure, except for exclusion of Issuer and its Subsidiaries from calculation of a quorum.



- (viii) Consent of the Noteholders holding at least 75 (seventy-five) per-cent of the aggregate principal amount of the outstanding Notes attending the Noteholders' Meeting or participating in the Written Procedure (i.e. replying to the request) is required for agreement with the Issuer to amend Clause 3 (*Status and security*), Clause 14 (*Change of control*), Clause 15 (*Negative pledge*), Clause 16 (*Events of Default*), Clause 22 (*Decisions of the Noteholders*) or Clause 23 (*Governing law and dispute resolution*).
- (ix) Consent of at least 75 (seventy-five) per-cent of the aggregate principal amount of the outstanding Notes of the respective Series attending the Noteholders' Meeting or participating in the Written Procedure (i.e. replying to the request) is required for the following decisions:
  - (a) agreement with the Issuer to change the date, or the method of determining the date, for the payment of principal, interest or any other amount in respect of the relevant Series, to reduce or cancel the amount of principal, interest or any other amount payable on any date in respect of the relevant Series or to change the method of calculating the amount of interest or any other amount payable on any date in respect of the relevant Series;
  - (b) agreement with the Issuer to change the currency of the relevant Series;
  - (c) agreement with the Issuer on any exchange or substitution of the Notes of relevant Series for, or the conversion of the Notes of relevant Series into, any other obligations or securities of the Issuer or any other person;
  - (d) in connection with any exchange, substitution or conversion of the type referred to in paragraph (c) agreement with the Issuer to amend any of the provisions of the relevant Series describing circumstances in which the relevant Series may be redeemed or declared due and payable prior to their scheduled maturity.
- (x) Consent of simple majority of all Noteholders or the Noteholders of the respective Series (as applicable) attending the Noteholders' Meeting or participating in the Written Procedure (i.e. replying to the request) is required to the decisions not covered in paragraph (viii) or (ix) above (as applicable).
- (xi) The Issuer shall have a right to increase the aggregate principal amount of the Notes to be issued under the Programme without the consent of the Noteholders.
- (xii) Information about decisions taken at the Noteholders' Meeting or by way of the Written Procedure shall promptly be provided to the Noteholders in accordance with Clause 20 (*Notices*), provided that a failure to do so shall not invalidate any decision made or voting result achieved.
- (xiii) Decisions passed at the Noteholders' Meeting or in the Written Procedure shall be binding on all Noteholders irrespective of whether they participated at the Noteholders' Meeting or in the Written Procedure.
- (xiv) All expenses in relation to the convening and holding the Noteholders' Meeting or a Written Procedure shall be covered by the Issuer.

## **22.2. Noteholders' Meetings**

- (i) If a decision of the Noteholders is intended to be passed at the Noteholders' Meeting, then a respective notice of the Noteholders' Meeting shall be provided to the Noteholders in accordance with Clause 20 (*Notices*) no later than 10 (ten) Business Days prior to the meeting. Furthermore, the notice shall specify the time, place and agenda of the meeting, as well as any action required on the part of the Noteholders that will attend the meeting. No matters other than those referred to in the notice may be resolved at the Noteholders' Meeting.
- (ii) The Noteholders' Meeting shall be held physically in Riga, Latvia. At the choice of the Issuer the Noteholders' Meeting can be held also remotely by use of a videoconference platform.

Requirements for the identification of the Noteholders at the Noteholders' Meeting that is held remotely will be set by the Issuer and communicated upon convening the Noteholders' Meeting.

- (iii) The Noteholders' Meeting shall be organised by the chairman of the Noteholders' Meeting, who will be the Issuer's representative appointed by the Issuer.
- (iv) The Noteholders' Meeting shall be held in English with translation into Latvian, unless the Noteholders present in the respective Noteholders' Meeting unanimously decide that the respective Noteholders' Meeting shall be held only in Latvian or English.
- (v) Representatives of the Issuer and persons authorised to act for the Issuer may attend and speak at the Noteholders' Meeting.
- (vi) Minutes of the Noteholders' Meeting shall be kept, recording the day and time of the meeting, attendees, their votes represented, matters discussed, results of voting, and resolutions which were adopted. The minutes shall be signed by the keeper of the minutes, which shall be appointed by the Noteholders' Meeting. The minutes shall be attested by the chairman of the Noteholders' Meeting, if the chairman is not the keeper of the minutes, as well as by one of the persons appointed by the Noteholders' Meeting to attest the minutes. The minutes from the relevant Noteholders' Meeting shall at the request of a Noteholder be sent to it by the Issuer.

### **22.3. Written Procedure**

- (i) If a decision of the Noteholders is intended to be passed by the Written Procedure then a respective communication of the Written Procedure shall be provided to the Noteholders in accordance with Clause 20 (*Notices*).
- (ii) Communication in paragraph (i) above shall include:
  - (a) each request for a decision by the Noteholders;
  - (b) a description of the reasons for each request;
  - (c) a specification of the Business Day on which a person must be registered as a Noteholder in order to be entitled to exercise voting rights;
  - (d) instructions and directions on where to receive a form for replying to the request (such form to include an option to vote "yes" or "no" for each request), as well as a form of a power of attorney; and
  - (e) the stipulated time period within which the Noteholder must reply to the request (such time period to last at least 10 (ten) Business Days from the communication pursuant to paragraph (i) above) and a manner of a reply.
- (iii) When the requisite majority consents pursuant to paragraphs (viii), (ix) or (x) (as applicable) of Clause 22.1 have been received in a Written Procedure, the relevant decision shall be deemed to be adopted pursuant to paragraphs (viii), (ix) or (x) (as applicable) of Clause 22.1 even if the time period for replies in the Written Procedure has not yet expired.

### **23. Governing law and dispute resolution**

23.1. The Notes are governed by the laws of the Republic of Latvia.

23.2. Any disputes relating to or arising in relation to the Notes shall be settled solely by the courts of the Republic of Latvia of competent jurisdiction.

## FORM OF FINAL TERMS

Set out below is the form of Final Terms which will be completed for each Tranche of Notes issued under the Base Prospectus

### PROHIBITION OF SALES TO RETAIL INVESTORS IN THE EUROPEAN ECONOMIC AREA

The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("EEA"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended) ("MiFID II"); or (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended or superseded), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently, no key information document required by Regulation (EU) No 1286/2014 (the "PRIIPs Regulation") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

### MiFID II Product Governance / Eligible Counterparties and Professional Clients Only Target Market

Solely for the purposes of [the] [each] manufacturer[s][s]'s product approval process, the target market assessment in respect of the Notes has led to the conclusion that (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. *[specify further target market criteria] [specify negative target market, if applicable]*. Any person subsequently offering, selling or recommending the Notes (a "Distributor") should take into consideration the manufacturer[s][s]'s target market assessment; however, a Distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer[s][s]'s target market assessment) and determining appropriate distribution channels.

**Final Terms dated [●]**

**Akciju sabiedrība "Augstsprieguma tīkls"**

**Legal entity identifier (LEI): [●]**

**Issue of [●] Notes due [●]**

**under the First Programme for the Issuance of Notes in the Amount of up to EUR 160,000,000**

**[to be consolidated and form a single series with [●]]**

Terms used herein shall be deemed to be defined as such for the purposes of the General Terms and Conditions set forth in the Base Prospectus dated 21 September 2021 [and the supplement(s) to it dated [●] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Regulation] (the "Base Prospectus") for the purposes of Regulation (EU) 2017/1129 (the "Prospectus Regulation").

This document constitutes the Final Terms of the Notes described herein for the purposes of the Prospectus Regulation and must be read in conjunction with the Base Prospectus. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus.

The Base Prospectus has been published on the Issuer's website [www.ast.lv](http://www.ast.lv).

A summary of the individual issue is annexed to these Final Terms.

1. Issuer: Akciju sabiedrība "Augstsprieguma tīkls"
2. Series Number: [●]

3. Tranche Number: [●]
4. ISIN: [[●]]/[Temporary ISIN: [●]. Upon admission of the Notes to the regulated market the Notes will be consolidated and form a single series with [●] and will have a common ISIN [●]]
5. Aggregate principal amount: [EUR [●] [in addition to [●]]]
6. Nominal amount of the Note: EUR [●]
7. Issue Date: [●]
8. Annual Interest Rate: [●]
9. Interest Payment Date: [●] each year
10. Maturity Date: [●]
11. Minimum Investment Amount: [●]
12. Issue Price: [●]
13. Yield: [●]  
  
The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield
14. Placement Period: [●]
15. Rating: the Notes to be issued [are not/have been/are expected to be] rated [by:[●]]
16. Use of Proceeds: [General Corporate Purposes]/[Green Bonds].
17. Information about the securities of the Issuer that are already admitted to trading: [●]

These Final Terms have been approved by the Management Board of the Issuer at its meeting on [date].

[place], [date]

[●]

## USE OF PROCEEDS

The net proceeds from the issue of each Series of Notes will, unless otherwise specified in the applicable Final Terms, be used by the Issuer as follows:

- (i) where “General Corporate Purposes” is specified in the applicable Final Terms, for its general corporate purposes; or
- (ii) where “Green Bonds” is specified in the applicable Final Terms, the Issuer will apply an amount equivalent to the net proceeds from such issue of Notes specifically to finance or refinance, in part or in full, Eligible Green Projects providing distinct environmental benefits, as set out in the Green Bond Framework available on the Issuer's website [www.ast.lv](http://www.ast.lv).

## INFORMATION ABOUT THE GROUP

### General information

The legal and commercial name of the Company is akciju sabiedrība "Augstsprieguma tīkls". The Company is a public limited company (*akciju sabiedrība*) incorporated pursuant to the laws of the Republic of Latvia on 13 November 2004. The Company is registered with the Commercial Register of the Republic of Latvia and operates according to the legislation of the Republic of Latvia. All the shares of the Company are owned by the Republic of Latvia and held by the Ministry of Finance of the Republic of Latvia.

### Basic information

Registration number: 40003575567  
Legal Entity Identifier (LEI): 64883LC3F12690GATG87  
Registered address: Dārziema iela 86, Rīga, LV-1073, Latvia  
Website: [www.ast.lv](http://www.ast.lv)  
Telephone number: +371 67 728 353  
E-mail: [ast@ast.lv](mailto:ast@ast.lv)

The information on the Company's website [www.ast.lv](http://www.ast.lv) does not form part of the Base Prospectus, other than the Issuer's Green Bond Framework, which is available on the Company's website [www.ast.lv](http://www.ast.lv) and is incorporated by reference to this Base Prospectus and forms a part of the Base Prospectus.

### History and development of the Group

The Company's history dates back eight decades, since the Ķegums hydropower plant - the first hydropower plant on the Daugava River – was launched and the first high voltage line to Riga started operating in 1939.

From 1945-1960 power lines destroyed by war were gradually renewed with construction of new substations and lines underway. During the period the Company serviced 765 km of 110/88 kV lines and 16 substations with 32 transformers with a total capacity of 324.6 MVA. Construction of the first 330 kV power line started from the Baltic State Region Power Plant (Estonia) to Riga and Šiauliai (Lithuania), with the distribution in Salaspils (Latvia).

From 1960-1970 energy system of Belarus connected for parallel operation to the North-western energy system union. All high voltage lines were transferred to 110 kV voltage and norms and tolerances were elaborated for the acceptance of 330 kV lines.

From 1970-2000 reconstruction and renovation works were carried out on the transmission and distributions systems in order to improve capacity, efficiency and safety. The Baltic Energy System Dispatchers Centre was established, providing for management and coordination of parallel operation of the Baltic energy systems as well as operational management of the transmission network.

Until 2011 the Company operated as part of AS Latvenergo group of companies which is the largest electricity and thermal energy generation and distribution group in Latvia. All shares of AS Latvenergo, the ultimate parent company of AS Latvenergo group of companies, are owned by the Republic of Latvia and held by the Ministry of Economics of the Republic of Latvia.

In 2011-2012, the Parliament of the Republic of Latvia adopted amendments to the Electricity Market Law (in Latvian - *Elektroenerģijas tirgus likums*) including the order for establishing an independent transmission system operator. For the purpose of fulfilling the requirements of legal and functional unbundling of transmission system ownership from generation, distribution and supply activities, AS Latvijas elektriskie tīkli, a subsidiary of AS Latvenergo, was established as the owner of the electricity transmission system assets,

and the shares of the Company as the transmission system operator was sold to the Republic of Latvia, represented by the Ministry of Finance.

In 2013, the Public Utilities Commission approved the Company as an independent transmission system operator. Thereafter, during 2013-2019 trade area of Latvia was opened in the Baltic electricity market and NordPool next day electricity market ELSPOT started operating in Latvia. The Company took over the transmission system operation and maintenance functions as well as the transmission system development, construction of new networks, reconstruction and renewal of the existing networks from AS Latvijas elektriskie tīkli.

On 8 October 2019, the Cabinet of Ministers of the Republic of Latvia decided to support full unbundling of ownership of the electricity transmission system operator, and, therefore, in 2020, the transmission system asset owner AS Latvijas elektriskie tīkli was separated from AS Latvenergo group of companies. All shares of AS Latvijas elektriskie tīkli AS were transferred to the Ministry of Finance of the Republic of Latvia and subsequently invested in the share capital of the Company.

By separating electricity management from generation and distribution, both in Latvia and in Europe, system operators were given the opportunity to develop, restricting historical energy monopolies and freeing up the way for competition both locally and on a European scale.

As of the date of this Base Prospectus, the Company is the parent company of the Group. The Group includes AS Conexus Baltic Grid, in which the Company holds 68.46 per-cent of the shares. In 2020, the Group also included AS Latvijas elektriskie tīkli which has ceased operations due to reorganization as a result of which it was merged into the Company.

There have not been any recent material events that would be relevant for assessing solvency of the Company and the Group.

### **The Group's strategy**

As a result of acquiring a decisive influence in AS Conexus Baltic Grid, as well as reorganisation of AS Latvijas elektriskie tīkli in 2020, the Group has developed its strategy for 2021-2025.

The Group's strategy defines the strategic operational and financial goals and main development tasks of the Group. By implementing the strategy and at the same time adhering to the principles of sustainability, the Group contributes to satisfying the needs of society, provide continuous safe and sustainable effective energy supply.

After evaluating challenges in the external environment and the strong position of the Group, the following strategic goals were identified:

- Energy security – synchronisation and integration with the European transmission networks, including the electricity and ancillary services markets;
- Quality energy supply – innovation-orientated high-quality energy supply at the lowest possible tariff;
- Sustainable and efficient management – continuous efficiency improvement, modern and transparent management.

### **Energy security**

On 22 May 2019, the Company signed the Agreement on the Conditions for a Future Synchronous Interconnection of the Power System of the Baltic States and the Power System of Continental Europe. As a result of the synchronization of the Baltic electricity networks with the continental European networks, the sustainable development of the electricity transmission system will be ensured, and preconditions for strengthening Latvia's energy security will be provided.

Ensuring the fulfilment of the goal, by mid-2021 such large-scale capital investment projects as the construction of 330 kV power transmission line the Kurzeme Ring (in Latvian – *Kurzemes Loks*) and the Estonia-Latvia interconnection were completed. EUR 226 million in total has been invested in following projects:

- the Kurzemes Ring 3<sup>rd</sup> Stage (EUR 128 million);
- CHP-2 (in Latvian – *TEC-2*) – Riga HPP (in Latvian – *Rīgas HES*) transmission line (EUR 15 million);
- 3<sup>rd</sup> Latvia – Estonia transmission connection (EUR 83 million).

In addition to the above, it is anticipated to implement large-scale capital investment projects in the total amount of EUR 177 million by 2025 aimed at strengthening the 330 kV interconnection Tartu (Estonia) - Valmiera (Latvia) and Tsirgulina (Estonia) - Valmiera (Latvia) throughput by installing system synchronization and inertia equipment.

EU co-financing from the Connecting Europe Facility structural funds has been attracted for both the projects completed by mid-2021 and projects aimed to be completed by 2025.

Since the beginning of 2018 a common Baltic balancing market platform maintained by the Company has been introduced in the Baltic States which provides common Baltic energy market balancing reserves, the functioning of the exchange of frequency restoration reserve with manual activation, and balancing energy exchanges with the Nordic and Polish balancing energy markets. During 2021-2025 measures relating to connection to the synchronous operation of the continental European electricity network are expected to be taken, which require development and implementation of frequency containment and automatic frequency restoration procedures.

### **Quality energy supply**

The Company as an independent transmission system operator in the Republic of Latvia is engaged in providing services of the electric power transmission network and ensuring the balancing and stability within the transmission network.

In 2020, the Company provided users in Latvia with the necessary electricity by transmitting 5 961 MWh of electricity.

In 2020, the average transmission service availability index (ASAI) in the amount of 99.74 (target  $\geq 99.5\%$ ) was provided, and the average electricity supply interruption duration index (CAIDI) in 2020 was 0.54h (target  $\leq 0.9$ h).

In addition to capital investment projects related to synchronization with continental Europe, projects have been implemented for the renovation and reconstruction of substations and power transmission lines, thus ensuring the quality of service and continuity of energy supply. In 2020, EUR 14 million have been invested in the mentioned projects. In the following years it is planned to invest an average of EUR 20 – 25 million per year.

In 2020, the reform of the ownership of the assets of the electricity transmission system was completed by which the assets of the transmission system (with the equity value of EUR 643 million) were transferred to the ownership of the Company as the transmission operator. This step significantly improved the Company's operational efficiency, provided cost savings in the tariff (2 per-cent decrease), as well as had a positive impact on financial stability.

### **Sustainable and efficient management**

To ensure the development of the Company, the Company's representatives, understanding the essential role of innovation in ensuring successful operation, actively participate in the work of the ENTSO-E Research, Development, and Innovation Committee. Within the ENTSO-E Research, Development and Innovation Committee, activities are carried out, which are aimed at changing existing electricity systems to achieve the



goals set by the EU. The Company participates in research and innovation projects co-financed under the support of the Framework Programme Horizon 2020:

- “European system with effectively coordinated use of flexibility to integrate more RES” project, the aim of which is to develop a roadmap for the integration of various load management and demand response services in the European electricity market;
- “TSO-SSO-end-user interconnection to promote innovative network services for an efficient energy system” project, the aim of which is to develop a single pan-European IT architecture that will connect various electricity market platforms, involving all participants in the European electricity supply chain, and ensure the coordinated use of ancillary services by transmission and distribution system operators;
- “TSO-SSO-end-user interconnection to promote innovative network services for an efficient energy system – One Network for Europe” project, the aim of which is to develop a single pan-European IT architecture that will connect various electricity market platforms, involving all participants in the European electricity supply chain, and create synergies of activities, as well as ensure the coordinated use of ancillary services by transmission and distribution system operators for efficient joint electricity management, thereby ensuring efficient overall electricity management and supporting the integration of renewable energy sources and the stability of the European electricity system.

Taking into account the existing experience, in 2020 the process of digital transformation was started – integration of digital technologies in all business directions and operational processes.

The European Green Course includes unprecedented changes in energy and society through the implementation of a wide range of renewable energy sources, the development of innovative low-carbon technologies, further electrification with new forms of electricity and the integration of different energy systems (including transport, heating, gas). The Company, together with other European transmission system operators, supports the European Commission's strategy to achieve a climate-neutral, resilient and innovative energy system in the EU.

The Latvian National Energy and Climate Plan for 2021-2030 confirms the objective of achieving the share of renewable energy resources in electricity production of more than 60 per-cent by 2030, as well as the task of implementing a large cross-border wind farm construction project by 2030.

The Company's development projects in the areas of transmission network infrastructure, system management and market development are aimed at creating the capacity of the energy system to integrate large-scale renewable energy sources into the energy system, as well as promoting electrification.

## INFORMATION ABOUT THE GROUP'S BUSINESS OPERATIONS

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

As of the date of this Base Prospectus, the Group's structure consists of a group of commercial companies in which the Company as the parent company has a decisive influence, and which includes the subsidiary AS Conexus Baltic Grid.

The structure of the Group is organised in two operating segments:

- electricity transmission; and
- transmission and storage of natural gas.

The division in the Group's operating segments is made on the basis of the Group's internal organisational structure which forms the basis for monitoring and control of the segment's performance.

The information set out in the table below has been extracted (without any material adjustment) from and is qualified by reference to and should be read in conjunction with the Financial Statements.

|                           |            | Group                    |                        |      | Company                  |                        |         |
|---------------------------|------------|--------------------------|------------------------|------|--------------------------|------------------------|---------|
|                           |            | Six months ended 30 June | Year ended 31 December |      | Six months ended 30 June | Year ended 31 December |         |
|                           |            | 2021                     | 2020                   | 2019 | 2021                     | 2020                   | 2019    |
| <b>Revenue</b>            |            |                          |                        |      |                          |                        |         |
| Electricity Transmission  | € thousand | 50 905                   | 123 421                | -    | 50 905                   | 147 348                | 184 742 |
| Gas transmission          | € thousand | 18 450                   | 12 528                 | -    | -                        | -                      | -       |
| Gas Storage               | € thousand | 10 998                   | 8 886                  | -    | -                        | -                      | -       |
| <b>EBITDA</b>             |            |                          |                        |      |                          |                        |         |
| Electricity Transmission  | € thousand | 23 005                   | 44 812                 | -    | 23 005                   | 43 366                 | 40 515  |
| Gas transmission          | € thousand | 12 472                   | 6 394                  | -    | -                        | -                      | -       |
| Gas Storage               | € thousand | 6 821                    | 4 867                  | -    | -                        | -                      | -       |
| <b>Segment Net Profit</b> |            |                          |                        |      |                          |                        |         |
| Electricity Transmission  | € thousand | 5 519                    | 13 871                 | -    | 5 519                    | 9 606                  | 2 966   |
| Gas transmission          | € thousand | 6 008                    | 2 268                  | -    | -                        | -                      | -       |
| Gas Storage               | € thousand | 2 130                    | 1 893                  | -    | -                        | -                      | -       |
| <b>Assets</b>             |            |                          |                        |      |                          |                        |         |
| Electricity Transmission  | € thousand | 787 826                  | 771 131                | -    | 787 826                  | 771 131                | 221 875 |
| Gas transmission          | € thousand | 229 723                  | 232 042                | -    | -                        | -                      | -       |
| Gas Storage               | € thousand | 210 149                  | 205 886                | -    | -                        | -                      | -       |

### Electricity transmission segment

According to the Electricity Market Law (in Latvian – *Elektroenerģijas tirgus likums*) and pursuant to the license issued by the Public Utilities Commission, the Company is the only electricity transmission system operator in Latvia, and its licence area is the entire territory of Latvia.

According to the Energy Law (in Latvian - *Enerģētikas likums*), electricity transmission is a regulated sector. The activities of the electricity transmission system operator are regulated by the Public Utilities Commission under the guidance of its Supervisory Board.

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

During 2020, 5961 GWh were transmitted to users, which is 1 per-cent less compared to 2019 (6 012 GWh). The impact of the reduction in the amount of electricity transmitted to consumers on the revenues from the provision of transmission services is insignificant. In the first half of 2021, the Company transmitted to its customers in Latvia 3 087 GWh of electricity, which is 6 per-cent more than it was in the first half of 2020 (2 926 GWh).

The total electricity consumption in Latvia in 2020 was 7 135 GWh, and, compared to 2019, where the total electricity consumption in Latvia was 7 297 GWh, it decreased by 2.2 per-cent. In 2020, 5 509 GWh or 77.2 per-cent of the total electricity consumption was provided by locally generated electricity, which is a decrease of 7.46 percentage points compared to 2019, when locally generated electricity provided was 6 179 GWh or 84.7 per-cent of the electricity consumption in Latvia. Accordingly, net electricity import for consumption in 2020 was 1 626 GWh or 22.8 per-cent of the total electricity consumption, compared to 2019, when net electricity import for consumption was 1 118 GWh or 15.3 per-cent of the total electricity consumption.

The net turnover of the Company in 2020 was EUR 147.3 million, including revenue from electricity transmission network services of EUR 73.4 million, compared to the Company's net turnover EUR 184.7 million in 2019, where the revenue from electricity transmission network services was EUR 72.8 million. The Company's profit for this segment in 2020 was EUR 9.6 million, compared to the Company's profit for this segment EUR 3.0 million in 2019.

In first half of 2021, net turnover of the Company was EUR 50.9 million, including revenue from electricity transmission network services in the amount of EUR 38.2 million, which accounts for 75 per-cent of the total segment turnover. The Company's profit for the electricity transmission segment in the first half of 2021 was EUR 5.5 million. Changes in turnover and profit are related to the reorganisation of the Company and its asset ownership.

Since electricity transmission is a regulated sector, the Company's financial performance indicators and economic performance are dependent on the activities of the Public Utilities Commission which determines the Company's allowable profit and the rate of return on capital by approving the tariffs for electricity transmission system services.

### **Natural gas transmission and storage segment**

Considering the Company's investment in AS Conexus Baltic Grid, the Latvian natural gas transmission and storage system operator, important direction of the Group's operations is the sustainable management of strategically important energy supply assets and their integration into the EU internal energy market.

AS Conexus Baltic Grid is the unified natural gas transmission and storage operator in Latvia, managing the Inčukalns underground gas storage facility and the main natural gas transmission system directly connecting the Latvian natural gas market with Lithuania, Estonia and the North-West region of Russia.

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

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

In August - December 2020, the total net turnover of the natural gas transmission and storage segment was EUR 21.4 million, while the profit – EUR 4.2 million. Revenues of the natural gas storage and transmission segment in the second half of 2020 were EUR 12.5 million, and of the natural gas storage segment – EUR 8.9 million.

In the first half of 2021, the total turnover of the segments was EUR 29.4 million, and profit was EUR 8.1 million. Natural gas transmission's turnover was EUR 18.5 million and gas storage turnover was EUR 11.0 million. During this period, turnover was positively affected by lower air temperatures than it was during the corresponding months of 2020, resulting in higher demand from consumers for gas for heating purposes.

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

## Investments

The Group's operations are capital intensive and require significant investments. In accordance with the Electricity Market Law (in Latvian - *Elektroenerģijas tirgus likums*), the Company as the electricity transmission system operator, is responsible for the development, investment planning and implementation of the electricity transmission system. Until the acquisition of ownership of the electricity transmission system assets in 2020, the Company planned and implemented investments in the transmission system owned by AS Latvijas elektriskie tīkli in accordance with the transmission system asset lease agreement entered into between the Company and AS Latvijas elektriskie tīkli. The information set out in the table below shows amount of the investments made in the electricity transmission system assets during the six months period ended 30 June 2021 and in 2016, 2017, 2018, 2019 and 2020.

|  |           | Six months<br>ended 30<br>June | Year ended 31 December |      |      |      |      |
|--|-----------|--------------------------------|------------------------|------|------|------|------|
|  |           | 2021                           | 2020                   | 2019 | 2018 | 2017 | 2016 |
| Investments in electricity transmission assets | € million | 11.6                           | 66.6                   | 85.7 | 85.8 | 62.7 | 25.2 |

## Planned investments

On 20 October 2020, the Public Utilities Commission approved the development plan of the electricity transmission system developed by the Company for the period from 2021 to 2030.

The 2021-2030 development plan has been developed in accordance with Company's strategic goal – strengthening Latvia's energy security by synchronising the Latvian electricity transmission network with the continental European network, observing compliance with the principles of security and cost-effectiveness.

The 2021-2030 development plan determines the development of the transmission system and the necessary financial investments in the transmission infrastructure for the next 10 years, envisaging the investment of EUR 405 million in the development of the electricity transmission system, including EU co-financing of EUR 177 million and EUR 37 million revenue from congestion charges. Both of the above sources of capital investment financing, which together account for 53 per-cent of the planned investments over the next 10 years, reduce the impact of realised capital investments on the electricity transmission tariff, as assets financed from EU co-financing or congestion fee revenues are not included in the calculation of electricity transmission tariffs.

In order to minimise the impact of the planned capital investments on electricity transmission tariffs, the Company has successfully attracted EU co-financing for projects of common European interest included in the 2021-2030 development plan, including:

- The third 330 kV interconnection between Estonia and Latvia – attracted EU co-financing of EUR 51 million, forming 65 per-cent of eligible costs;
- The project “Synchronisation of the Baltic Power System with the Trans-European Network, Phase 1” – attracted EU co-financing of EUR 58 million, forming 75 per-cent of eligible costs;
- The project “Synchronisation of the Baltic Electricity Transmission System with the European Network, Phase 2” – in 2020 EU co-financing of EUR 56 million has been attracted for urgent projects under

“Synchronisation of the Baltic Electricity Transmission System with the European Network, Phase 2”, forming 75 per-cent of the eligible costs.

The information set out in the table below shows break down the planned investments according to the Company's 2021-2030 development plan.

| <b>Period between 2021 and 2030</b> |           |      |
|-------------------------------------|-----------|------|
| Substations                         | € million | 74.7 |
| Replacement of transformers         | € million | 37.2 |
| Overhead lines                      | € million | 80.1 |
| Synchronization phase 1             | € million | 76.5 |
| Synchronization phase 2             | € million | 99.5 |
| Cable lines                         | € million | 0.5  |
| EE-LV Connection                    | € million | 0.5  |
| Other measures                      | € million | 36.0 |

The Company has developed and on 28 June 2021 submitted for consideration to the Public Utilities Commission the electricity transmission system development plan for 2022 – 2031, the total amount of investments is planned to be 402 million EUR.

## Financing

Until the acquisition of the ownership rights of the transmission system assets in 2020, the financing necessary for the realization of capital investments was provided by the previous owner of the transmission assets, AS Latvijas elektriskie tīkli.

With the investment of the shares of AS Latvijas elektriskie tīkli into the share capital of the Company on 15 June 2020, the Company undertook to provide funds in an amount sufficient to meet existing obligations, finance capital investments and ensure daily cash flow.

At the time of the investment, the total liabilities of AS Latvijas elektriskie tīkli to AS Latvenergo amounted to EUR 225.2 million, of which EUR 138.5 million were repaid, attracting short-term financing from AS SEB banka in the amount of EUR 116.2 million with the maturity date 18 December 2021 and the Company's freely available funds of EUR 22.3 million. The Company repaid the remaining part of the loan to AS Latvenergo in the amount of EUR 86.7 in July 2021.

In 2020, overdrafts were attracted to provide liquidity with a limit of EUR 20 million. As of the date of this Base Prospectus, the overdraft limit has not been used. The available term of overdraft expires in 2023.

Thus, as of the date of this Base Prospectus, the Company's gross debt is EUR 136,2 million with the following debt maturity schedule:

|                  |           | <b>2021</b>   | <b>2022</b> | <b>2023</b> |
|------------------|-----------|---------------|-------------|-------------|
| Debt repayment   | € million | <b>116.20</b> |             |             |
| <b>Overdraft</b> | € million |               |             | <b>20</b>   |

## Dividend policy

The Company's dividends policy is based on the Regulation No. 806 of the Cabinet of Ministers of the Republic of Latvia “Procedure by which State Capital Companies and Public Private Capital Companies in which the State is a participant (shareholder) forecasts and determines the share of profit of dividends and makes payments to the State Budget for the use of State Capital” (in Latvian – *Kārtība, kādā valsts kapitālsabiedrības un publiski privātās kapitālsabiedrības, kurās valsts ir dalībnieks (akcionārs), prognozē un nosaka dividendēs*

*izmaksājamo peļņas daļu un veic maksājumus valsts budžetā par valsts kapitāla izmantošanu*), dated of 22 December 2015, and the Group's strategy for 2021-2025.

On the basis of the Group's strategy for 2021-2025, in 2022 the Company envisages to pay in dividends 50 per-cent of the Company's profit for the previous reporting year, and in the following years thereafter (commencing with 2023) – 80 per-cent of the Company's profit for each previous reporting year.

## **ORGANISATIONAL STRUCTURE**

As of the date of this Base Prospectus, the Group comprises the Company and one subsidiary AS Conexus Baltic Grid, where the Company owns 68.46 per-cent of shares.

The Company is also a shareholder (1.9 per-cent) in Pirmais Slēgtais Pensiju Fonds AS (Latvia), a company which is engaged in the management of retirement contributions on behalf of the Company's employees.

## ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES

In accordance with the Commercial Law (in Latvian – *Komerclikums*), the Law on the Management of Public Persons' Capital Shares and Capital Companies (in Latvian - *Publiskas personas kapitāla daļu un kapitālsabiedrību pārvaldības likums*) and the Financial Instruments Market Law (in Latvian – *Finanšu instrumentu tirgus likums*), the Company has the following corporate governance structure:

- Shareholder;
- Supervisory Board and
- Management Board.

Pursuant to the Articles of Association of the Company, an Audit Committee shall be established within the Company. As of the date of this Base Prospectus, the Company has not established the Audit Committee. The Audit Committee will be elected in the next Shareholders' Meeting of the Company which will take place following the date of this Base Prospectus.

### Shareholder

100 per-cent of the shares of the Company are owned by the State and held by the Ministry of Finance of the Republic of Latvia.

The interests of the shareholder are represented at the Shareholder Meeting by the State Secretary of the Ministry of Finance or his/her authorised delegate.

Shareholders' Meetings are convened in accordance with the requirements and timelines stipulated by the Law on the Management of Public Persons' Capital Shares and Capital Companies (in Latvian - *Publiskas personas kapitāla daļu un kapitālsabiedrību pārvaldības likums*) and the Commercial law (in Latvian – *Komerclikums*). The Shareholders' Meeting represents the shareholder interests, rights and obligations. The State Secretary of the Ministry of Finance of the Republic of Latvia or his/her authorised representative is the sole shareholder representative in the Shareholders' Meetings.

Main responsibilities of the shareholder's meeting are:

- Approval of the annual report and decision on the use of last year's profit;
- Approval of the Articles of the Association and amendments therein;
- Election and removal of the Supervisory Board;
- Decision-making regarding the increase or reduction of the share capital;
- Election of an auditor.

### Supervisory Board

The Supervisory Board of the Company participates in the strategic development of the Company and supervises its finance and risk management system. The key principles for the operation of the Supervisory Board of the Company and its main tasks, duties, and responsibilities, are governed by laws, the Articles of Association of the Company, and the by-laws of the Supervisory Board of the Company.

The principal duties of the Supervisory Board of the Company include:

- Approval of the medium-term operational strategy of the Company;
- Continuous supervision of the activities of the Management Board of the Company;



- Election, dismissal and approval of remuneration of the members of the Management Board of the Company; and
- Monitoring the compliance of the Company's operations with applicable law, the Articles of Association of the Company and the decisions of the Shareholders' Meeting of the Company.

The current Supervisory Board of the Company is composed of five members. As of the date of this Base Prospectus the members of the Supervisory Board of the Company are:

- Kaspars Āboliņš – Chairman of the Supervisory Board;
- Olga Bogdanova – Deputy Chairman of the Supervisory Board;
- Armands Eberhards – Member of the Supervisory Board;
- Madara Melne – Member of the Supervisory Board (independent member);
- Aigars Ģērmanis – Member of the Supervisory Board (independent member).

The business address of each member of the Company's Supervisory Board is Dārzciema iela 86, Rīga, LV-1073, Latvia.

### **Audit Committee**

Upon election, the Audit Committee will operate under the Commercial Law (in Latvian – *Komerclikums*), the Financial Instruments Market Law (in Latvian – *Finanšu instrumentu tirgus likums*) and the Regulations of the Audit Committee approved by the shareholder of the Company.

The principal duties of the Audit Committee will be to supervise the effectiveness of the Company's internal control, risk management and the Company's Internal Audit Department as far as it concerns the reliability and objectivity of the annual reports and consolidated annual reports, as well as make proposals to address the deficiencies of the relevant system.

The Audit Committee will consist of three members elected by the Shareholders' Meeting, of whom at least one shall be a member of the Supervisory Board of the Company. The Audit Committee will be chaired by its chairperson, elected by the members of the Audit Committee from amongst themselves.

The Audit Committee will report its assessments and findings to the Supervisory Board at least once a year.

No restrictions will be imposed on the Audit Committee's actions, and the representatives of the Company will ensure the availability of all necessary information to the Audit Committee.

The business address of each member of the Company's Audit Committee will be Dārzciema iela 86, Rīga, LV-1073, Latvia.

### **Management Board**

All members of the Management Board of the Company are involved in the daily operations of the Company. Their principal duties include:

- Management and representation of the Company;
- Responsibility for the commercial activities of the Company and for compliance with accounting legislation;
- Management of the Company's property;
- Implementing the strategic direction of the Group, its development plans, goals and policies.

The Management Board and the Supervisory Board of the Company are jointly liable for compliance with all binding laws and regulations, execution of the decisions of the Shareholders' Meeting and the Supervisory Board of the Company, and the financial performance of the Group.

As per the Articles of Association of the Company, the Management Board of the Company shall consist of five members who should be elected by the Supervisory Board for a term of five years based on an evaluation of necessary competences, experience and expected field of responsibility. The Supervisory Board of the Company also appoints one of the members of the Management Board as a Chairman of the Management Board of the Company.

As of the date of this Base Prospectus the Management Board of the Company consists of five members of the Management Board of the Company:

- Ms. Gunta Jēkabsone - Chairperson of the Management Board, responsible for business planning and controlling, treasury, accounting, risk management and insurance, corporate strategy, international affairs and corporate social responsibility, communication, human resource management, compliance control, technical inspection, environment and occupational health and safety;
- Mr. Imants Zviedris - Member of the Management Board, responsible for the technical policies, as well as technical operation;
- Mr. Gatis Junghāns - Member of the Management Board, responsible for system operation and market;
- Mr. Mārcis Kauliņš - Member of the Management Board, responsible for dealing with judicial and procurement issues;
- Mr. Arnis Daugulis - Member of the Management Board, responsible for managing IT&T, development and research.

The business address of each member of the Company's Management Board is Dārziema iela 86, Rīga, LV-1073, Latvia.

### **Conflict of interest**

In accordance with the Law on Prevention of Conflict of Interest in the Activities of Public Officials (in Latvian – *Likums "Par interešu konflikta novēršanu valsts amatpersonu darbībā"*), all members of the management boards and the supervisory boards of state-owned companies have the status of state officials.

As such, all Management Board and Supervisory Board members of the Company and its fully owned subsidiaries in Latvia are state officials and subject to detailed requirements of this law. The law permits them to combine their office of public official only with activities which are indicated by the law as compatible (e.g., offices in a trade union, association or similar organisation, teaching, scientific and creative work) in order to prevent personal or material interest in their activity as a state official. In accordance with the law, all state officials are obliged to submit an annual declaration of interest.

The Company is not aware of any conflicts of interest or potential conflicts of interest between the Company duties of the members of the Management Board and Supervisory Board and their private interests and/or their other duties.

### **Employees**

As of 30 June 2021, the Group had 887 employees, the Company – 522 of whom 85 per-cent were men and 15 per-cent women. The average age of the employees was 46 years. The strategy of the Group focuses on strengthening competitiveness and maximising efficiency.

The opinions of all employees of the Company on issues pertaining to the Collective Bargaining Agreement are represented by trade union Enerġija. The Collective Bargaining Agreement executed by the Company provides additional guarantees for all employees of the Company, regardless of their trade union membership, thus ensuring equal economic and social protection.

## SHAREHOLDERS

All shares of the Company are owned by the Republic of Latvia. The holder of the Company's shares is the Ministry of Finance of the Republic of Latvia, whose representative – the State Secretary of the Ministry of Finance or another authorised person appointed by the State Secretary of the Ministry of Finance, represents the Shareholder interests at Shareholder Meetings.

The Law on the Management of Public Persons' Capital Shares and Capital Companies (in Latvian – *Publiskas personas kapitāla daļu un kapitālsabiedrību pārvaldības likums*) provides that the Cabinet of Ministers has the right to appoint a specially established institution as the holder of the shares in state owned entities. Pursuant to the current Energy Law (in Latvian – *Enerģētikas likums*), the Company's business is deemed to be of national importance and therefore, the Company's shares are not subject to privatisation or alienation.

## SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following table is a summary of the Group's consolidated financial performance and key performance indicators for the two financial years ending 31 December 2019 and 2020 respectively and interim period ended 30 June 2021.

The information set out in the table below has been extracted (without any material adjustment) from, and is qualified by reference to and should be read in conjunction with the Financial Statements, each of which is attached to this Base Prospectus and forms an integral part of this Base Prospectus. The Financial Statements are prepared according to International Financial Reporting Standards (IFRS).

|   |            | Group                    |                        |         | Company                  |                        |         |
|---|------------|--------------------------|------------------------|---------|--------------------------|------------------------|---------|
|   |            | Six months ended 30 June | Year ended 31 December |         | Six months ended 30 June | Year ended 31 December |         |
|   |            | 2021                     | 2020                   | 2019    | 2021                     | 2020                   | 2019    |
| Revenue   | € thousand | 80 353                   | 144 866                | 184 742 | 50 905                   | 147 348                | 184 742 |
| EBITDA  | € thousand | 42 298                   | 55 028                 | 40 515  | 23 005                   | 42 343                 | 40 515  |
| Operating profit                                  | € thousand | 17 370                   | 14 402                 | 4 513   | 6 861                    | 5 190                  | 4 513   |
| Income from Ownership                             | € thousand | -                        | 3 081                  | 5 956   | 58 286                   | 5 605                  | 4 194   |
| Net gain on acquisition of a controlling interest | € thousand | -                        | 50 326                 | -       | -                        | -                      | -       |
| Net profit  | € thousand | 15 914                   | 65 358                 | 8 829   | 63 805                   | 9 999                  | 7 067   |
| Net profit applicable to Company shareholder      | € thousand | 11 568                   | 64 051                 | 8 829   | 63 805                   | 9 999                  | 7 067   |
| <hr/>   |            |                          |                        |         |                          |                        |         |
| Total assets*                                     | € thousand | 1 219 395                | 1 213 515              | 275 321 | 922 222                  | 905 527                | 221 934 |
| Equity**  | € thousand | 617 671                  | 639 203                | 123 342 | 440 615                  | 384 809                | 69 956  |
| Total borrowings                                  | € thousand | 240 203                  | 224 747                | -       | 156 200                  | 202 872                | -       |
| Cash and other liquid securities                  | € thousand | 74 721                   | 72 388                 | 48 216  | 72 316                   | 57 225                 | 48 216  |
| <hr/>   |            |                          |                        |         |                          |                        |         |
| Cashflow from Operations                          | € thousand | 42 659                   | 103 053                | 20 423  | 25 400                   | 48 591                 | 20 423  |
| Cash Flow from Investments                        | € thousand | 86                       | -117 839               | -13 801 | 68 986                   | -87 375                | -13 801 |
| Cash Flow from Financing                          | € thousand | -15 412                  | 33 826                 | -35 043 | -54 294                  | 27 738                 | -35 043 |
| Net Cash Flow                                     | € thousand | 27 333                   | 19 040                 | -28 421 | 40 091                   | -11 046                | -28 421 |
| <hr/>   |            |                          |                        |         |                          |                        |         |
| <b>EBITDA margin</b>                              | per-cent   | 52.6%                    | 38.0%                  | 22.0%   | 45.2%                    | 28.7%                  | 21.9%   |
| <b>Net Debt</b>                                   | € thousand | 165 482                  | 152 359                | -       | 83 884                   | 145 648                | -       |
| <b>Net Debt to EBITDA</b>                         | ratio      | 2.2                      | 2.8                    | -       | 1.9                      | 3.4                    | -       |
| <b>Interest coverage ratio</b>                    | ratio      | 29.1                     | 27.5                   | 24.1    | 16.1                     | 43.4                   | 24.1    |
| <b>Net debt to equity</b>                         | per-cent   | 26.8%                    | 23.8%                  | -       | 19.0%                    | 37.9%                  | -       |
| <b>Return on assets (ROA)***</b>                  | per-cent   | 6.4%                     | 8.8%                   | 3.8%    | 8.5%                     | 1.8%                   | 3.4%    |
| <b>Return on equity (ROE)***</b>                  | per-cent   | 13.6%                    | 17.1%                  | 9.1%    | 16.3%                    | 4.4%                   | 10.1%   |

\* Due to IFRS requirements, the Company is planning to arrange revaluation of electricity transmission assets by an external auditor until the end of 2021. The previous electricity transmission asset revaluation process was completed in 2016.

\*\* On 28 May 2021, the Shareholders' Meeting of the Company decided to transfer part of the Company's profit in the amount of EUR 1,999,878 for increase of the share capital of the Company. It is expected that increase of the Company's share capital will be approved by the Shareholders' Meeting by the end of September 2021.

\*\*\* Calculated as at the end of the financial period and are influenced due to asset acquisition from AS Latvijas elektriskie tikli (AS Latvenergo subsidiary)

## **FINANCIAL AND TREND INFORMATION**

### **Historical Financial Information**

The Financial Statements prepared according to IFRS are appended to this Base Prospectus and forms an integral part of it.

### **Legal and arbitration proceedings**

The Group is not engaged in any governmental, legal or arbitration proceedings, nor is it aware of any such proceedings pending or threatened against it during the 12 month-period prior to the date of this Base Prospectus that may have, or have had in the recent past, a significant effect on the Company and/or the Group's financial position or profitability.

### **Significant Changes in Financial Position**

There has been no material adverse change in the Company's or the Group's financial or trading position since 31 December 2020.

### **Trend Information**

In accordance with resolutions of the annual general meeting of shareholders of AS Conexus Baltic Grid held on 12 May 2021, dividends were paid out of EUR 2.14 per share from the profit of previous years. Considering the number of shares of AS Conexus Baltic Grid owned by the Company, the Company received EUR 58.286 million in June 2021.

Pursuant to the decision of the European Union Agency for the Cooperation of Energy Regulators (ACER) of 6 April 2020, the Baltic system operation region was defined. Considering the requirements of Article 35 (2) of Regulation (EU) 2019/943 of the European Parliament and of the Council of 5 June 2019 on the internal market for electricity, all three Baltic transmission system operators that are forming Baltic system operation region, including the Company, are obliged commonly to establish regional coordination centre in form of a company. Regional coordination centre shall be established by 1 July 2022. It is expected, that the Company will own 1/3 of the company shares.

Ongoing disputes between Lithuania and Belarus on cross border transmission capacity could potentially impact electricity price in the region, however, this does not have a direct impact on services provided by the Company in Latvia.

On 26 February 2021, AS Conexus Baltic Grid entered into a loan agreement with Nordic Investment Bank in the amount of EUR 30 million, with the maturity date of 4 March 2038.

There has been no other material adverse change in the prospects of the Company or the Group since the date of the audited consolidated annual financial statements of the Group for 2020.

There has been no significant change in in the financial performance of the Company or the Group since the date of the audited consolidated annual financial statements of the Group for 2020.

As of the date of this Base Prospectus there is no information on any other known trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on the Company's or the Group's prospects for 2021.

### **Future Outlook**

The Issuer has not made any profit forecast or profit estimate in this Base Prospectus.

## ADDITIONAL INFORMATION

### Share Capital

The amount of the share capital of the Company is EUR 363,896,079, and it is composed of 363,896,079 shares. All shares are paid up. All shares are registered shares and they are dematerialised. The nominal value of a share is EUR 1. On 28 May 2021, the Shareholders' Meeting of the Company decided to transfer part of the Company's profit in the amount of EUR 1,999,878 for increase of the share capital of the Company. It is expected that increase of the Company's share capital will be approved by the Shareholders' Meeting by the end of September 2021.

In accordance with the Energy Law (in Latvian - *Enerģētikas likums*), the shares of the Company and the infrastructure objects of the electricity transmission system belonging to it as a nationally important economic object cannot be alienated or used as collateral for securing loans or other liabilities.

### Articles of Association

The Company is registered with the Commercial Register of the Republic of Latvia under registration number 40003575567.

The objects and purposes of the Company are stated in Clause 2 of the Articles of Association of the Company, which is transmission of electricity.

### Material Contracts

On 18 June 2020, the Company and AS SEB banka entered into a loan agreement in the amount of EUR 116.2 million with a maturity date of 18 December 2021. The agreement was concluded to refinance the assumed liabilities of AS Latvijas elektriskie tīkli to AS Latvenergo. The loan is anticipated to be repaid by the issuance of the Notes.

Save for the aforementioned, the Company has not entered into any contracts outside the ordinary course of its business, which could result in the Company being under an obligation or entitlement that is material to the ability of the Company, respectively to meet obligations in respect of the Notes being issued.

## THE ECONOMY OF THE REPUBLIC OF LATVIA

### General overview

2020 saw a decline in GDP in all the economies of the European Union except for Ireland. Latvian economy shrank by 3.6 per-cent, which was one of the slowest declines in Europe. The fiscal policy of Latvia will remain highly accommodative in 2021, as the government has envisaged a EUR 2.8 billion fiscal stimulus package, on top of the already spent EUR 1.3 billion in 2020 in order to combat the effects of the COVID-19 crisis. The measures include, for example, an extension of furlough schemes for workers and loans and guarantees to businesses affected by the crisis, as well as new measures like wage subsidies, working capital grants to businesses, and one-time direct payments to support pensioners and families with children. The growth outlook beyond 2021 is likely to be more favourable, reflecting reduced uncertainty and less downside risks, a release of pent-up demand and an acceleration in investment spending. Moreover, the Next Generation EU package is expected to be made available in mid-2021, which will further boost economic recovery in Latvia. The financial markets' trust in Latvia's long-term outlook was demonstrated in March 2021 with a EUR 1.25 billion ten-year Eurobond issue, which was oversubscribed more than 2 times and carried a 0 per-cent coupon rate and 0.105 per-cent yield for the investors – both at record lows for this type of maturity. Furthermore, in June 2021 the Republic of Latvia issued a more than five times oversubscribed EUR 500 million seven-year Eurobond with 0 per-cent coupon rate and 0.003 per-cent yield.

| Real GDP growth, per-cent | 2016 | 2017 | 2018 | 2019 | 2020 |
|---------------------------|------|------|------|------|------|
| Latvia                    | 2.4  | 3.3  | 4.0  | 2.0  | -3.6 |
| EU (27) average           | 2.0  | 2.8  | 2.1  | 1.6  | -6.0 |

Source: Eurostat

### Inflation

In the three years prior to 2020 consumer price growth in Latvia continued at a steady rate of close to but below 3 per-cent, mainly fuelled by price pressures in the services industry. Average gross salaries in Latvia had been rising at more than 5 per-cent annually for the last seven years, inevitably putting pressure on prices. Inflation slowed in 2020 mostly due to falling transport prices and utility rates, moreover some companies reduced prices, struggling to survive in an environment of low demand and COVID-19 related restrictions. The price increases for goods were also limited by developments in the global commodity markets, especially the oil market, where prices declined significantly. Overall, the price level in 2020 was nearly unchanged from a year ago. The first half of 2021 saw a recovery in consumer price growth across the EU, driven by a rebound in commodity prices. Year-on-year consumer price growth in Latvia turned positive in March 2021 – for the first time since July 2020. Starting from May 2021 Latvia is witnessing inflation rates close but below 3 per-cent, driven both by certain pent-up demand being released and rising costs.

| Inflation, HICP, average, per-cent | 2016 | 2017 | 2018 | 2019 | 2020 |
|------------------------------------|------|------|------|------|------|
| Latvia                             | 0.1  | 2.9  | 2.6  | 2.7  | 0.1  |
| EU (27) average                    | 0.2  | 1.6  | 1.8  | 1.4  | 0.7  |

Source: Eurostat

### Unemployment

Since the end of the financial crisis in 2010, the unemployment rate in Latvia fell every year, reaching 6.3 per-cent in 2019. The trend was reversed in 2020, when due to COVID-19 restrictions, businesses, especially in the services sector, had to lay-off non-essential workers. The rise in unemployment rate was limited by the government's financial support for downtime. This helped to keep the unemployment rate in single digits in 2020.



After an increase in the first two months of 2021, the registered unemployment rate levelled off in March 2021 and started declining in the following months. The average gross salary grew by 6.2 per-cent in 2020, indicating that the workers who managed to keep their job during the COVID-19 crisis, were better off than the year before. With increasing COVID-19 vaccination and restrictions being eased, the labour market is experiencing a rebound as companies resume hiring.

| <b>Unemployment rate, per-cent</b> | <b>2016</b> | <b>2017</b> | <b>2018</b> | <b>2019</b> | <b>2020</b> |
|------------------------------------|-------------|-------------|-------------|-------------|-------------|
| Latvia                             | 9.6         | 8.7         | 7.4         | 6.3         | 8.1         |
| EU (27) average                    | 9.1         | 8.1         | 7.2         | 6.7         | 7.1         |

Source: Eurostat

## Public Finance

The central government budget for 2021 accounts for 9.6 billion EUR in revenue and 10.8 billion EUR in expenditure, with certain reforms in the tax regime. The government has planned a 3.9 per-cent general budget deficit for 2021, reflecting a downturn in economic activity and a simultaneous fiscal stimulus. The budget is based on a real GDP growth forecast of 5.1 per-cent, which seems too optimistic, given that a more visible recovery from COVID-19 crisis is postponed to the second half of 2021, and the vaccination pace has been rather slow, i.e., only 45.3 per-cent of adult population had received at least one vaccine dose by 9 August 2021 compared to 72.2 per-cent in the EU/EEA (*source: <https://vaccinetracker.ecdc.europa.eu>*).

| <b>General government balance, per-cent of GDP</b> | <b>2016</b> | <b>2017</b> | <b>2018</b> | <b>2019</b> | <b>2020</b> |
|--|-------------|-------------|-------------|-------------|-------------|
| Latvia   | 0.2         | -0.8        | -0.8        | -0.6        | -4.5        |
| EU (27) average                                    | -1.4        | -0.8        | -0.4        | -0.5        | -6.9        |

Source: Eurostat

In 2020, the international credit rating agency S&P Global Ratings upgraded Latvia's credit rating from "A" to "A+", while maintaining a stable outlook. The "A+" rating with a stable outlook was affirmed on August 13, 2021. On March 19, 2021 the international credit rating agency Fitch Ratings affirmed Latvia's credit rating at the 'A-' level with a stable credit rating outlook. Strong credit fundamentals, low public debt along with monetary support from the EU has allowed Latvia to withstand the current waves of COVID-19 and should provide Latvia's small and open economy with further room for fiscal policy manoeuvres in case a prolonged economic downturn due to the pandemic. The ability to raise funding is particularly important for combating the adverse effects that COVID-19 outbreak is having on the economy of Latvia. It is expected that public debt will increase considerably in 2021, on top of the increase in 2020, as additional funds and support schemes are allocated to various parts of the economy.

| <b>General government gross debt, per-cent of GDP</b> | <b>2016</b> | <b>2017</b> | <b>2018</b> | <b>2019</b> | <b>2020</b> |
|---|-------------|-------------|-------------|-------------|-------------|
| Latvia  | 40.4        | 39.0        | 37.1        | 37.0        | 43.5        |
| EU (27) average                                       | 84.0        | 81.5        | 79.5        | 77.5        | 90.7        |

Source: Eurostat

## Foreign Trade

In 2020, the turnover of foreign trade in goods of Latvia at current prices reached EUR 28.3 billion – 2.0 per-cent less than in 2019. The goods exports value constituted EUR 13.2 billion (an increase of 1.8 per-cent), whereas the imports value – EUR 15.1 billion (a drop of 5.1 per-cent). The goods export growth was largely driven by increase in exports of machinery and electrical equipment, as well as agricultural products (mostly grain and rapeseed). In 2020, wood and its products lost its position as the dominant constituent of overall goods exports to the exports of machinery, mechanical appliances and electrical equipment, from which more than half of the value is re-export. The other Baltic States, Russia, Germany, Sweden, and Poland continued to be the main trading

partners for Latvia both in export and import of goods. Exports of services, which account for about 30 per-cent of total exports, fell by 21.2 per-cent in 2020 led by a decline in export of transport services and tourism. In 2020, Latvia recorded current account surplus of 3 per-cent of GDP as income balance saw a surge in its surplus, due to falling investment income of foreign residents, and trade balance turned positive, as a sharp drop in consumption reduced import demand while goods exports performed relatively well. The first half of 2021 manifested a strong recovery both in imports and exports of goods, recording close to 20 per cent increase.

| <b>Current account balance,<br/>per-cent of GDP</b> | <b>2016</b> | <b>2017</b> | <b>2018</b> | <b>2019</b> | <b>2020</b> |
|---|-------------|-------------|-------------|-------------|-------------|
| Latvia  | 1.6         | 1.3         | -0.3        | -0.6        | 3.0         |
| EU (27) average                                     | 1.5         | 2.0         | 1.6         | 1.4         | 1.4         |

Source: Eurostat

## TAXATION

*Tax legislation of the investor's member state and of the Issuer's country of incorporation may have an impact on the income received from the Notes.*

*The following is a general summary of certain tax consideration in the Republic of Latvia in relation to the Notes. It is not exhaustive and does not purport to be a complete analysis of all tax consequences relating to the Notes, as well as does not take into account or discuss the tax implications of any country other than the Republic of Latvia. The information provided in this section shall not be treated as legal or tax advice; and prospective investors are advised to consult their own tax advisors as to the tax consequences of the subscription, ownership and disposal of the Notes applicable to their particular circumstances.*

*This summary is based on the laws of Latvia as in force on the date of this Base Prospectus and is subject to any change in law that may take effect after such date, provided that such changes could apply also retroactively.*

Latvia has entered into a number of tax conventions on elimination of the double taxation, which may provide more favourable taxation regime. Therefore, if there is a valid tax convention with the country of a non-resident prospective investor, it should be also examined. The procedures for application of tax conventions are provided in the Republic of Latvia Cabinet of Ministers' Regulations No. 178 "Procedures for Application of Tax Relief Determined in International Agreements for Prevention of Double Taxation and Tax Evasion" of 30 April 2001.

### **Taxation of the Noteholders individuals**

#### ***Resident Individuals***

An individual will be considered as a resident of Latvia for taxation purposes:

- if the individual's declared place of residence is in the Republic of Latvia; or
- if the individual stays in the Republic of Latvia 183 days or more within any 12-month period, starting or ending in the taxation year; or
- if the individual is a citizen of the Republic of Latvia employed abroad by the government of the Republic of Latvia.

In accordance with the Law on Personal Income Tax (in Latvian – *Likums "Par iedzīvotāju ienākuma nodokli"*) the interest income from the Notes for resident individuals will be subject to 20 per-cent withholding tax, deductible by the Issuer before the payment. The income from the alienation of the Notes will be subject to 20 per-cent tax, but the tax would be payable by the individual him/herself.

#### ***Non-resident individuals***

In accordance with the Law on Personal Income Tax (in Latvian – *Likums "Par iedzīvotāju ienākuma nodokli"*) the interest income from the Notes being circulated publicly as well as income from the alienation of the publicly circulated Notes will not be subject to tax in Latvia.

### **Taxation of the Noteholders entities**

#### ***Resident entities***

An entity will be considered as a resident of Latvia for tax purposes if it is or should have been established and registered in the Republic of Latvia in accordance with the legislative acts of the Republic of Latvia. This also include permanent establishments of foreign entities in Latvia.

Interest payments on the Notes and proceeds from the disposal of the Notes received by Latvian resident companies will not be subject to withholding tax in Latvia. Under the Corporate Income Tax Law (in Latvian – *Uzņēmumu ienākuma nodokļa likums*) retained earnings are exempt from corporate income tax and only distributions are taxed. Corporate income tax rate on gross profit distribution is 20 per-cent. Corporate income tax on net amount of profit distribution is determined by dividing net amount with a coefficient of 0.8 (i.e., effective tax rate on net distributed profit is 25 per-cent).

### **Non-resident entities**

In accordance with the Corporate Income Tax Law (in Latvian – *Uzņēmumu ienākuma nodokļa likums*) the interest income and income from the alienation of the Notes for non-resident entities will not be taxable in Latvia.

### **Taxation of low-tax non-residents**

In general, payments (including interest payments) to non-residents located, registered or incorporated in a no-tax or low-tax country or territory as defined in the Regulations of the Cabinet of Ministers No.819 “Regulations on No-Tax or Low-Tax Countries and Territories”, adopted on 17 December 2020; effective as of 1 January 2021 (“**Low-Tax Non-Latvian Residents**”) are subject to withholding tax of 20 per-cent if the payer is a Latvian legal entity or 23 per-cent if the payer is a Latvian individual resident having obligation to withhold tax. However, pursuant to Article 5(6) of the Corporate Income Tax Law (in Latvian – *Uzņēmumu ienākuma nodokļa likums*) payments by Latvian legal entities to Low-Tax Non-Latvian Residents for securities publicly circulated in the EU or EEA are exempt from withholding tax if made at the market price. The State Revenue Service of the Republic of Latvia in a legally non-binding explanation to the Issuer has confirmed that pursuant to Article 5(6) of the of the Corporate Income Tax Law (in Latvian – *Uzņēmumu ienākuma nodokļa likums*) there is no withholding tax also on the interest payments made by the Issuer to the holders of the notes publicly circulated in the EU or EEA who are Low-Tax Non-Latvian Residents, provided that the payments are made at the market price.

## GENERAL INFORMATION

### Authorisation

The shareholder of the Issuer has at the Shareholders' Meeting held on 9 August 2021 authorised the issue of the Notes and authorised the Management Board of the Issuer to approve the characteristics of the Notes, the Base Prospectus and any of the documents thereto, as well as any amendments and supplements thereof.

Management Board of the Issuer has at its meeting held on 21 September 2021 approved the Base Prospectus and the General Terms and Conditions of the Notes.

Each Final Terms issued in respect of each issue of Notes shall be approved by a separate resolution of the Management Board of the Issuer.

### Auditors

SIA "Deloitte Audits Latvia", registration number: 40003606960, legal address: Grēdu iela 4A, Riga, LV-1019, LV-1010, Latvia, has audited the 2020 Financial Statements and the 2019 Financial Statements included in this Base Prospectus and issued an unqualified auditors' reports on the aforementioned financial statements.

SIA "Deloitte Audits Latvia" is included in the register of audit firms maintained by the Latvian Association of Certified Auditors and holds audit company license No.43. On behalf of SIA "Deloitte Audits Latvia", the auditors' reports on the 2020 Financial Statements and the 2019 Financial Statements were signed by Inguna Staša, holding auditor's certificate No. 145.

### Listing

Application will be made to Nasdaq Riga for admitting each Tranche to listing and trading on the official bond list (the Baltic Bond List) of Nasdaq Riga according to the requirements of Nasdaq Riga not later than within 3 (three) months after the Issue Date of the respective Tranche. Nasdaq Riga is a regulated market for the purposes of MiFID II.

### Clearing of the Notes

The Notes shall be issued in the bearer dematerialised form and registered with Nasdaq CSD SE, registration number: 40003242879. The International Securities Identification Number (ISIN) in relation to the Notes of each Tranche will be specified in the relevant Final Terms.

The address of Nasdaq CSD SE is Valņu iela 1, Riga, LV-1050, Latvia.

### Legal Entity Identifier

The Issuer's legal entity identifier is 64883LC3F12690GATG87.

### Documents available

For as long as the Notes are listed on the official bond list (the Baltic Bond List) of Nasdaq Riga, the copies of the following documents will be available on the Issuer's website [www.ast.lv](http://www.ast.lv):

- (i) the Articles of Association of the Issuer;
- (ii) the Financial Statements;
- (iii) the Green Bond Framework;

- (iv) each Final Terms; and
- (v) this Base Prospectus together with any supplement.

#### **Arrangers and Dealers transacting with the Issuer**

The Arranger and Dealer has engaged in, and may in the future engage in, investment banking and/or commercial banking or other services provided to the Group in the ordinary course of business (see Section *Risk Factors – Risk related to the Notes - Certain material interests*).

#### **Interests of natural and legal persons involved in the issue/offer of the Notes**

Save for commissions to be paid to the Arranger and the Dealer, so far as the Issuer is aware, no person involved in the issue/offer of the Notes has an interest material to the issue/offer.

#### **Expenses Charged to the Investors**

No expenses or taxes will be charged to the investors by the Issuer in respect to the issue of the Notes. However, the investors may be obliged to cover expenses which are related to the opening of securities accounts with the credit institutions or investment brokerage firms, as well as commissions which are charged by the credit institutions or investment brokerage firms in relation to the execution of the investor's purchase or selling orders of the Notes, the holding of the Notes or any other operations in relation to the Notes. Neither the Issuer, nor the Arrangers or the Dealers shall compensate the Noteholders for any such expenses.

#### **Credit Ratings**

As of the date of this Base Prospectus, the Issuer has a long-term credit rating BBB+ by S&P Global Ratings Europe Limited. The outlook is positive.

S&P Global Ratings Europe Limited is established in the EEA and is registered under Regulation (EU) No 1060/2009, as amended (the "**CRA Regulation**"), and is, as of the date of this Base Prospectus, included in the list of credit rating agencies published by the European Securities and Markets Authority ("**ESMA**").

Notes to be issued under the Programme may be rated or unrated. Where an issue of Notes is rated, the applicable rating will be specified in the relevant Final Terms. Such rating will not necessarily be the same as the rating(s) assigned to the Issuer or to Notes already issued (if applicable). Whether or not a credit rating applied for in relation to a relevant Series of Notes will be issued by a credit rating agency established in the EEA and registered under the CRA Regulation will be disclosed in the Final Terms.

A rating is not a recommendation to buy or sell or hold Notes and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. Up-to-date information should always be sought by direct reference to the relevant rating agency.

### **INFORMATION INCORPORATED BY REFERENCE**

The following documents have been incorporated by reference to this Base Prospectus and form a part of the Base Prospectus:

- the Issuer's Green Bond Framework, which is available for viewing on the following website: [www.ast.lv](http://www.ast.lv)

## **ANNEX I – FINANCIAL STATEMENTS**

The Group's consolidated and the Company's annual report, representing audited consolidated and standalone financial statements for the financial year ending 31 December 2020, prepared in accordance with IFRS, together with the audit report in connection therewith.

The Company's annual report, representing audited standalone financial statements for the financial year ending 31 December 2019, prepared in accordance with IFRS, together with the audit report in connection therewith.

The Company's consolidated and abridged financial statements, representing consolidated and standalone financial statements for the six months period ended 30 June 2021, prepared in accordance with the International Accounting Standard 34.





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

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**FOR 2020**

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

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# CONTENTS

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|  |           |
|--|-----------|
| <b>Information about the Group and the Company</b>                   | <b>3</b>  |
| Key Financial and Performance Indicators                             | 5         |
| <b>Management Report</b>   | <b>9</b>  |
| <b>Statement of Board's responsibility</b>                           | <b>26</b> |
| <b>Consolidated and separate financial statements</b>                | <b>28</b> |
| Profit or Loss Statement for 2020                                    | 29        |
| Statement of Comprehensive Income for 2020                           | 30        |
| Statement of Financial Position as at 31 December 2020               | 31        |
| Statement of Changes in Equity for 2020                              | 33        |
| Cash Flow Statement for 2020   | 35        |
| <b>Annexes to the consolidated and separate financial statements</b> | <b>37</b> |
| <b>Independent auditor's report</b>                                  | <b>82</b> |



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**INFORMATION  
ABOUT THE GROUP  
AND THE COMPANY**

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

## KEY FINANCIAL AND PERFORMANCE INDICATORS

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

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

**Liquidity ratio** = current assets/current liabilities (excluding the part of the short-term loan to be refinanced)

**EBITDA profitability** = EBITDA/revenue

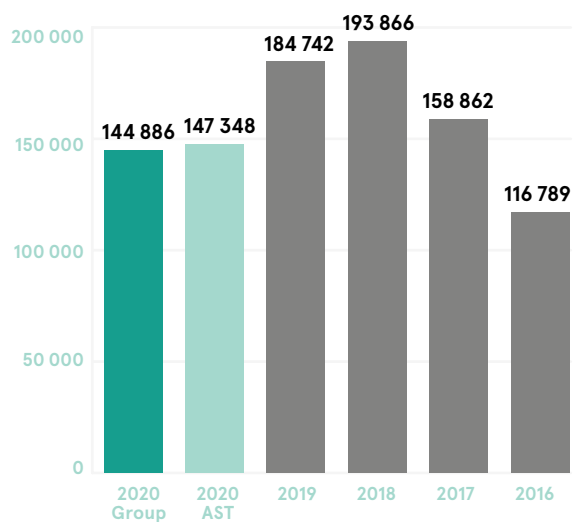
**Equity ratio** = equity/balance sheet total

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

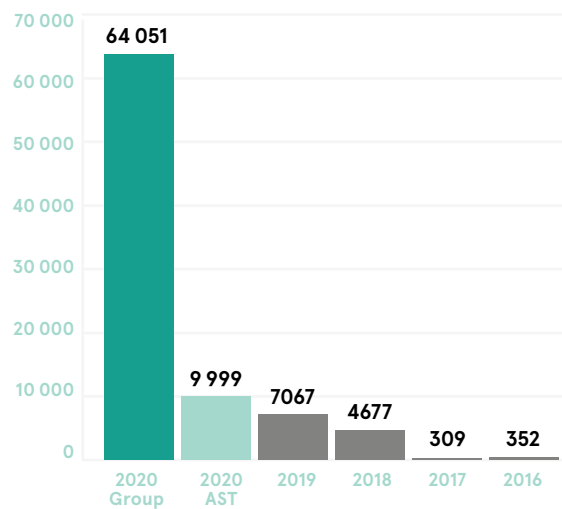
\* The amount of the Group's revenue in 2020 is affected by the exclusion of mutual services between JSC Augstsprieguma tīkls and JSC Latvijas elektriskie tīkli (see also Appendix 3, section "Transmission system asset ownership reform")

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

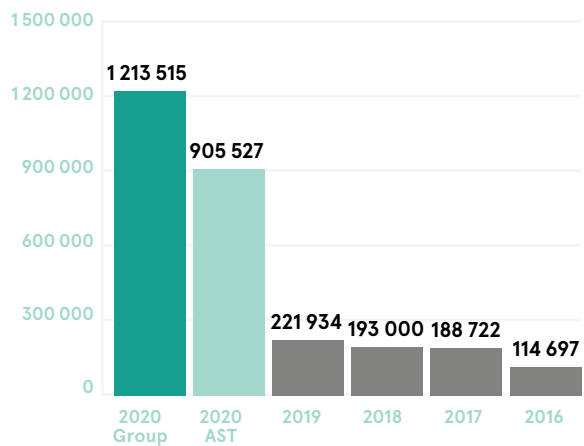
### REVENUE, THOUS. EUR



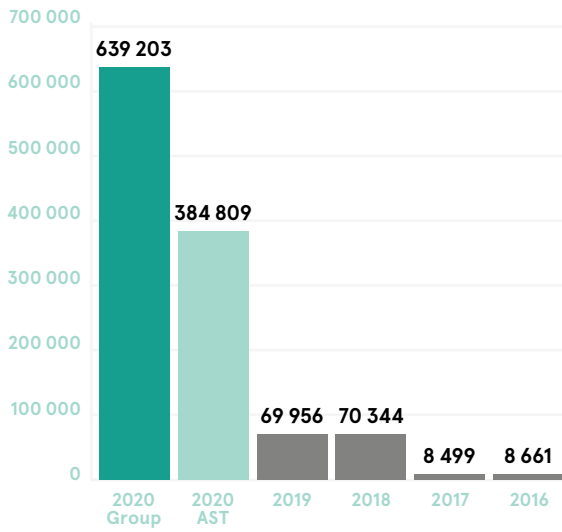
### PROFIT, THOUS. EUR



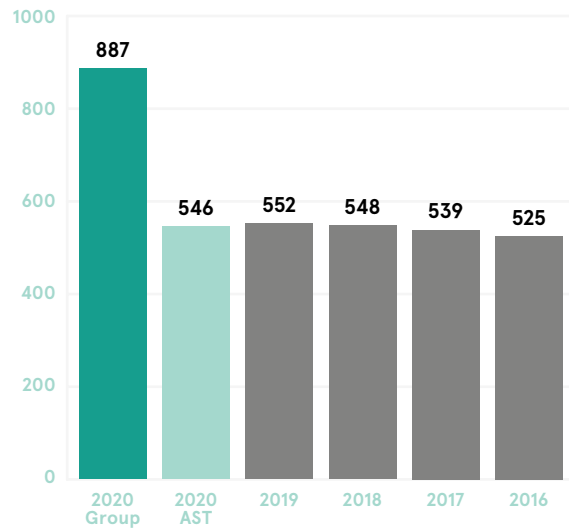
### BALANCE SHEET TOTAL, THOUS. EUR



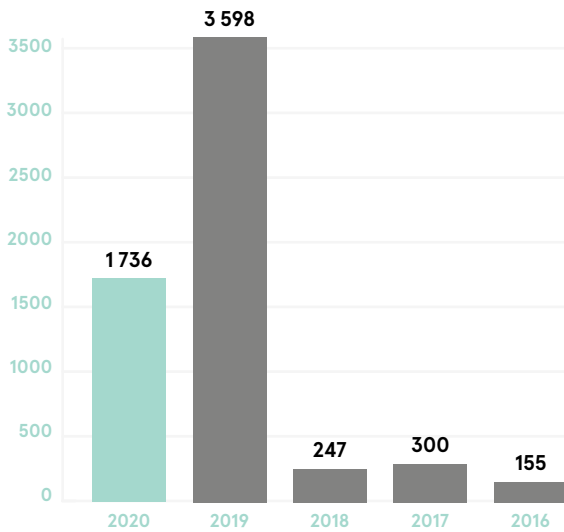
### EQUITY, THOUS. EUR



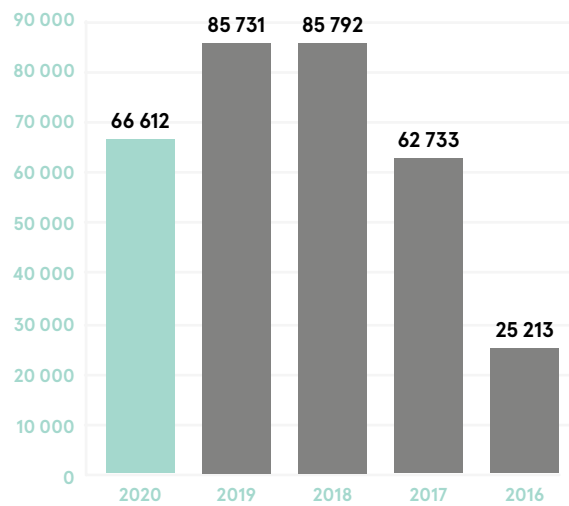
### NUMBER OF EMPLOYEES



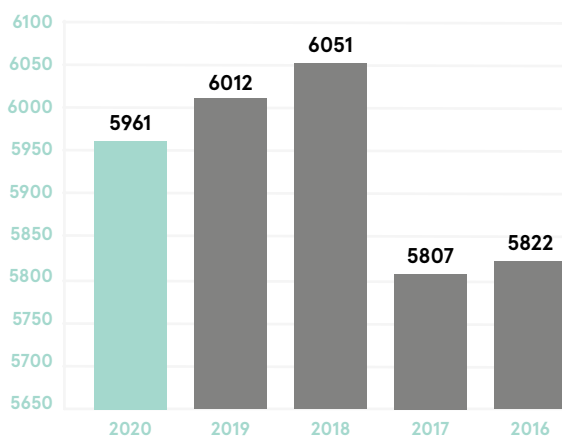
### DIVIDENDS PAID FROM PREVIOUS PERIOD PROFIT, THOUS. EUR



### CAPITAL INVESTMENTS IN ELECTRICITY TRANSMISSION SYSTEM, THOUS. EUR



### ELECTRICITY TRANSMITTED TO USERS, GWH



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## KEY EVENTS IN 2020.

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### **Obtained investment grade credit rating of BBB+.**

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

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

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

### **Decisive influence in JSC Conexus Baltic Grid gained.**

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

### **The project "Construction of the Power Transmission Line "Rīga TEC-2 – Rīga HPP"" has been completed.**

Within the framework of the project, a new 330 kV overhead/cable line with an indicative length of 15 km has been put into operation, and the 330 kV distribution of the substation "Rīgas TEC-2" has been expanded. Implementation of the project in the amount of 50% was co-financed by the European Union from the funds of the Connecting Europe Facility (CEF).

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

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

### **TOP 101 most valuable companies in Latvia.**

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

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

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

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

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

All construction works have been completed in the development project "Estonia-Latvia third 330 kV interconnection", and the newly built 330 kV line from Estonia to Rīga TEC-2 in Latvia has been put into operation. From 1 January 2021, the line shall be taken into account when calculating the transmission capacity allocated to the electricity market. Implementation of the project in the amount of 50% was co-financed by the European Union from the funds of the Connecting Europe Facility (CEF).

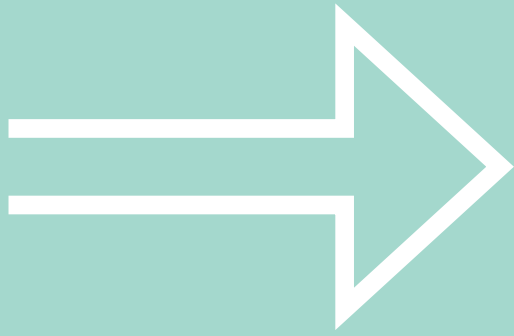
### **Latvia has reached the lowest average price of electricity in history since the opening of the market.**

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

### **Joins the memorandum on sustainable energy development and energy efficiency.**

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

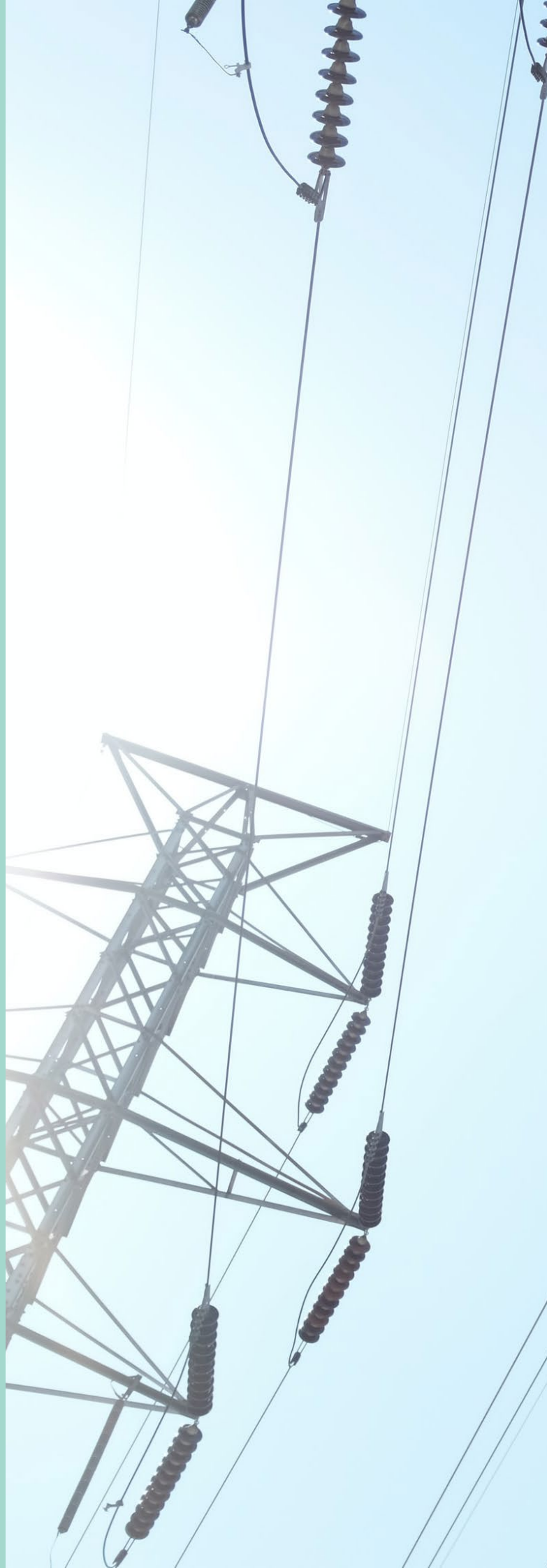




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# MANAGEMENT REPORT

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## REFORM OF OWNERSHIP OF TRANSMISSION SYSTEM ASSETS

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

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

Executing the protocol decision of the sitting of the Cabinet of Ministers of the Republic of Latvia of 8 October 2019 (No. 46, § 38) and the protocol decision of the sitting of 17 December 2019 (No.

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

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



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

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

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

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## INVESTMENT IN SUBSIDIARY

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

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

## TYPE OF ACTIVITY AND CHARACTERISTICS



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

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

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

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



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

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

### Electricity Transmission

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

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

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



Provision of electricity transmission system services



Maintaining and developing the electricity market



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

## Quality Management System and Values

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

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

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

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

### OVERALL STRATEGIC OBJECTIVE

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

#### VISION

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



# AST



#### MISSION

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

#### CORE VALUES

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

#### TRUST



#### HONESTLY

Independent, ethical, and transparent action towards anyone and everyone

#### GROWTH



#### WISELY

Effectively. Looking forward. Long-term thinking

#### SAFETY



#### RESPONSIBLY

With high responsibility towards work, people, and nature

#### TEAM



#### TOGETHER

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

## Corporate and Social Responsibility

The strategic direction of the parent company is focused on sustainable development. The Company participates in the annual "Sustainability Index" managed by the Corporate Responsibility and Sustainability Institute, where **in 2020 the Company received the top Platinum award** (as an assessment of its work in 2019). The title of the Ministry of Welfare "**Family-friendly merchant**" has also been received.

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

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

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

The Sustainability Report 2020 of JSC Augstsprieguma tīkls is available on the Augstsprieguma tīkls website at [www.ast.lv](http://www.ast.lv).

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

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

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

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

## Transmission and Storage of Natural Gas

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

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

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

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

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

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

### Conexus values:

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

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

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

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

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

# CHARACTERISATION OF THE OPERATING ENVIRONMENT

## Electricity Transmission

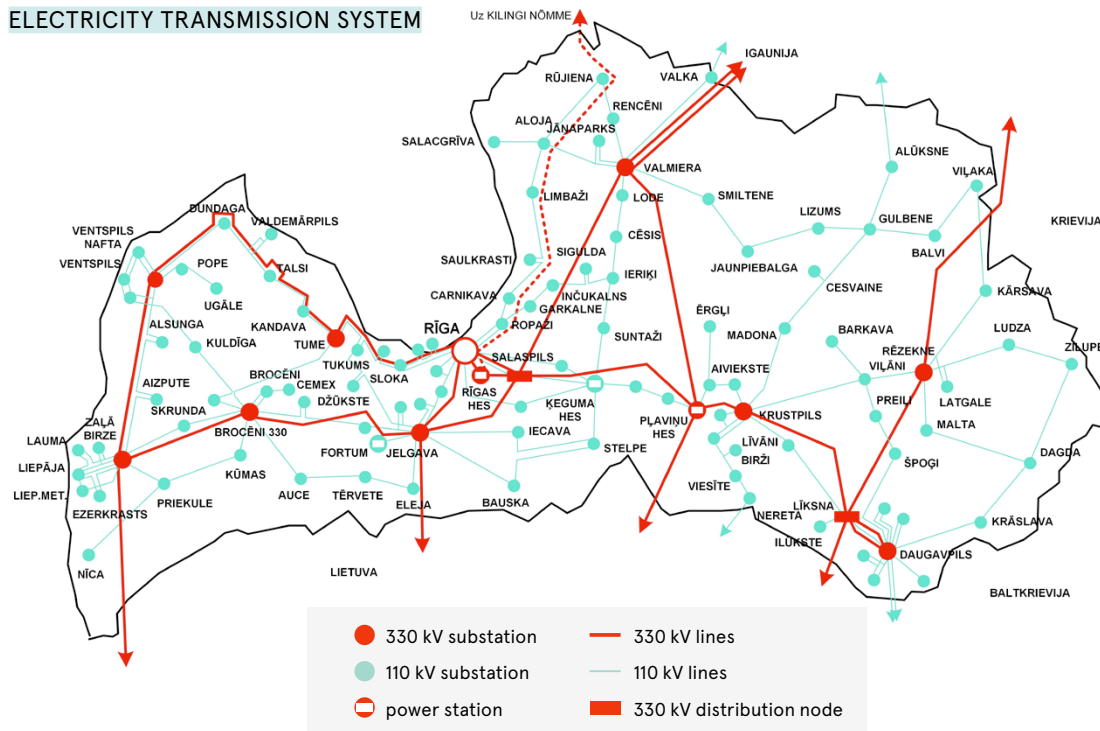
Electricity transmission is carried out by the transmission system operator through a transmission system that includes interconnected networks and equipment, including cross-border connections, with a voltage of 110 kilovolts or more, that are used for transmission to the relevant distribution system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

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

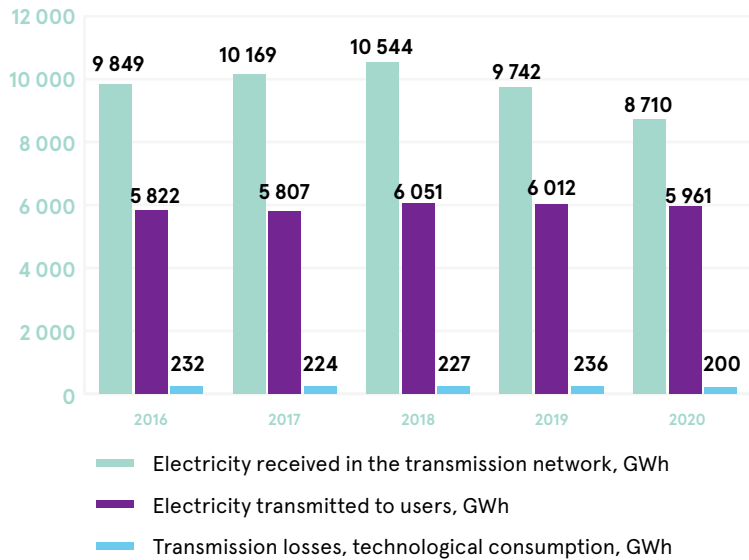
During the reporting period, the obligations imposed on the Transmission System Operator were implemented through the following transmission network (31.12.2020):

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

### ELECTRICITY TRANSMISSION SYSTEM



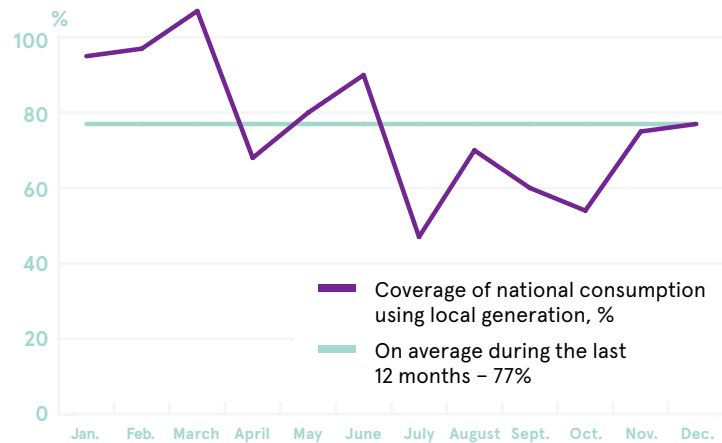
5 961 GWh were transmitted to users within 2020, which is 1% less than in the corresponding period of 2019 (6 012 GWh). The impact of the reduction in the amount of electricity transmitted to consumers on the revenues from the provision of transmission services is insignificant.



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

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

#### SECURING PUBLIC CONSUMPTION WITH LOCAL GENERATION 2020. %



## Maintaining and developing the electricity market

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

In addition, the development of the electricity market in Latvia is facilitated by the European Commission Regulation resulting from Regulation (EC) No. 714/2009 of the European Parliament and of the Council on conditions for access to the network for cross-border exchanges in electricity.

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

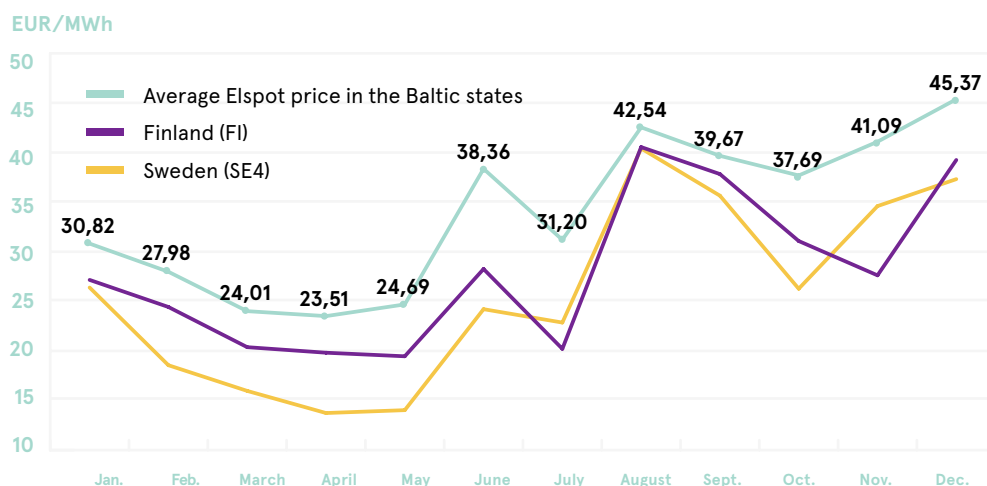
Integration into the single European electricity market not only provides access to cheaper Nordic electricity, but also contributes to greater price volatility caused by weather conditions in other European countries.



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



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



## FINANCIAL PERFORMANCE AND FINANCIAL RISK MANAGEMENT

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

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

### SEGMENT INFORMATION

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

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## Electricity transmission segment

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

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

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

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

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## Natural gas transmission and storage segment

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

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

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## Financial risk management

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

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

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

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

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

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

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

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## Financing and liquidity

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Pursuant to the decisions of the Cabinet of Ministers of the Republic of Latvia of 8 October 2019 and 17 December 2019, the reorganisation of transmission system asset ownership rights was implemented in 2020 (detailed information on the reorganisation is provided in the section “Transmission system asset ownership rights reform”).

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

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

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

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

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

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

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

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



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

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## ELECTRICITY TRANSMISSION SYSTEM SERVICES TARIFF

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

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

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

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

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



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

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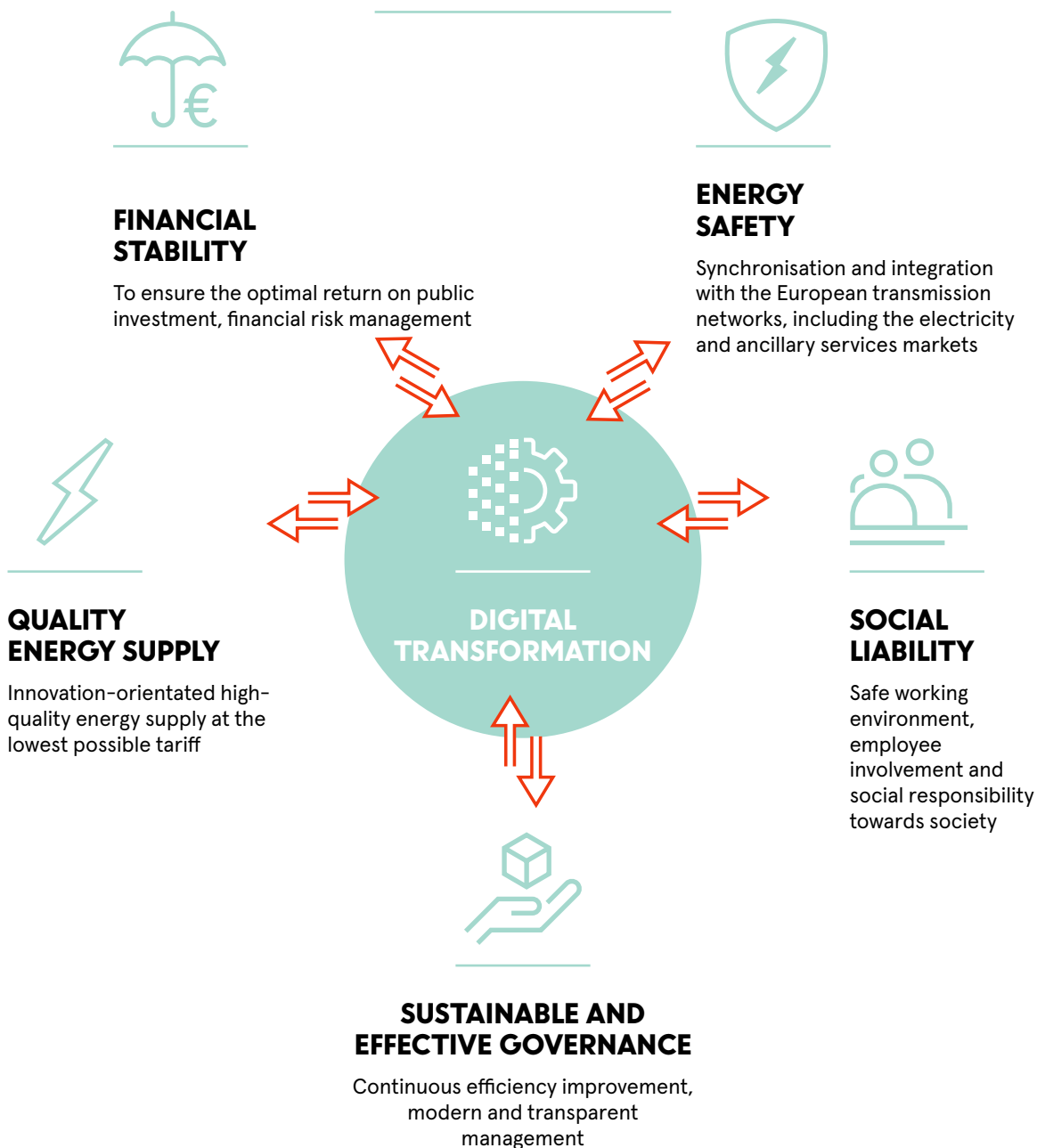
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## FURTHER DEVELOPMENT

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

### STRATEGIC DIRECTION OF THE PARENT COMPANY IS FOCUSED ON



## Development of the Electricity Transmission System

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

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

strengthening Latvia's energy security by synchronising the Latvian electricity transmission network with the continental European network, observing compliance with the principles of security and cost-effectiveness.

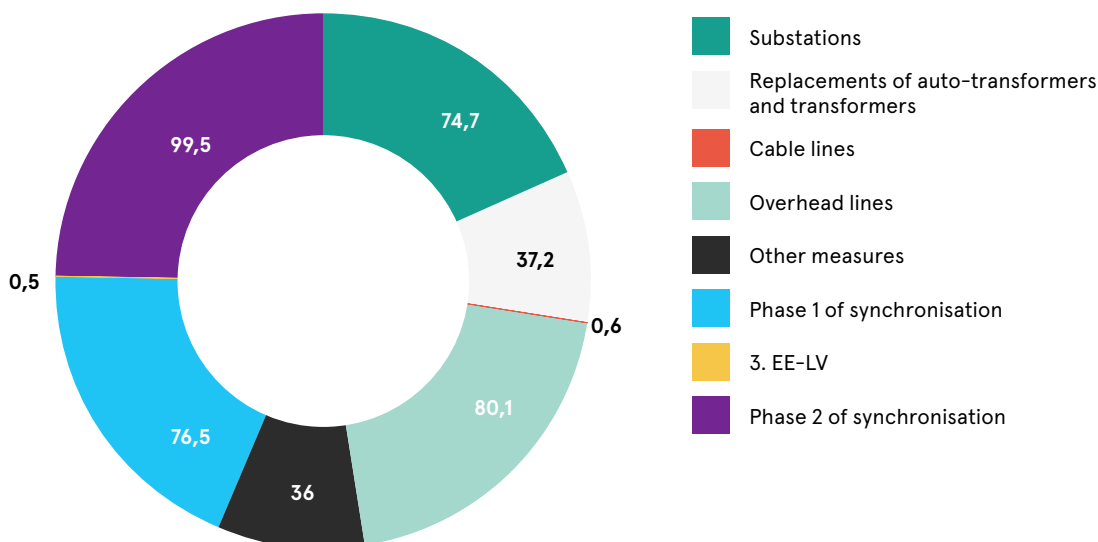
The approved Development Plan determines the development of the transmission system and the necessary financial investments in the transmission infrastructure for the next 10 years, envisaging the investment of **EUR 405 million** in the development of the electricity transmission system, including EU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

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

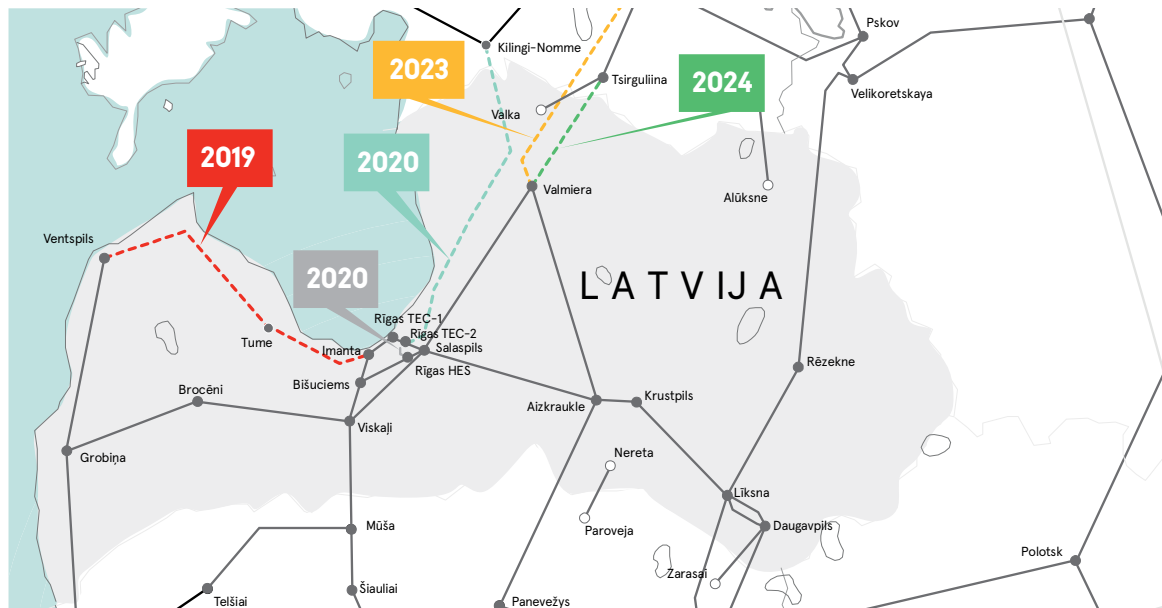
In order to minimise the impact of the planned capital investments on electricity transmission tariffs, AST has successfully attracted EU co-financing for projects of common European interest included in the Development Plan, including:

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

### INVESTMENTS ENVISAGED IN THE DEVELOPMENT PLAN, MILLION EUR



## DEVELOPMENT PROJECTS INCLUDED IN THE 10-YEAR EUROPEAN DEVELOPMENT PLAN



### System Management and Electricity Market Development

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

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

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

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

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

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

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

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

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

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

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

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

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## Transmission and Storage of Natural Gas

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

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

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## CIRCUMSTANCES AND EVENTS AFTER THE END OF THE REPORTING YEAR

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

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

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

reduce economic development in the country and in the world. It is not possible to foresee the situation's development in the future, and thus there is uncertainty about economic development. The Company's management continuously evaluates the situation; at the time of approval of the annual report the Company has not encountered significant disruptions in business operations, no significant or potentially significant debt losses have been identified, the Company continues to cover liabilities in a timely manner. However, this conclusion is based on the information available at the time of preparation of the document; as influencing circumstances change, the impact on the Company's operations may differ from the current assessment.

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



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## PROFIT DISTRIBUTION PROPOSALS

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

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



**Imants Zviedris**  
Board Member



**Mārcis Kauliņš**  
Board Member



**Gatis Junghāns**  
Board Member



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

Rīga, 20 May 2021



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**STATEMENT  
OF BOARD'S  
RESPONSIBILITY**

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

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

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



**Imants Zviedris**  
Board Member



**Mārcis Kauliņš**  
Board Member



**Gatis Junghāns**  
Board Member



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

Rīga, 20 May 2021



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**CONSOLIDATED  
AND SEPARATE  
FINANCIAL  
STATEMENTS**

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## PROFIT OR LOSS STATEMENT FOR 2020

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

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



**Imants Zviedris**  
Board Member



**Mārcis Kauliņš**  
Board Member



**Gatis Junghāns**  
Board Member



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

Riga, 20 May 2021

## STATEMENT OF COMPREHENSIVE INCOME FOR 2020

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

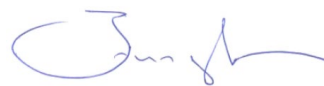
Annexes from page 38 to 81 are an integral part of these financial statements.



**Imants Zviedris**  
Board Member



**Mārcis Kauliņš**  
Board Member



**Gatis Junghāns**  
Board Member



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

Riga, 20 May 2021

## STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2020

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

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



**Imants Zviedris**  
Board Member



**Mārcis Kauliņš**  
Board Member



**Gatis Junghāns**  
Board Member



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

Riga, 20 May 2021

## STATEMENT OF FINANCIAL POSITION ON 31 DECEMBER 2020

(continued)

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

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**Imants Zviedris**  
Board Member



**Mārcis Kauliņš**  
Board Member



**Gatis Junghāns**  
Board Member



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

Riga, 20 May 2021



## STATEMENT OF CHANGES IN EQUITY FOR 2020

|  | JSC Augstsprieguma tīkls |                               |                  |                    |
|--|--------------------------|-------------------------------|------------------|--------------------|
|  | Share capital            | Profit for the reporting year | Reserves         | Total              |
|  | EUR                      | EUR                           | EUR              | EUR                |
| <b>BALANCE ON 31 DECEMBER 2018</b>                                       | <b>63 139 313</b>        | <b>4 677 118</b>              | <b>2 527 228</b> | <b>70 343 659</b>  |
| Profit for the reporting period  | -                        | 7 066 974                     | -                | 7 066 974          |
| Other income for the reporting period                                    | -                        | -                             | 259 393          | 259 393            |
| <i>Total consolidated income for the reporting year</i>                  | -                        | <i>7 066 974</i>              | <i>259 393</i>   | <i>7 326 367</i>   |
| Dividends paid for 2018  | -                        | (3 598 352)                   | -                | (3 598 352)        |
| Share capital increase   | 1 078 766                | (1 078 766)                   | -                | -                  |
| Implementation of IFRS16   | -                        | (4 115 963)                   | -                | (4 115 963)        |
| <b>BALANCE ON 31 DECEMBER 2019</b>                                       | <b>64 218 079</b>        | <b>2 951 011</b>              | <b>2 786 621</b> | <b>69 955 711</b>  |
| Profit for the reporting period  | -                        | 9 999 392                     | -                | 9 999 392          |
| Other income for the reporting year                                      | -                        | -                             | 384 250          | 384 250            |
| <i>Total consolidated income for the reporting year</i>                  | -                        | <i>9 999 392</i>              | <i>384 250</i>   | <i>10 383 642</i>  |
| Dividends paid for 2019  | -                        | (1 735 958)                   | -                | (1 735 958)        |
| Transfer of retained earnings  | -                        | 315 146                       | (315 146)        | -                  |
| Share capital increase   | 299 678 000              | -                             | -                | 299 678 000        |
| Addition of JSC Latvijas elektriskie tīkli as a result of reorganisation | -                        | 5 211 434                     | (27 336 704)     | (22 125 270)       |
| Recognition of revaluation reserve as a result of reorganisation         | -                        | -                             | 28 653 237       | 28 653 237         |
| <b>BALANCE ON 31 DECEMBER 2020</b>                                       | <b>363 896 079</b>       | <b>16 741 025</b>             | <b>4 172 258</b> | <b>384 809 362</b> |

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Board Member



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

Riga, 20 May 2021

## STATEMENT OF CHANGES IN EQUITY FOR 2020

(continued)

|  | Group              |                    |                   |                          |                    |
|--|--------------------|--------------------|-------------------|--------------------------|--------------------|
|  | Share capital      | Retained profit    | Reserves          | Non-controlling interest | Total              |
|  | EUR                | EUR                | EUR               | EUR                      | EUR                |
| <b>BALANCE ON 31 DECEMBER 2018</b>   | <b>63 139 313</b>  | <b>56 332 317</b>  | <b>2 527 227</b>  | <b>-</b>                 | <b>121 998 858</b> |
| Profit for the reporting period  | -                  | 8 828 689          | -                 | -                        | 8 828 689          |
| Other income for the reporting period  | -                  | -                  | 259 393           | -                        | 259 393            |
| <i>Total comprehensive income for the reporting year</i>   | -                  | <i>8 828 689</i>   | <i>259 393</i>    | -                        | <i>9 088 082</i>   |
| Dividends paid for 2018  | -                  | (3 598 352)        | -                 | -                        | (3 598 352)        |
| Share capital increase   | 1 078 766          | (1 078 766)        | -                 | -                        | -                  |
| Changes in reserves  | -                  | -                  | (30 162)          | -                        | (30 162)           |
| Implementation of IFRS16   | -                  | (4 115 963)        | -                 | -                        | (4 115 963)        |
| <b>BALANCE ON 31 DECEMBER 2019</b>   | <b>64 218 079</b>  | <b>56 367 925</b>  | <b>2 756 459</b>  | <b>-</b>                 | <b>123 342 463</b> |
| Profit for the reporting period  | -                  | 64 051 311         | -                 | 1 307 174                | 65 358 485         |
| Other income for the reporting year  | -                  | -                  | 28 502 092        | 8 275                    | 28 510 367         |
| <i>Total comprehensive income for the reporting year</i>   | -                  | <i>64 051 311</i>  | <i>28 502 092</i> | <i>1 315 449</i>         | <i>93 868 852</i>  |
| Dividends paid for 2019  | -                  | (1 735 958)        | -                 | -                        | (1 735 958)        |
| Transfer of revaluation surplus upon acquisition of control of an associate                            | -                  | 28 090 467         | (28 090 467)      | -                        | -                  |
| Share capital increase   | 299 678 000        | -                  | -                 | -                        | 299 678 000        |
| Transaction between companies under common control – acquisition of revaluation reserve (see Annex 25) | -                  | -                  | 28 915 196        | -                        | 28 915 196         |
| Transaction between companies under common control – net result (see Annex 25)                         | -                  | -                  | (25 778 705)      | -                        | (25 778 705)       |
| Acquisition of a subsidiary with a non-controlling interest (see Annex 25)                             | -                  | -                  | -                 | 120 912 690              | 120 912 690        |
| <b>BALANCE ON 31 DECEMBER 2020</b>   | <b>363 896 079</b> | <b>146 773 745</b> | <b>6 304 575</b>  | <b>122 228 140</b>       | <b>639 202 537</b> |

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**Imants Zviedris**  
Board Member



**Mārcis Kauliņš**  
Board Member



**Gatis Junghāns**  
Board Member



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

Riga, 20 May 2021

## CASH FLOW STATEMENT FOR 2020

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

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Board Member



**Mārcis Kauliņš**  
Board Member



**Gatis Junghāns**  
Board Member



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

Riga, 20 May 2021

## CASH FLOW STATEMENT FOR 2020

(continued)

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

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Board Member



**Mārcis Kauliņš**  
Board Member



**Gatis Junghāns**  
Board Member



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

Riga, 20 May 2021



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**ANNEXES TO THE  
CONSOLIDATED  
AND SEPARATE  
FINANCIAL  
STATEMENTS**

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## 1. GENERAL INFORMATION ABOUT THE GROUP

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

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

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

availability of the transmission system services on a continuous basis.

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

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

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

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

## 2. SIGNIFICANT ACCOUNTING PRINCIPLES

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

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

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

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

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

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

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

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

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

## Principles of drawing up financial statements

### Standards and interpretations applicable during the reporting year

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

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

### Application of new or revised standards and interpretations

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

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

**THE IMPLEMENTATION OF THESE NEW STANDARDS, AMENDMENTS TO EXISTING STANDARDS AND INTERPRETATIONS DID NOT HAVE A SIGNIFICANT IMPACT ON THE GROUP'S FINANCIAL STATEMENTS.**

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

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

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

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

### NEW STANDARDS AND AMENDMENTS TO EXISTING STANDARDS ISSUED BY THE IASB BUT NOT YET ADOPTED BY THE EU

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

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

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

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

## Consolidation

### (a) Subsidiaries

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

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

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

with the accounting and valuation methods used in the Augstsprieguma tīkls Group.

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

### (b) Transactions with minority shareholders

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

### (c) Associates

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

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

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

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



The Group ceases to use the equity method from the date on which the investment ceases to be an associate. The difference between the carrying amount of the associate at the date of termination of the equity method and the fair value of the retained interest and the gain on disposal of the interest in the associate is included in determining the gain or loss on disposal.

In addition, the Group accounts for all amounts previously recognised in other comprehensive income in respect of that associate, as would be the case if the associate had disposed of the related assets or liabilities directly.

#### (d) Goodwill

Investments in subsidiaries are accounted for using the acquisition method. Acquisition costs are measured at the fair value of the assets acquired, equity instruments issued and liabilities incurred or assumed at the date of the change. Acquisition costs are charged to the Profit or Loss Statement in the period in which they are incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. Goodwill is initially measured as the excess of the

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

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

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

### Business combinations involving companies under common control

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

## 2.1. FINANCIAL INSTRUMENTS

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

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

### Financial assets

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

#### Classification of financial assets

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

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

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

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

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

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

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

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

### Equity instruments at fair value through other comprehensive income

After initial recognition, the Company may irrevocably select (for each instrument separately)

certain equity instruments at fair value recognised in other comprehensive income. This classification is not allowed, if the equity instrument is held for trading or if it is a variable consideration received as a result of business combination.

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

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

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

#### **Impairment of financial assets**

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

#### **Derecognition of financial assets**

The Company only derecognises a financial asset when the contractual rights to the cash flows from the asset expire or when it substantially transfers all the risks and rewards incidental to ownership of the

financial asset to another entity.

If the Company does not transfer or retain substantially all of the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest and related liabilities to the extent that it may be required to pay. If the Company substantially retains all the risks and rewards of ownership of the transferred financial asset, the Company continues to recognise the financial asset and also recognises a secured loan for revenue received.

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### **Financial liabilities**

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

#### **Financial liabilities with evaluation at amortised cost**

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

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

#### **Derecognition of financial liabilities**

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

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## **2.2. TRANSACTIONS IN FOREIGN CURRENCIES**

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

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

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

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

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## 2.3. INTANGIBLE INVESTMENTS AND FIXED ASSETS

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

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

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

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

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

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

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

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

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

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## 2.4. FAIR VALUE

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

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

quoted prices or valuation techniques that incorporate observable market data and are based on internal models. Based on the fair value hierarchy, all valuation techniques are divided into Level 1, Level 2, and Level 3. The level of the fair value hierarchy of a financial instrument should be determined as the lowest level if a significant part of their value consists of lower level data. The classification of a financial instrument in the fair value hierarchy is carried out in two steps: 1. Classify data at each level to determine the fair value hierarchy; 2. Classify the financial instrument itself on the basis of the lowest level if a significant part of its value consists of lower level data.

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

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

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

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## Assets that are measured at fair value

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The revaluation of the Group's property, plant and equipment is performed by independent externally certified appraisers using the depreciated replacement cost method.

Revaluations of property, plant and equipment are performed with sufficient regularity to ensure that the carrying amount of property, plant and equipment subject to revaluation does not differ materially from that which would be determined using fair value at the end of the reporting period.

Fixed assets of the electricity transmission system

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

- electricity transmission networks,
- transformer substation electrical equipment.

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

The assets of the Parent Company's electricity transmission system (power lines and electrical equipment) were revalued in 2016. The revaluation

was performed by an external valuer estimating the cost of replacing or renewing each fixed asset based on the actual cost of creating or acquiring analogue or similar fixed assets shortly before the revaluation in accordance with the Company's records.

With regard to fixed assets, which in 2011 were invested in the share capital of JSC Latvijas elektriskie tīkli as a property investment, the external valuer performed a revaluation to assess how the components of replacement or renewal costs of these fixed assets have changed, since they were invested in fixed capital, adjusting the values of certain subgroups of fixed assets for changes in material costs, and the wage component was indexed on the basis of publicly available national statistics on wage growth over the period. For each item of property, plant and equipment, the external valuer estimated its functional and physical depreciation, which reduced the estimated replacement or replacement value. Management has assessed changes in the criteria used in the valuation since the revaluation and has estimated that these changes do not have a material effect on the value of the revalued groups of property, plant and equipment.

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## Fixed assets of the natural gas transmission and storage segment

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The Group's buildings, structures, including gas pipeline infrastructure, and technological equipment are stated at revalued amounts that approximate their fair values. The revaluation of fixed assets in the natural gas transmission and storage segment was performed in 2020 (see also Annexes 9.2 and 25). Due to the unique nature and use of the assets, Level 3 data was used for the revaluation, which means that the data are not freely observable for the respective type of assets. This was a revaluation (the previous one took place in 2016, when the assets were still owned by JSC Latvijas Gāze), and the level of data of the used assumptions was not changed. The revaluation was performed by an external expert using the amortised replacement cost method. Under this method, the initial value of assets is determined according to the current prices and requirements and the materials used. The main assumptions in the revaluation process relate to the cost of materials used and average construction prices at the time of the revaluation. To determine the values, data available from JSC Conexus Baltic Grid on the construction of similar objects in recent years are also used. An important part of the revaluation is the revaluation of underground gas pipelines. The total length of the natural gas transmission pipelines is 1,188 kilometres. If the average construction costs in the country increase or the cost of materials used increases significantly, the value of the assets will also increase. If, as a result, construction costs fall or material costs fall, the value of the assets will also fall. Along with the initial value, the accumulated depreciation of each asset was also determined, taking the physical, functional and technical depreciation of the asset

into account as the main factors. If revalued assets are used significantly differently or are functionally depreciated, the value of the revalued assets may decrease significantly. Management has assessed the price level of the pipelines and general construction as at 31 December 2020 and has not identified any material changes since the assessment. In

the absence of any other significant changes, the management concluded that the carrying amount of revalued property, plant and equipment does not differ materially from the amount that would have been determined using fair value at the end of the reporting year.

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## 2.5. LONG-TERM FINANCIAL INVESTMENTS

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

### Investments in associates

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

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

In the consolidated financial statements, investments in equity of an associate are accounted for in accordance with International Accounting Standards

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

### Other long-term financial investments

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

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

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## 2.6. LEASEHOLD

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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.

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### The Company as the lessee

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

|  | JSC Augstsprieguma tīkls |                   | Group             |                   |
|--|--------------------------|-------------------|-------------------|-------------------|
|  | 31.12.2020<br>EUR        | 31.12.2019<br>EUR | 31.12.2020<br>EUR | 31.12.2019<br>EUR |
| <b>Right-of-use assets</b>                               |                          |                   |                   |                   |
| Residual value at the beginning of the reporting period  | 35 920 323               | -                 | 36 453 057        |                   |
| Initial recognition value on 01.01.2019.                 | -                        | 214 885 303       | -                 | 214 885 303       |
| Initial adding value on 10.2020                          | 14 398 775               | -                 | 14 398 775        |                   |
| Recognised changes in lease contracts                    | -                        | (143 133 079)     | 57 397            | (143 133 079)     |
| Changes in lease agreements recognised on 01.2020        | 896 288                  | -                 | 896 288           |                   |
| Recognised changes in lease agreements on 09.2020        | (9 204 153)              | -                 | (9 204 153)       |                   |
| Depreciation on 09.2020                                  | (27 612 458)             | -                 | (27 612 458)      |                   |
| Depreciation   | (186 482)                | (35 831 901)      | (273 029)         | (35 831 901)      |
| <b>Residual value at the end of the reporting period</b> | <b>14 212 293</b>        | <b>35 920 323</b> | <b>14 715 877</b> | <b>35 920 323</b> |
| <b>Lease liabilities</b>                                 |                          |                   |                   |                   |
| Residual value at the beginning of the reporting period  | 37 475 766               | -                 | 38 019 221        |                   |
| Initial recognition value on 01.01.2019.                 | -                        | 219 001 266       | -                 | 219 001 266       |
| Initial adding value on 10.2020                          | 14 580 829               | -                 | 14 580 829        |                   |
| Recognised changes in lease contracts                    | -                        | (145 629 214)     | 57 397            | (145 629 214)     |
| Changes in lease agreements recognised on 01.2020        | (659 155)                | -                 | (659 155)         |                   |
| Recognised changes in lease agreements on 09.2020        | (9 217 564)              | -                 | (9 217 564)       |                   |
| Decrease in lease liabilities on 09.2020                 | (27 687 830)             | (37 578 581)      | (27 687 830)      | (37 578 581)      |
| Decrease in lease liabilities                            | (219 033)                | -                 | (330 751)         |                   |
| Asset lease interest expenses on 09.2020                 | 88 783                   | -                 | 88 783            |                   |
| Asset lease interest expense                             | 57 199                   | 1 682 295         | 82 135            | 1 682 295         |
| <b>Residual value at the end of the reporting period</b> | <b>14 418 995</b>        | <b>37 475 766</b> | <b>14 933 065</b> | <b>37 475 766</b> |
| <b>31 December 2020</b>                                  |                          |                   |                   |                   |
| <b>including:</b>  |                          |                   |                   |                   |
| Long term  | 13 761 561               | -                 | 14 215 413        |                   |
| Short term   | 657 434                  | 37 475 766        | 717 652           | 37 475 766        |

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## 2.7. STOCK

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

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

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

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

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## 2.8. DEFERRED REVENUE

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

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

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

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## 2.9. PENSIONS, POST-EMPLOYMENT BENEFITS

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### (a) Pension liabilities

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

### (b) Post-employment benefit liabilities

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

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

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

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

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

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

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

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

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## 2.10. CORPORATE INCOME TAX

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

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

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

### Deferred income tax

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

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

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

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

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## 2.11. PROVISIONS

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

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

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

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

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

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## 2.12. REVENUE RECOGNITION

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

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

undertaken to comply with their respective obligations;

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

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



- d) the agreement is of a commercial nature (i.e. it is expected that the contract will result in a change in the Company's future cash flow risk, schedule or amount); as well as
- e) there is a possibility that the Company will charge an indemnity in exchange for goods or services transferred to the customer. When assessing whether it is possible to collect the indemnity amount, the Company only takes the ability and intention of the client to repay the indemnity in a timely manner into consideration.

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

- a) the customer simultaneously receives and consumes the benefits that are assured by the Company's activities in the course of the Company's business;
- a) with operation of the Company the asset is created or improved (for example, repairs) and the customer controls the asset at the time the asset is created or improved;
- b) the Company's operation does not constitute an asset that the Company could use as an alternative and the Company has enforceable rights to payment for timely completion.

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

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

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

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

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

Based on the fact that revenues from transmission system services are based on tariffs approved by the Public Utilities Commission, according to IFRS 15. The

Company is entitled to receive reimbursement from the customer for an amount that directly reflects the value the customer receives from the Company's timely completion of Company's activities; for practical purposes, the Company may recognise revenue in the amount the Company is entitled to collect.

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

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

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

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

- a) ensuring the actual availability of the allocated capacity and/or
- b) maintaining or improving interconnection capacity through network investments, in particular in new interconnectors;
- c) if the revenues cannot be used effectively for the above purposes, they may – subject to approval by the regulatory authorities of the relevant member states – up to a maximum value to be determined by the mentioned regulatory authorities, be used as revenues to be taken into account by the national regulatory authorities when approving the methodology for calculating network tariffs/or setting network tariffs.

Considering the provisions of the Regulation, revenues received from congestion management, which are not used to eliminate overload and congestion in the transmission network, are reflected in the balance sheet as deferred income.

Once this income has been used to finance a specific long-term investment project, deferred income is amortised through the progressive recognition of that income in the profit or loss statement for the current financial year in accordance with the amortisation/depreciation period of the long-term investment created.

Based on the fact that the customer simultaneously receives and consumes the benefits provided by

the Company's operations in the course of the Company's operations, the Company transfers control over the service over time and thus fulfils the performance obligation and recognises revenue over time.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

towards the full implementation of their obligations.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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## **2.13. RECOGNITION OF COSTS**

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

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

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

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

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

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

the reporting period.

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

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## 2.15. BORROWINGS AND LOANS

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

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

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

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

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

### **Loans**

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

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## 2.16. RELATED PARTIES

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

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

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## 2.17. SEGMENT INFORMATION

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

components of the Group),

is a component of the Group, the results of which are regularly reviewed by the Company's chief operating decision-maker to make decisions about the resources allocated to the segment, evaluate

its performance and for which separate financial information is available. The Group considers that it operates in three segments (Electricity Supply,

Natural Gas Storage and Transmission), the Group operates geographically only in the territory of Latvia.

## 2.18. USE OF SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

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

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

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

- **Post-employment benefit liabilities**

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

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

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

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

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

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

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

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

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

The Company tests property, plant and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

According to the valuation, if necessary, the value of assets is written down to their recoverable amount.

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

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

Impairment losses are recognised in the respective reporting period.

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

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

#### ○ **Deferred income tax**

Deferred tax liabilities are recognised in the consolidated financial statements for the retained earnings of subsidiaries, from which tax will

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

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

#### ○ **Investment into subsidiary**

An investment in a subsidiary is initially recognised in accordance with IFRS 3 Business Combinations. At the time of investment, the fair value of identifiable assets and liabilities is assessed (for details, see Annex 25). Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at their fair values at the acquisition date, irrespective of the extent of any minority interest. Goodwill/gain on a bargain is measured as the excess of the total of acquisition value and value of the non-controlling interest part and the amount of the identified acquired assets and assumed liabilities.

#### ○ **Lease Calculation and Asset Use Rights**

The Group's management applies certain assumptions when calculating the right to use the balance sheet of assets and leasing liabilities. Management believes that such assumptions are reasonably appropriate until 31 December 2020. The accounting policies relevant to IFRS 16 "Leases" are described in Note 2.6.

### 3. REVENUE

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

\* The Group's turnover in 2020 is affected by the exclusion of services mutually provided between JSC Augstsprieguma tīkls and JSC Latvijas elektriskie tīkli. Pursuant to decision of the PUC Council of 30 January 2013 No. 18 "On the Certification of the Electricity Transmission System Operator", from 1 January 2015, AST took over the business lines of maintenance and development of transmission system assets from JSC Latvijas elektriskie tīkli and ensures the new construction, reconstruction and renewal of transmission system assets (see Appendix 7). According to Section 21<sup>2</sup> of the Electricity Market Law, the transmission system asset owner JSC "Latvijas elektriskie tīkli" finances capital investments in the transmission system assets, which are decided by JSC "Augstsprieguma tīkls". Pursuant to the minutes of the sitting of the Cabinet of Ministers of the Republic of Latvia of 8 October 2019 (No. 46, § 38) and the protocol decision of the sitting of 17 December 2019 (No. 59, § 75), in accordance with the decision of the Register of Enterprises of the Republic of Latvia of 25 November 2020, JSC Latvijas elektriskie tīkli was excluded from the Register of Enterprises and JSC Augstsprieguma tīkls was added.

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

#### SEGMENT INFORMATION

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

## 4. OTHER INCOME FROM BUSINESS ACTIVITIES

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

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

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



## 6. STAFF COSTS

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

## 7. OTHER COSTS OF BUSINESS ACTIVITY

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

## 8. NET FINANCIAL INCOME/(COSTS)

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

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

### 9.1. INTANGIBLE ASSETS

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

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

|  | Group             |                           |  |                                   | TOTAL             |
|--|-------------------|---------------------------|--|-----------------------------------|-------------------|
|  | Computer software | Transmission usage rights | Costs of creating intangible investments | Advance payment for rights of use |                   |
| <b>31 December, 2019</b>                                       |                   |                           |  |                                   |                   |
| Initial value  | 1 163 497         | 11 493 000                | 382 708                                  | 38 028 090                        | 51 067 295        |
| Accumulated depreciation and impairment                        | (640 782)         | (13 095)                  | -  | -                                 | (653 877)         |
| <b>Residual value as at 31 December 2019</b>                   | <b>522 715</b>    | <b>11 479 905</b>         | <b>382 708</b>                           | <b>38 028 090</b>                 | <b>50 413 419</b> |
| <b>2020</b>  |                   |                           |  |                                   |                   |
| Balances of JSC Conexus Baltic Grid on 31 July 2020            | 1 320 926         | -                         | 206 999                                  | -                                 | 1 527 925         |
| Purchased  | 298 526           | -                         | 1 042 403                                | -                                 | 1 340 929         |
| Balances of JSC Latvijas elektriskie tīkli                     | -                 | 1 080                     | -  | -                                 | 1 080             |
| Regrouped  | 1 372 573         | -                         | (1 426 240)                              | -                                 | (53 667)          |
| Excluded   | (281)             | (11 048 917)              | -  | (38 028 090)                      | (49 077 288)      |
| Depreciation   | (413 505)         | (431 011)                 | -  | -                                 | (844 516)         |
| <b>Residual value as at 31 December 2020</b>                   | <b>3 100 954</b>  | <b>1 057</b>              | <b>205 870</b>                           | <b>-</b>                          | <b>3 307 881</b>  |
| <b>31 December 2020</b>  |                   |                           |  |                                   |                   |
| Initial value  | 2 108 318         | 1 892                     | 199 500                                  | -                                 | 2 309 710         |
| As a result of the control, JSC Conexus Baltic Grid 31.12.2020 | 7 698 983         | -                         | 6 370                                    | -                                 | 7 705 353         |
| Accumulated depreciation and impairment                        | (873 665)         | (835)                     | -  | -                                 | (874 500)         |
| As a result of the control, JSC Conexus Baltic Grid 31.12.2020 | (5 832 682)       | -                         | -  | -                                 | (5 832 682)       |
| <b>Residual value as at 31 December 2020</b>                   | <b>3 100 954</b>  | <b>1 057</b>              | <b>205 870</b>                           | <b>-</b>                          | <b>3 307 881</b>  |

## 9.2. FIXED ASSETS

|   | JSC Augstsprieguma tīkls             |                                   |                    |   | TOTAL              |
|---|--------------------------------------|-----------------------------------|--------------------|---|--------------------|
|   | Buildings and engineering structures | Power lines/ Production equipment | Other fixed assets | Costs of the establishment of fixed assets and costs of objects under construction. |                    |
| <b>31 December 2018</b>                               |                                      |                                   |                    |   |                    |
| Initial value   | -                                    | 6 815                             | 8 424 110          | -   | 8 430 925          |
| Accumulated depreciation and impairment               | -                                    | (6 140)                           | (4 105 851)        | -   | (4 111 991)        |
| <b>Residual value</b>                                 | <b>-</b>                             | <b>675</b>                        | <b>4 318 259</b>   | <b>-</b>  | <b>4 318 934</b>   |
| <b>2019</b>   |                                      |                                   |                    |   |                    |
| Purchased   | -                                    | -                                 | 1 599 329          | 1 000 165   | 2 599 494          |
| Written off   | -                                    | -                                 | (532)              | -   | (532)              |
| Depreciation  | -                                    | (675)                             | (1 426 019)        | -   | (1 426 694)        |
| <b>Residual value 31 December, 2019</b>               | <b>-</b>                             | <b>-</b>                          | <b>4 491 037</b>   | <b>1 000 165</b>  | <b>5 491 202</b>   |
| <b>31 December, 2019</b>                              |                                      |                                   |                    |   |                    |
| Initial value   | -                                    | 6 815                             | 9 933 969          | 1 000 165   | 10 940 949         |
| Accumulated depreciation and impairment               | -                                    | (6 815)                           | (5 442 932)        | -   | (5 449 747)        |
| <b>Residual value</b>                                 | <b>-</b>                             | <b>-</b>                          | <b>4 491 037</b>   | <b>1 000 165</b>  | <b>5 491 202</b>   |
| <b>2020</b>   |                                      |                                   |                    |   |                    |
| Balances of JSC Latvijas elektriskie tīkli 30.09.2020 | 39 058 031                           | 495 601 436                       | 1 723 011          | 106 605 514   | 642 987 992        |
| Purchased   | 35 100                               | -                                 | 1 635 979          | 13 343 718  | 15 014 797         |
| Regrouped   | 1 467 941                            | 27 540 385                        | 538 839            | (29 547 165)  | -                  |
| Sold  | -                                    | -                                 | -                  | (283 386)   | (283 386)          |
| Written off   | (60)                                 | (34 175)                          | (1 973)            | -   | (36 208)           |
| Depreciation  | (555 509)                            | (6 280 342)                       | (1 869 224)        | -   | (8 705 075)        |
| Adjustment  | -                                    | -                                 | -                  | (109 544)   | (109 544)          |
| <b>Residual value 31 December 2020</b>                | <b>40 005 503</b>                    | <b>516 827 304</b>                | <b>6 517 669</b>   | <b>91 009 302</b>   | <b>654 359 778</b> |
| <b>31 December 2020</b>                               |                                      |                                   |                    |   |                    |
| Initial/revalued value                                | 47 694 860                           | 1 065 211 783                     | 21 072 775         | 91 009 302  | 1 224 988 720      |
| Accumulated depreciation and impairment               | (7 689 357)                          | (548 384 479)                     | (14 555 106)       | -   | (570 628 942)      |
| <b>Residual value 31 December 2020</b>                | <b>40 005 503</b>                    | <b>516 827 304</b>                | <b>6 517 669</b>   | <b>91 009 302</b>   | <b>654 359 778</b> |

|  | Group                                       |                                      |                    |                       |   |                      |
|--|---|--------------------------------------|--------------------|-----------------------|---|----------------------|
|  | Land, buildings and civil engineering works | Power lines/ Technological equipment | Other fixed assets | Emergency spare parts | Costs of the establishment of fixed assets and costs of objects under construction. | TOTAL                |
| <b>31 December, 2019</b>                                     |   |                                      |                    |                       |   |                      |
| Initial value  | -   | 6 815                                | 9 933 969          | -                     | 1 000 165   | 10 940 949           |
| Accumulated depreciation and impairment                      | -   | (6 815)                              | (5 442 932)        | -                     | -   | (5 449 747)          |
| <b>Residual value 31 December, 2019</b>                      | <b>-</b>                                    | <b>-</b>                             | <b>4 491 037</b>   | <b>-</b>              | <b>1 000 165</b>  | <b>5 491 202</b>     |
| <b>2020</b>  |   |                                      |                    |                       |   |                      |
| Balances of JSC Conexus Baltic Grid on 31.07.2020            | 318 876 576                                 | 73 193 452                           | 2 118 839          | 1 404 726             | 10 683 906  | 406 277 499          |
| Balances of JSC Latvijas elektriskie tīkli on 31.05.2020     | 41 393 506                                  | 504 246 362                          | 197 790            | -                     | 80 976 728  | 626 814 386          |
| Purchased  | 35 100                                      | 226 151                              | 3 802 191          | -                     | 52 264 119  | 56 327 561           |
| Regrouped  | 8 692 116                                   | 20 635 288                           | 538 839            | -                     | (40 771 326)  | (10 905 083)         |
| Sold   | -   | -                                    | -                  | -                     | (283 386)   | (283 386)            |
| Written off  | (2 157 085)                                 | (827 820)                            | (133 178)          | -                     | -   | (3 118 083)          |
| Depreciation   | (3 481 458)                                 | (7 505 451)                          | (1 991 711)        | -                     | -   | (12 978 620)         |
| Adjustment   | -   | -                                    | -                  | 158 462               | (109 544)   | 48 918               |
| <b>Residual value 31 December 2020</b>                       | <b>363 358 755</b>                          | <b>589 967 982</b>                   | <b>9 023 807</b>   | <b>1 563 188</b>      | <b>103 760 662</b>  | <b>1 067 674 394</b> |
| <b>31 December 2020</b>                                      |   |                                      |                    |                       |   |                      |
| Initial/revalued value                                       | 47 694 860                                  | 1 065 211 783                        | 21 072 775         | -                     | 91 009 302  | 1 224 988 720        |
| As a result of control JSC Conexus Baltic Grid on 31.12.2020 | 761 944 987                                 | 130 919 337                          | 7 367 348          | 1 404 727             | 4 657 656   | 906 294 055          |
| Accumulated depreciation and impairment                      | (7 689 357)                                 | (548 384 479)                        | (14 555 106)       | -                     | -   | (570 628 942)        |
| As a result of control JSC Conexus Baltic Grid on 31.12.2020 | (438 591 735)                               | (57 778 659)                         | (4 861 210)        | 158 461               | 8 093 704   | (492 979 439)        |
| <b>Residual value 31 December 2020</b>                       | <b>363 358 755</b>                          | <b>589 967 982</b>                   | <b>9 023 807</b>   | <b>1 563 188</b>      | <b>103 760 662</b>  | <b>1 067 674 394</b> |

## REVALUATION OF FIXED ASSETS

Revaluations of property, plant and equipment are performed with sufficient regularity to ensure that the carrying amount of property, plant and equipment subject to revaluation does not differ materially from that which would be determined using fair value at the end of the reporting period. Augstsprieguma tīkls Group's accounting policy stipulates that the revaluation of fixed assets is performed regularly, but not less than once every five years.

### (a) Electricity transmission segment

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

- electricity transmission networks,
- transformer substation electrical equipment.

The revaluation of the above groups of fixed assets was performed in 2016.

The revaluation was performed by an independent external certified valuer, estimating the cost of replacing or renewing each item of property, plant

and equipment based on the actual cost of creating or acquiring analogue or similar property, plant and equipment shortly before the revaluation. For each item of property, plant and equipment, the external valuer estimated its functional and physical depreciation, which reduced the estimated replacement or replacement value.

Management has assessed changes in the criteria used in the valuation since the revaluation and has estimated that these changes do not have a material effect on the value of the revalued groups of property, plant and equipment.

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

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

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

### b) Natural gas transmission and storage segment

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

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

## 10. OTHER LONG-TERM FINANCIAL INVESTMENTS

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

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

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

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

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

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

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

## 11. INVENTORIES

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



## 12. NET TRADE RECEIVABLES

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

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

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

## 13. OTHER DEBTORS

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

## IFRS 14 ACCRUED INCOME

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

## 15. CASH AND CASH EQUIVALENTS

|                         | JSC Augstsprieguma tīkls |                   | Group             |                   |
|-------------------------|--------------------------|-------------------|-------------------|-------------------|
|                         | 31.12.2020<br>EUR        | 31.12.2019<br>EUR | 31.12.2020<br>EUR | 31.12.2019<br>EUR |
| <b>CASH IN THE BANK</b> | <b>32 224 560</b>        | <b>28 216 327</b> | <b>47 388 296</b> | <b>28 216 327</b> |

## 16. EQUITY

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

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

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

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

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

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

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

## 17. DEFERRED REVENUE

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

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

## 18. ADVANCE PAYMENTS AND OTHER CREDITORS

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

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

## 19. ACCRUED LIABILITIES

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

## 20. LOANS

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

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

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

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

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

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

### LOANS FROM CREDIT INSTITUTIONS AND RELATED PARTIES:

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

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

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

**21. TAXES AND MANDATORY STATE SOCIAL INSURANCE  
CONTRIBUTIONS**

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

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## 22. FAIR VALUE CONSIDERATIONS

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

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

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

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

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

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

1. Classify each level of data to determine the fair value hierarchy;
2. Classify the financial instrument itself on the basis of the lowest level, if a significant part of their value is formed of lower-level data.

### **Quoted market prices – Level 1**

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

### **Valuation techniques, when using market data – Level 2**

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

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

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

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

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



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

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

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## 23 FINANCIAL RISK MANAGEMENT

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

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

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

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

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### Liquidity risk

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

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

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

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

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

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

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

|                               |                  |          |          |          |                  |
|-------------------------------|------------------|----------|----------|----------|------------------|
| <b>31.12.2019</b>             |                  |          |          |          |                  |
| Borrowings from banks         | -                | -        | -        | -        | -                |
| Borrowing from JSC Latvenergo | -                | -        | -        | -        | -                |
| Debts to buyers and suppliers | 6 099 120        | -        | -        | -        | 6 099 120        |
| <b>Total</b>                  | <b>6 099 120</b> | <b>-</b> | <b>-</b> | <b>-</b> | <b>6 099 120</b> |

|                               | Group              |                   |                   |            |                    |
|-------------------------------|--------------------|-------------------|-------------------|------------|--------------------|
|                               | 2021               | 2022              | 2023              | 2024 – ... | Total              |
| <b>31.12.2020</b>             |                    |                   |                   |            |                    |
| Borrowings from banks         | 139 029 716        | -                 | -                 | -          | 139 029 716        |
| Borrowing from JSC Latvenergo | -                  | 44 181 639        | 43 478 631        | -          | 87 660 270         |
| Debts to buyers and suppliers | 12 544 628         | -                 | -                 | -          | 12 544 628         |
| <b>Total</b>                  | <b>151 574 344</b> | <b>44 181 639</b> | <b>43 478 631</b> | <b>-</b>   | <b>239 234 614</b> |

|                               | 2020             | 2021     | 2022     | 2023 – ... | Total            |
|-------------------------------|------------------|----------|----------|------------|------------------|
| <b>31.12.2019</b>             |                  |          |          |            |                  |
| Borrowings from banks         | -                | -        | -        | -          | -                |
| Borrowing from JSC Latvenergo | -                | -        | -        | -          | -                |
| Debts to buyers and suppliers | 6 099 120        | -        | -        | -          | 6 099 120        |
| <b>Total</b>                  | <b>6 099 120</b> | <b>-</b> | <b>-</b> | <b>-</b>   | <b>6 099 120</b> |

### Interest rate risk

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

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

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

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

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

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

## Credit risk

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

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

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

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

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

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

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

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

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

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

Credit risk related to receivables is managed in accordance with the risk management measures specified in the Financial Risk Management Regulations, on a monthly basis, but not less than once a quarter, by performing an analysis of receivables. As at 31 December 2020, the payment of invoices in the total amount of EUR 636,439 was delayed, which is 0.4% of the Company's net turnover.

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

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

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

## Business Risk Management

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

## Currency risk

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

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

## 24. TRANSACTIONS WITH RELATED PARTIES

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

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

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

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

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

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

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

### JSC Conexus Baltic Grid

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

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

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

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

|   | EUR                 |
|---|---------------------|
| <b>Total remuneration</b>   | <b>77 000 000</b>   |
| 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         |
| <b>Gain from a bargain purchase</b>   | <b>109 119 016</b>  |
| Fair value of investment in associate (previous investment)                       | 77 584 786          |
| Book value of investment before acquisition of control                            | 136 377 785         |
| <b>Loss as a result of gaining control</b>  | <b>(58 792 999)</b> |
| <b>Net income from the transaction recognised in the profit or loss statement</b> | <b>50 326 017</b>   |

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

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

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

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

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

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

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

- has recognised losses of EUR 58,793 thousand.

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

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

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

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

## JSC Latvijas elektriskie tīkli

Pursuant to the protocol decision of the sitting of the Cabinet of Ministers of the Republic of Latvia of 8 October 2019 (No. 46, § 38) and the protocol decision of the sitting of 17 December 2019 (No. 59, § 75), on 10 June 2020, the current JSC Latvenergo subsidiary, transmission system asset owner JSC Latvijas elektriskie tīkli was separated from the Latvenergo Group and was invested in JSC Augstsprieguma tīkls on 15 June 2020. According to the Register of Shareholders, as of 16 June 2020, the sole shareholder of LET is JSC Augstsprieguma tīkls (see also the section "Reform of the ownership rights of transmission system assets").

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

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

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



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

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

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

## 26. REMUNERATION TO CERTIFIED AUDITORS COMMERCIAL COMPANY

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

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

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

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

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

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

reduce economic development in the country and in the world. It is not possible to foresee the situation's development in the future, and thus there is uncertainty about economic development. The Group's management continuously evaluates the situation; at the time of approval of the annual report the Group has not experienced any significant disruptions in business operations, no significant or potentially significant debt losses have been identified, the Group continues to cover liabilities in a timely manner. However, this conclusion is based on the information available at the time of preparation; due to changing circumstances, the impact on the Group's operations may differ from the current assessment.

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

## Independent Auditor's Report

### To the shareholder of AS "Augstsprieguma tīkls"

#### *Our Opinion on the Separate and Consolidated Financial Statements*

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

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

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

#### *Basis for Opinion*

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

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

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

#### *Reporting on Other Information*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Deloitte Audits Latvia SIA  
License No. 43



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

Riga, Latvia  
20 May 2021



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**AUGSTSPRIEGUMA TĪKLS AS  
SEPARATE REPORT OF 2019**

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**80 AST**



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## AUGSTSPRIEGUMA TĪKLS AS SEPARATE REPORT OF 2019

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

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# CONTENTS

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|   |           |
|---|-----------|
| Information about the Company                       | 2         |
| Main operational indicators                         | 3. - 4.   |
| Management report                                   | 5. – 24.  |
| Statement of Board's responsibility                 | 25.- 26.  |
| Separate Financial Statements:                      | 27.       |
| Profit or Loss Statement for 2019                   | 28.       |
| Statement of comprehensive income for 2019          | 29.       |
| Statement of Financial Position on 31 December 2019 | 30. – 31. |
| Report of changes in equity in 2019                 | 32        |
| Cash flow report for 2019                           | 33. – 34. |
| Notes to the financial statements                   | 35. – 66. |
| Independent auditor's report                        | 67. - 70. |

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# INFORMATION ABOUT THE COMPANY

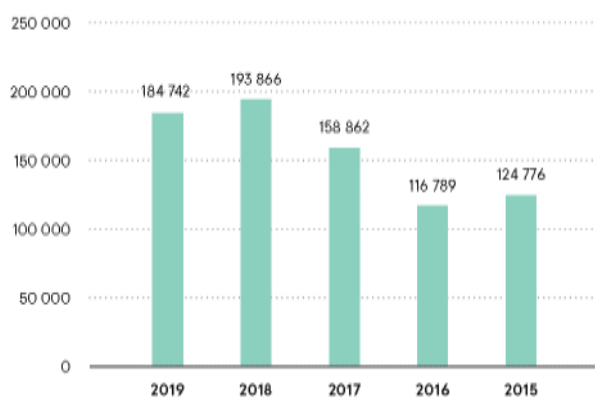
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|  |   |
|--|---|
| <b>Name of the Company</b>   | JSC Augstsprieguma tīkls  |
| <b>Legal status of the company</b>   | Joint Stock Company   |
| <b>Registration number, place and date</b>                                   | 000357556<br>Riga, 28 December 2001<br><br>Re-registration in the Commercial Register is performed<br>On 13 November 2004<br>under unified registration number 40003575567  |
| <b>Principal activity</b>  | Electricity supply, NACE code 35.12   |
| <b>Address</b>   | Dārzciema iela 86<br>Riga, LV-1073, Latvia  |
| <b>Shareholder</b>   | From 2 January 2012:<br>Ministry of Finance in the name of the Republic of Latvia (100%)<br>Smilšu iela 1, Riga, LV-1050, Latvia  |
| <b>Names, surnames and positions held of the board members</b>               | Varis Broks - Chairman of the Management Board<br>Arnīs Staltmanis - Member of the Management Board<br>Imants Zviedris - Member of the Management Board<br>Gatis Junghāns - Member of the Management Board<br>Mārcis Kauliņš - Member of the Management Board   |
| <b>Names, surnames and positions held of Supervisory Board members</b>       | Kaspars Āboliņš – Chairman of the Supervisory Board from 19.09.2019.<br>Vilnis Krēsliņš - Chairman of the Supervisory Board until 22.03.2019.<br>Olga Bogdanova – Deputy Chairman of the Supervisory Board from 19.09.2019.<br>Jurijs Spiridonovs – Deputy Chairman of the Supervisory Board until 09.09.2019.<br>Olga Bogdanova - Member of the Supervisory Board until 18.09.2019.<br>Armands Eberhards – Member of the Supervisory Board from 02.01.2020.<br>Madara Melne – Member of the Supervisory Board from 02.01.2020.<br>Aigars Ģērmanis – Member of the Supervisory Board from 06.01.2020. |
| <b>Reporting year</b>  | 1 January 2019 – 31 December 2019   |
| <b>Previous accounting year</b>  | 1 January 2018 – 31 December 2018   |
| <b>Name and address of the auditor and the responsible certified auditor</b> | “Deloitte Audits Latvia” LTD<br>Commercial Company of Certified Auditors Licence No. 43<br>Unified registration number: 40003606960<br>Grēdu iela 4a, Riga, LV-1019, Latvia<br><br>Responsible certified auditor: Inguna Staša<br>Certificate No. 145   |

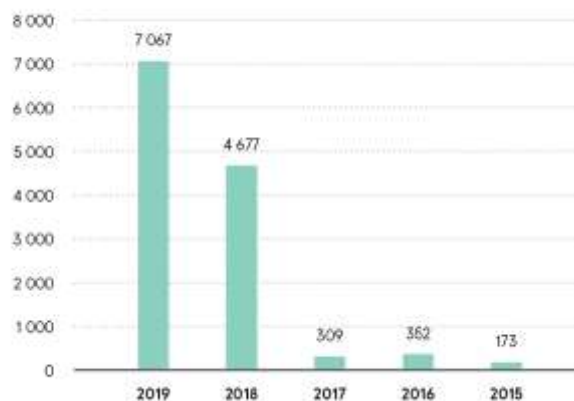


# MAIN OPERATIONAL INDICATORS

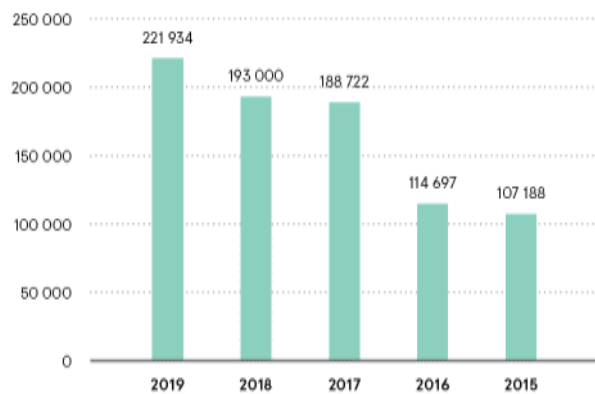
## NET TURNOVER, THOUS. EUR



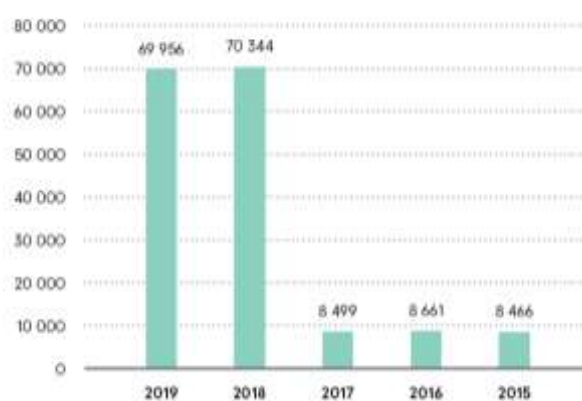
## PROFIT, THOUS. EUR



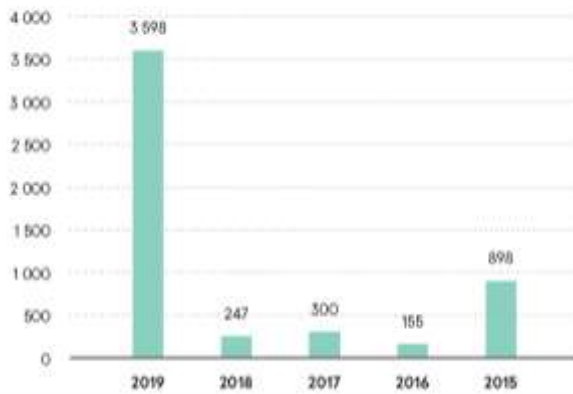
## ASSETS, THOUS. EUR



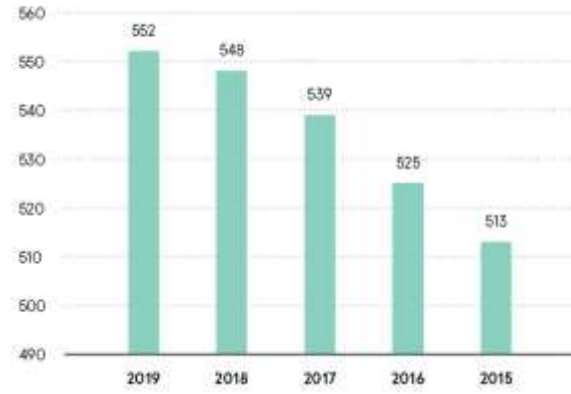
## EQUITY, THOUS. EUR



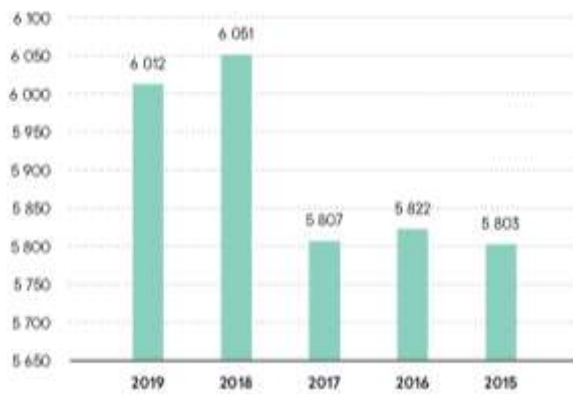
## DIVIDENDS PAID FROM THE PROFIT OF THE PREVIOUS PERIOD, THOUS. EUR



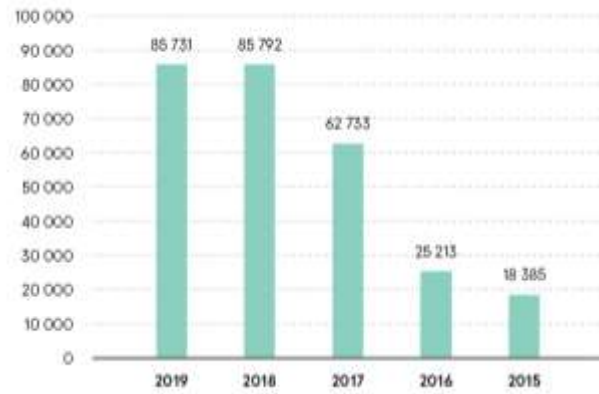
## NUMBER OF EMPLOYEES



## ELECTRICITY TRANSMITTED TO USERS, GWh



## CAPITAL INVESTMENTS IN THE TRANSMISSION SYSTEM, THOUS. EUR



## KEY EVENTS IN 2019:

- The “Kurzeme Ring” project was completed; the 330 kV electricity transmission line “Ventspils – Tume – Imanta” was commissioned as a part of the project.
- On 22 May 2019, the agreement on the conditions of the future interconnection of the power systems of the Baltic States and power systems of continental Europe was signed.
- Received co-funding of the European Union in the amount of 75% of the eligible costs for the project “Synchronisation of the Baltic Power Systems with the Trans-European Network, Phase 1”.
- Protocol decisions of the Cabinet sittings of 8 October 2019 and 17 December 2019 supported the implementation of the full ownership separation model regarding the electric power transmission system operator by incorporating JSC “Latvijas elektriskie tīkli” into JSC “Augstsprieguma tīkls” by 31 December 2020.



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# MANAGEMENT REPORT

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# TYPE AND CHARACTERISTIC OF ACTIVITY

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Joint-stock company "Augstsprieguma tīkls" (hereinafter – the Company) is the sole independent Transmission System Operator of the Republic of Latvia (hereinafter – TSO).

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THE **OVERALL STRATEGIC GOAL** OF THE COMPANY IS TO ENSURE THE SECURITY OF ENERGY SUPPLY OF LATVIA AND TO PROVIDE A CONTINUOUS, HIGH-QUALITY, AND AFFORDABLE ENERGY TRANSMISSION SERVICE; THE COMPANY'S GOAL IS ALSO TO IMPLEMENT SUSTAINABLE MANAGEMENT OF ENERGY SUPPLY ASSETS OF STRATEGIC IMPORTANCE TO THE COUNTRY AND TO FACILITATE THEIR INTEGRATION IN THE INTERNAL ENERGY MARKET OF THE EUROPEAN UNION.

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OUR MISSION IS TO ENSURE CONTINUOUS, SECURE, AND SUSTAINABLY EFFICIENT ELECTRICITY TRANSMISSION THROUGHOUT LATVIA.

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

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THE COMPANY'S ACTIVITY AS AN ELECTRICITY TRANSMISSION SYSTEM OPERATOR IS CHARACTERISED BY THREE DIRECTIONS:

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Provision of electricity transmission system services



Maintaining and developing the electricity market



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

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# QUALITY MANAGEMENT SYSTEM AND VALUES

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

The implemented Integrated Management System ensures efficient operation of the Company, observing internationally accepted

Operating mechanisms regarding quality, energy management, environmental protection, and occupational and occupational health management, ensuring correct compliance with regulatory requirements, and promoting awareness of the Company's business context, taking into account the view of the Company's risks and processes.

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A QUALITY POLICY HAS BEEN DEVELOPED IN THE COMPANY THAT, BASED ON THE ENERGY LAW, THE ELECTRICITY MARKET LAW, AND THE NETWORK CODE, DEFINES THE COMPANY'S CORE VALUES:

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## TRUST

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### Honesty

Independent, ethical and transparent action towards anyone and everyone

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## GROWTH

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### Wisely

Effective. Looking forward. Long-term thinking

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## SAFETY

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### Responsibly

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

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## TEAM

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### Together

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

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# CORPORATE AND SOCIAL RESPONSIBILITY

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THE STRATEGIC DIRECTION OF THE COMPANY IS FOCUSED ON SUSTAINABLE DEVELOPMENT. THE COMPANY PARTICIPATES IN THE ANNUAL "SUSTAINABILITY INDEX" MANAGED BY THE CORPORATE RESPONSIBILITY AND SUSTAINABILITY INSTITUTE, AND IN 2019 THE COMPANY RECEIVED THE TOP PLATINUM AWARD (AS AN ASSESSMENT OF ITS WORK IN 2018). AT THE SAME TIME, THE COMPANY RECEIVED THE TITLE "FAMILY-FRIENDLY MERCHANT" FROM THE MINISTRY OF WELFARE.

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During the reporting year, corporate governance was further improved and Corporate governance guidelines were developed.

Since 2017, in addition to the Company's financial statements, a non-financial report Sustainability report is prepared according to the Global sustainability reporting guidelines, the Core Approach that has been issued by the Global Reporting Initiative (GRI).

Corporate and social responsibility policy has been developed and approved by the Company. Corporate and social responsibility (hereinafter - CSR) policy defines the forms, basic principles and directions of CSR, criteria for choosing activities.

The aim of the Company's Environmental Policy is to continuously improve the Company's environmental performance by eliminating or reducing its environmental impact through the rational use of natural resources and the implementation of the best available techniques in all areas of the Company's operations.

The Company carries out systematic risk assessment (environmental review is performed every three years; the next one is scheduled in 2020, for 2017–2019), and environmental programmes are established to prevent significant risks. A register of environmental events is maintained. Key environmental pollution indicators are periodically controlled in accordance with the environment monitoring plan. The overall environmental risk is low.

Increased attention is paid to energy efficiency issues. The Energy management policy of the Company is aimed at continuously improving 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 vehicle purchasing and utilisation strategy.

# DESCRIPTION OF THE BUSINESS ENVIRONMENT

## ELECTRICITY TRANSMISSION

Electricity transmission is carried out by a transmission system operator through the transmission system which contains interconnected networks and equipment, including international connectors, with a voltage of 110 kilovolts or more that are used for transmission to the relevant distribution system or users.

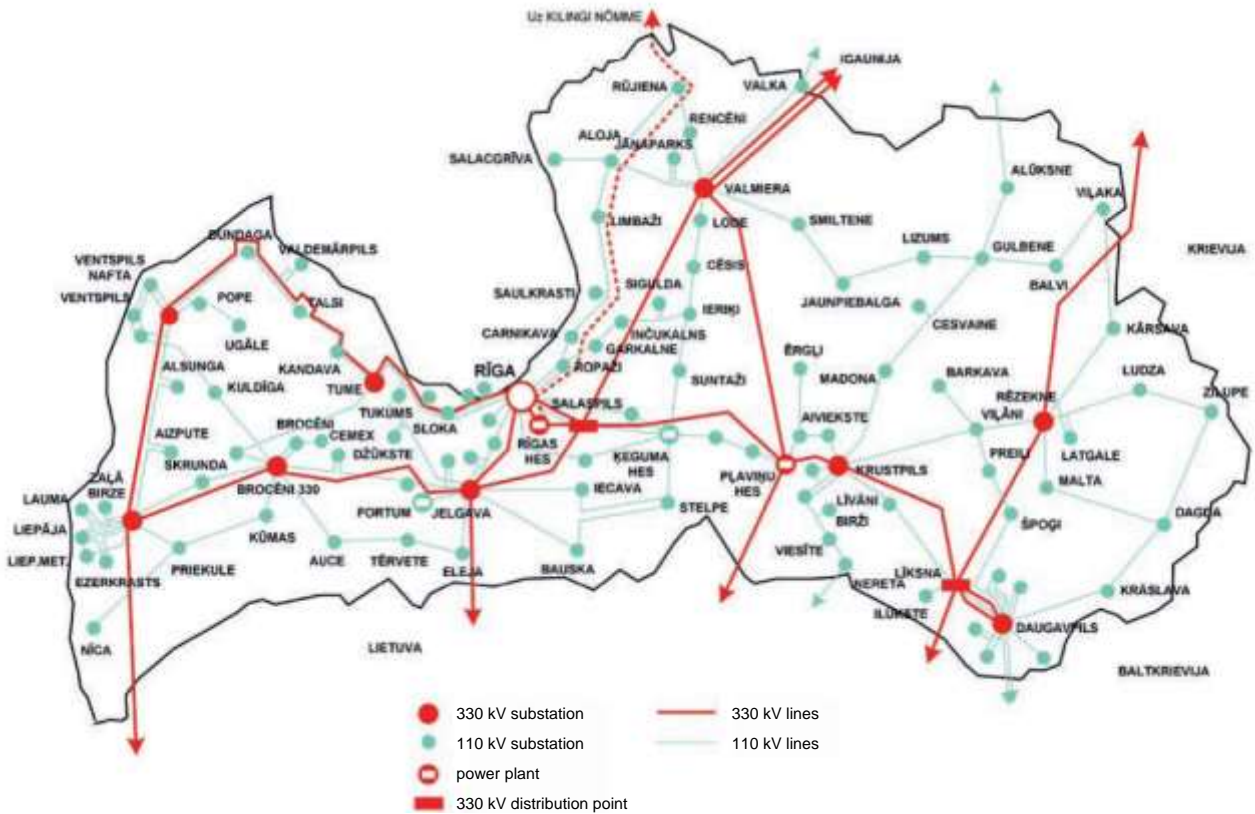
The activities of the electricity transmission system operator are regulated by the Public Utilities Commission (hereinafter - PUC) under the guidance of its Supervisory board.



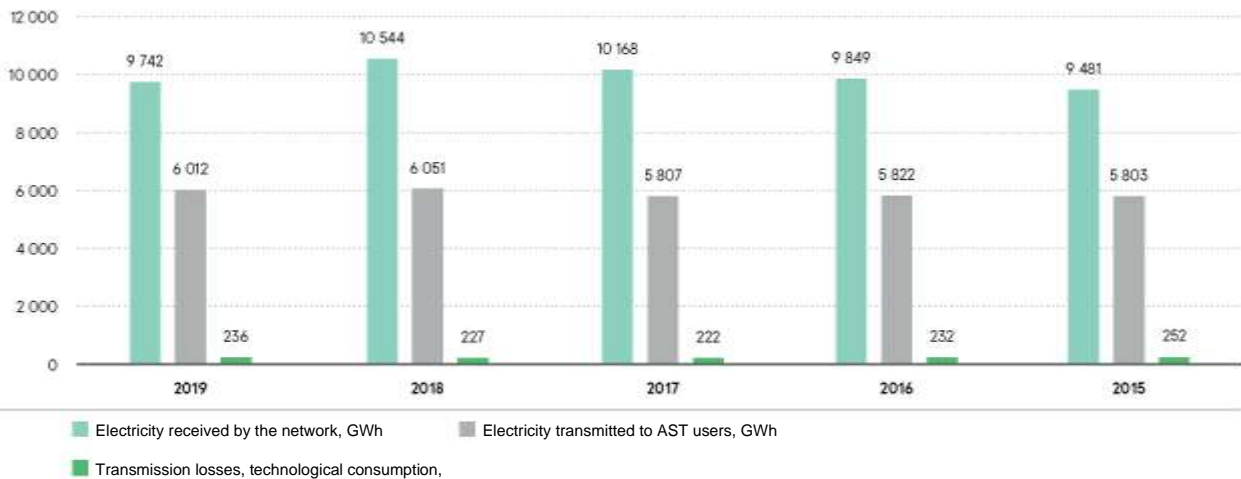
During the reporting period, the obligations imposed on the Transmission system operator were fulfilled through the following transmission network:

| Highest voltage (kV) | Number of substations (pcs.) | Number of autotransformers and transformers (pcs) | Installed power (MVA) | Overhead and cable ETL (km) |
|----------------------|------------------------------|---|-----------------------|-----------------------------|
| 330 kV               | 17                           | 27  | 4,075.0               | 1,552.99                    |
| 110 kV               | 123                          | 248   | 5,263.7               | 3,870.91.                   |
| <b>Total</b>         | <b>140</b>                   | <b>275</b>  | <b>9,338.7</b>        | <b>5,423.90</b>             |

# ELECTRICITY TRANSMISSION SYSTEM



2019 is marked by stabilisation of the amount of electricity transmitted to the users of JSC “Augstsprieguma tīkls”: after an increase of 4% in 2018 (in comparison to 2017), in 2019 there are no significant changes in the amount of electricity transmitted to the users of JSC “Augstsprieguma tīkls”.





Latvia's total electricity consumption in 2019 was 6,012 GWh, a decrease by 1.5% compared to 2018.

**IN 2019, 84.7% OF LATVIA'S TOTAL ELECTRICITY CONSUMPTION WAS COVERED BY DOMESTIC ELECTRICITY SOURCES, WHICH IS A DECREASE BY 3.06 PERCENTAGE POINTS COMPARED TO 2018.**

**SUPPLYING NATIONAL CONSUMPTION WITH LOCAL GENERATION IN 2019, %**



Source: AST



## MAINTAINING AND DEVELOPING THE ELECTRICITY MARKET

The legal basis for the operation of the electricity market in Latvia is the Electricity Market Law, which stipulates that the transmission system operator by performing its functions shall facilitate the functioning of the internal electricity market and cross-border trade, including supporting the development of the electricity stock exchange.

In addition, the development of the electricity market in Latvia is facilitated by the European Commission Regulation resulting from Regulation (EC) No. 714/2009 of the European Parliament and of the Council on conditions for access to the network for cross-border exchanges in electricity.

IN 2019, THE AVERAGE "NORD POOL" POWER EXCHANGE PRICE IN THE TRADING AREA OF LATVIA WAS EUR 46.28 PER MEGAWATT HOUR (EUR/MWh); IN COMPARISON TO 2018, THE PRICE DECREASED BY 7%.

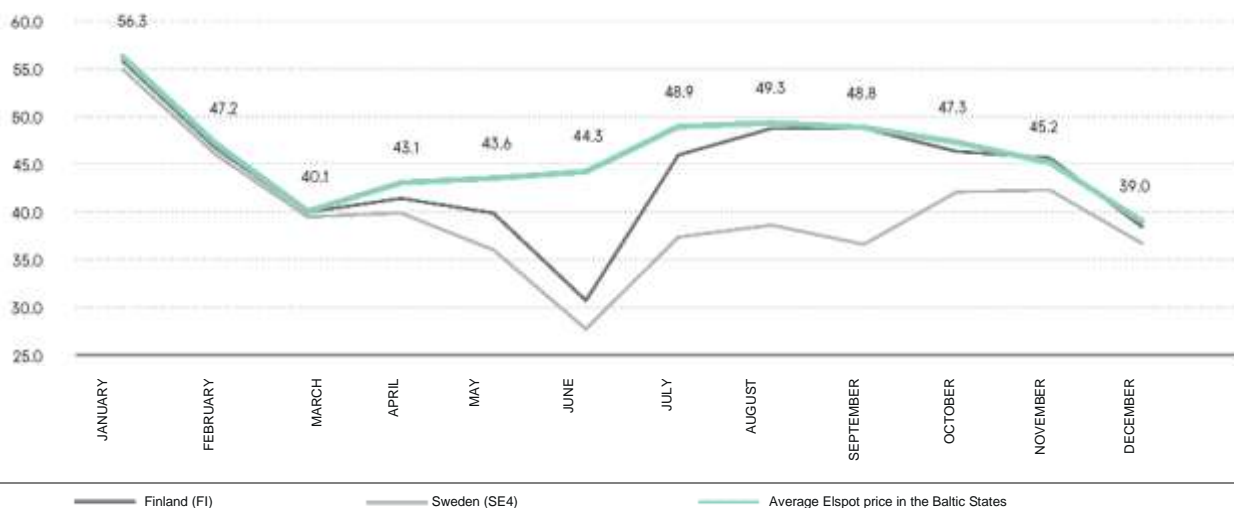
Comparing the monthly electricity hour price between Latvia and Estonia, it can be concluded that the prices were equal 94% of the annual number of hours, while in 2018 the prices were equal 74% of all the hours of the year.

Comparing the monthly electricity hour price between Latvia and Lithuania, it can be concluded that in 2019 the prices were equal 97% (98% in 2018) of all the hours of the year.

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

Not only does the integration into the single European electricity market provide access to cheaper Nordic electricity, it also contributes to higher price volatility caused by weather conditions in other European countries.

### AVERAGE ELSPOT ELECTRICITY PRICE IN THE BALTIC STATES AND ELSPOT ELECTRICITY PRICES OF THE NORDIC TRADING AREAS IN 2019, EUR/MWh



## MAIN ACTIVITIES DURING THE REPORTING YEAR

- Implementation of the requirements of the Regulations for the development and integration of the European Union internal market of electricity (Network Codes)

The Company, together with other TSOs of the European Union, actively participated in the implementation of four Regulations (Network Codes) aimed at the development and integration of the European Union internal electricity market:

- Commission Regulation (EU) No. 2015/1222 establishing a Guideline on Capacity Allocation and Congestion Management;
- Commission Regulation (EU) No. 2016/1719 establishing a guideline on forward capacity;
- Commission Regulation (EU) No. 2017/2195 establishing a guideline on electricity balancing;
- Commission Regulation (EU) No. 543/2013 on the submission and publication of data in electricity markets.

These Network codes, which are aimed at market development and integration, allow the operation of cross-border markets to be harmonised across all market activity periods, ensuring more efficient functioning of the electricity market and allowing all market participants to operate without restriction in the EU internal electricity market.

In 2019, the Company, working within the common Baltic Capacity Calculation Region (the Baltic CCR) together with Baltic, Nordic, and Polish transmission system operators prepared several network code methodologies that ensure harmonious operation of the Baltic CCR TSO.

The Latvian electricity market is directly integrated with the Baltic and Nordic countries, but the retail market is organised at a national level.

- Project for the development of a single European platform for day-to-day electricity trading - XBID

Continuing integration into the operation of the common European internal electricity market, the Company, according to the requirements of Commission Regulation (EU) 2015/1222 and on the basis of the joint cooperation of European Union Transmission System Operators and Nominal Electricity Market Operators (NEMO), was involved in the development and implementation of the common European Platform of Cross-Border Intraday (XBID).

The XBID platform provides internal electricity market participants in Latvia and also throughout all of Europe to trade across Europe.

Over the course of 2019, 7 more European Union countries joined the XBID platform; as a result, more market opportunities arose for Latvian and Baltic market participants as well.

In 2019, Baltic transmission system operators in cooperation with nominated electricity market operators operating or planning to start their operations in the Baltic States launched a joint project, which should ensure the creation of a common system for more than one nominated electricity market operator's operations in one trading area.



- **Joint and harmonised Baltic electricity system balancing market**

Continuing the work started in 2014, in 2015 the Baltic TSOs developed a joint project on a unified and harmonised Baltic balancing market and imbalance settlement system with the possible integration of the Baltic balancing system with the Nordic balancing system.

During the implementation of the project, the TSOs of the Baltic States have achieved remarkable results – a single harmonised Baltic balancing market and joint Baltic balance control model have been created, which began their operations de facto on 1 January 2018.

In order to ensure efficient operation of the Baltic balancing market and balance control, the Baltic TSOs developed and implemented a common Baltic balancing IT solution.

The benefits in 2018 and 2019 of the Baltic balancing market and the joint balance control model include a reduction in balancing costs for the market participants and a significant reduction in Russia's balancing bill, due to a number of factors, such as: decrease in total Baltic imbalance amount, more active balancing activities (more frequent activation of balancing energy), possibility to provide a single balancing price across all Baltic payment areas, diversified balancing energy offers from Baltic market participants, Nordic countries, and Poland.

- **The European balancing electricity exchange platform project MARI**

In 2017, 19 European TSOs launched a joint project to establish cooperation in the field of manual frequency restoration reserves (mFRR) exchange. It aims to develop a single European mFRR trading platform (MARI) that meets the requirements of Commission Regulation (EU) 2017/2195 that establishes guidelines for balancing electricity.

In 2018, JSC "Augstsprieguma tīkls" became a full participant in the MARI platform development project and is now participating in the development of the single European platform, as well as together with other Baltic transmission system operators planning the necessary changes to the Baltic balancing cooperation model for work with the European mFRR trading platform. The MARI platform is expected to become operational in 2022.



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# FINANCIAL PERFORMANCE AND FINANCIAL RISK MANAGEMENT

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During the reporting period the Company's revenue was EUR 184 742 077, including the revenue from electricity transmission network services of EUR 72 787 419, which was 39% of the Company's revenue. A significant share (46%) of the total revenue of the Company in 2019 was generated by revenue from the reconstruction of the transmission assets and construction works of JSC "Latvijas elektriskais tīkls". The Profit of the Company in the reporting period was EUR 7 066 974.

When evaluating the Company's financial performance indicators, operating results, it should be taken into account that according to Article 5 of the Energy Law, electricity transmission is a regulated sector; PUC determines the allowed profit of the Company, determining the rate of return on capital, approving tariffs for electricity transmission system services.

The Company's profitability from the provision of electricity transmission services in 2019 is appropriate to the one set in the Electricity transmission system services tariff methodology.

Given the above and that the Company is a natural monopoly, its profitability ratios are not comparable to those of the industry. In view of the TSO unbundling model implemented in Latvia - the establishment of an independent transmission system operator - the Company's profitability and other financial ratios are not comparable with other TSOs in the neighbouring countries or Europe, which in most cases own transmission assets.



## FINANCIAL AND OPERATIONAL INDICATORS

|   | 2019    | 2018    | 2017    |
|---|---------|---------|---------|
| <b>Financial indicators</b>                     |         |         |         |
| Revenue, thous. EUR                             | 184 742 | 193 866 | 158 862 |
| EBITDA*, thous. EUR                             | 40 515  | 1 642   | 1 843   |
| Profit, thous. EUR                              | 7 067   | 4 677   | 309     |
| Total amount of assets, thous. EUR              | 221 934 | 193 000 | 188 722 |
| Equity, thous. EUR                              | 69 956  | 70 344  | 8 499   |
| <b>Financial ratios</b>                         |         |         |         |
| Liquidity total ratio                           | 1.1.    | 3.8     | 1.3     |
| EBITDA Profitability                            | 22.0%   | 0.8%    | 1.2%    |
| Return on Equity (ROE)                          | 10.1%   | 6.6%    | 3.6%    |
| <b>Operational indicators</b>                   |         |         |         |
| Electricity transmitted to users in Latvia, GWh | 6 012   | 6 051   | 5 807   |
| Average number of employees                     | 552     | 548     | 539     |

EBITDA - earnings before financial income, income from participating interests, corporate income tax, depreciation, and amortisation.

The procedure for the determination and calculation of wages and salaries is regulated by the Company's internal normative acts in accordance with the requirements of the Republic of Latvia legislation.

The increase in 2019 is related to the implementation of IFRS 16 "Leases" and the recognition of leases as amortisation of right-of-use assets.

## FINANCIAL RISK MANAGEMENT

The Company's activities are primarily related to the performance of the duties of the transmission system operator, ensuring the coordinated operation of the transmission system and the producers and users (including distribution system operators) whose electrical installations are connected to the transmission system, thus the Company's financial risk management is implemented with the aim of ensuring the continuity of the technological process. The Financial risk management of the Company is implemented in accordance with the Financial risk management policy that is accepted by the Company's management and the dependent Financial risk management regulations.

The Company's economic activities are exposed to several financial risks such as turnover, cost and cash flow risks.

The management of financial resources in the Company is focused on ensuring the financing of its business activities and financial stability by implementing conservative financial risk management.

The Company's turnover risks are managed in accordance with the established strategic and operational risk prevention measures, ensuring constant monitoring of the service tariffs against the costs related to the provision of services.

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

Financial means that potentially expose the Company to a certain degree of risk concentration are mostly cash and trade receivables. Although the Company has a significant concentration of risk with respect to one counterparty or a group of similar counterparties, this risk is considered to be limited, considering that the most important Cooperation partner is the state-owned commercial company JSC "Latvenergo", as well as its group companies. Trade receivables are presented according to the recoverable value.

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

The management of the Company expects that it will not have liquidity problems and that the Company will be able to settle accounts with creditors within the set terms. The Company's management believes that the Company will have sufficient financial resources to ensure its liquidity is not compromised.

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# ELECTRICITY TRANSMISSION SYSTEM SERVICES TARIFF

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The electricity transmission services tariffs are determined in accordance with the “Methodology for calculating tariffs for electricity transmission system services” approved by the PUC. In 2019 transmission system services were provided at tariffs that were approved by the decision of the PUC Council on 4 April 2017.

As one of its priority objectives the Company has set the implementation of measures to reduce the increase of electricity transmission system service tariffs. In order to achieve the pursued objective, the Company actively attracts co-financing from the European Union to finance its capital investments. Currently, the EU co-financing is attracted to 4 projects. In addition, in order to minimise the impact on the transmission tariffs, the Company redistributes the accumulated overload charge revenue to finance the capital investments.

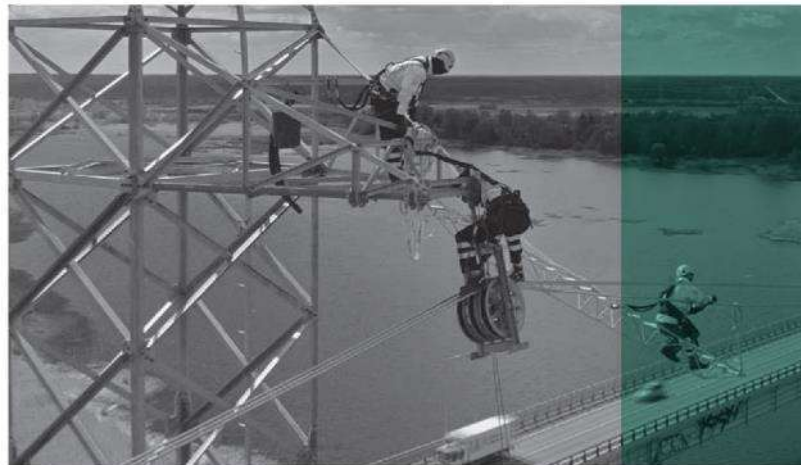
In 2019, in cooperation with the international audit company SIA “Ernst & Young Baltic”, an assessment of cost optimisation possibilities was performed, and a short-term and medium-term action plan was developed.

In 2020 it is planned to continue the improvement of the efficiency of the Company's business operations that has been started in 2017, and also cost optimisation.

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

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# FURTHER DEVELOPMENT

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THE COMPANY FOCUSES ON SUSTAINABLE GROWTH IN ORDER TO IMPROVE THE SERVICES PROVIDED TO THE LATVIAN AND BALTIC ELECTRICITY MARKET PARTICIPANTS.

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THE **STRATEGIC DIRECTION** OF THE COMPANY IS FOCUSED ON:

STRENGTHENING OF THE ENERGY SECURITY BY SYNCHRONISING WITH THE NETWORK OF CONTINENTAL EUROPE

IMPROVING OPERATIONAL EFFICIENCY BY PROVIDING A QUALITY TRANSMISSION SERVICE AT A MINIMUM TARIFF

SAFE SYSTEM OPERATION AND QUALITY ELECTRICITY TRANSMISSION TO CUSTOMER

ENSURING THE EFFICIENCY OF THE ELECTRICITY MARKET THROUGH INTEGRATION INTO THE EUROPEAN INTERNAL ENERGY MARKET



## DEVELOPMENT OF THE ELECTRICITY TRANSMISSION SYSTEM

With the decision of the PUC Council No. 149 of 19 September 2019, "On Electricity transmission system development plan", the Company's electricity transmission system development plan for the period from 2020 to 2029 (hereinafter – Development plan) was approved.

THE DEVELOPMENT PLAN DETERMINES THE DEVELOPMENT OF THE TRANSMISSION SYSTEM AND THE NECESSARY FINANCIAL INVESTMENTS IN THE TRANSMISSION INFRASTRUCTURE FOR THE NEXT TEN YEARS, ALLOCATING AN INVESTMENT OF EUR 413 MILLION FOR THE DEVELOPMENT OF THE ELECTRICITY TRANSMISSION SYSTEM.

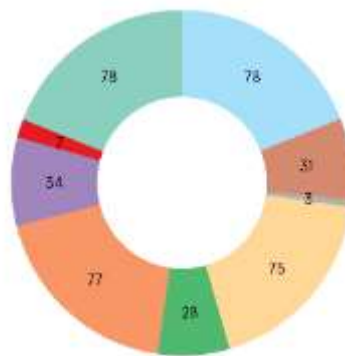
In order to minimise the impact of planned capital investments on the electricity transmission tariffs, the Company has successfully attracted EU co-financing for the projects included in the Development Plan, that have joint interests with Europe, including:

- 330 kV EPL connection "Kurzeme Ring" Step 3: 330 kV electricity transmission line "Ventspils – Tume – Imanta" (hereinafter also – Kurzeme Ring) – attracted EU co-financing of up to 45% of the eligible costs, or EUR 55 089 thousand.
- Third 330 kV interconnection Estonia – Latvia – attracted EU co-financing of up to 65% of eligible costs, or EUR 63 380 thousand.
- 330 kV power transmission line "Riga CHP2 – Riga HPP" – attracted EU co-financing up to 50% of eligible costs, or EUR 9 990 thousand.
- The Project "Synchronisation of the Baltic Power Systems with the Trans-European Network, Phase 1" – attracted EU co-financing of up to 75% of eligible costs, or EUR 57 750 thousand.

Within the framework of the development plan, it is planned to rebuild an average of 3 switchyards per year, to replace 4 autotransformers during the planning period, to replace an average of 7 transformers per year, to gradually increase the level of capital investments in electricity transmission lines.

AS A RESULT OF THE IMPLEMENTATION OF THE DEVELOPMENT PLAN, IN THE LONG TERM IT IS PLANNED TO REDUCE THE AMOUNT OF EQUIPMENT EXCEEDING THE CRITICAL AGE LIMIT VALUES.

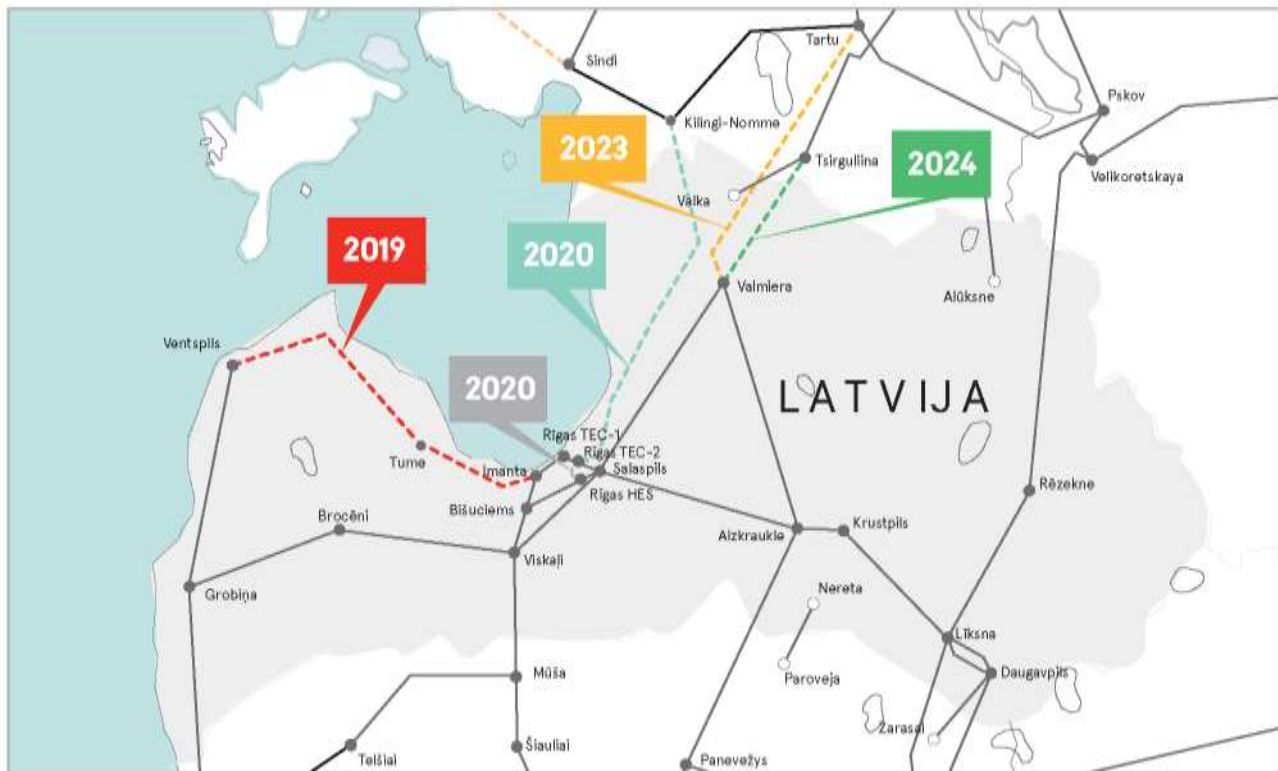
## INVESTMENTS ENVISAGED IN THE DEVELOPMENT PLAN, MILLION EUR



## PROGRESS IN 2019 AND KEY DEVELOPMENT EVENTS IN THE YEARS TO COME

The electricity transmission network is being developed in accordance with the Latvian electricity transmission system development plan and the European transmission system ten year development plan. The European ten year development plan includes those Latvian development projects which are of strategic importance, not only nationally but also in the Baltic Sea region as a whole.

### DEVELOPMENT PROJECTS INCLUDED IN THE EUROPEAN TEN-YEAR DEVELOPMENT PLAN



- **330 kV ETL connection “Kurzeme Ring” Step 3: 330 kV electricity transmission line “Ventspils – Tume – Imanta”**  
Within the framework of the project, it is planned to reconstruct the existing 110 kV overhead electricity transmission lines to 330 kV lines from Ventspils to Imanta (in Riga), as well as to expand the existing 330 kV substation “Imanta” and to construct a new 330 kV switchyard at “Tume” substation. The reconstruction of 110 kV switchyards at the substations “Dundaga”, “Talsi”, “Valdemārpils”, “Kandava”, “Priedaine” is also planned.

**2019 SAW THE COMPLETION OF ALL WORKS RELATED TO THE IMPLEMENTATION OF THIS CAPITAL INVESTMENT PROJECT AND THE COMMISSION OF ALL OBJECTS.**

- **Latvia – Estonia third interconnection**  
The project includes the construction of a new 330 kV electricity transmission line of 180 km that will connect the “Riga CHP-2” substation in Latvia and the “Kilingi – Nomme” substation in Estonia, as well as the expansion of the Riga CHP-2 substation by installing shunt reactor systems for reactive power compensation.

In 2019, active construction of the new electricity transmission line took place in practically all sections from the Latvian-Estonian border to the substation “Riga CHP-2”; by the end of the year, 60% of the pylon foundations envisaged in the project were built, 30% of the pylons were assembled and raised, and 20% of the new line wires were assembled. The expansion of the “Riga CHP-2” substation has also been started, including the supply of a 120 MVA shunt reactor. In 2020, it is planned to continue active construction of the line; it should be completed and commissioned in the middle of 2021.

- Construction of a new power transmission line “Riga CHP-2 – Riga HPP”

The project envisages the construction of a new 330 kV overhead/cable electricity transmission line (indicative line length – 15 km), the extension of the 330 kV switchgear of the “Riga CHP-2” substation, as well as the reconstruction of the substation “Riga HPP”, using the existing equipment and solutions.

**In 2019**, the construction of the line “Riga CHP-2 – Riga HPP”, as well as the reconstruction of 330 kV switchgear of substation “Riga HPP” and the extension of 330 kV switchgear of substation “Riga CHP-2”, were started. All the construction works of the project **are planned to be completed** by the end of 2020.

- Increasing the capacity of the 330 kV electricity transmission line “Tartu (EE) – Valmiera (LV)” and the 330 kV electricity transmission line “Tsigulina (EE) – Valmiera (LV)” between Latvia and Estonia within the framework of Phase 1 of the Baltic States’ synchronisation project with continental Europe.

The project envisages the complete replacement of both existing 330 kV lines with new increased capacity electricity transmission lines. The total length of both lines in the territory of Latvia is 100 km.

**In 2019**, preparations for the start of construction procurement have been made regarding both 330 kV line reconstruction projects. In 2020, it is planned to carry out the research required by the technical terms of the Valmiera Regional Environmental Board of the State Environmental Service, to hold public discussions of the project in municipalities where the project is going to be implemented, as well as to prepare and announce the procurement for the construction design and construction of the reconstruction of the line.

The implementation of the project is planned immediately after the implementation of the project “Third Interconnection of Latvia – Estonia”.

- Purchase and installation of system synchronisation and power system inertia provision equipment within the framework of Phase 1 of the Baltic States’ synchronisation project with continental Europe.

The project envisages the installation of one 200 MVA synchronous condenser for the Latvian energy system to provide its inertia after the synchronisation of the Baltic States’ system with continental Europe’s. In 2019, the procurement procedure for the receipt of consulting services was announced, for which a corresponding contract was concluded in 2020. In 2020, it is planned to prepare the necessary documentation for the selection of the supplier of the synchronous condenser, as well as the contractor for the construction and assembly work.

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ALL THE ABOVE PROJECTS ARE INCLUDED IN THE LIST OF EUROPEAN PROJECTS OF COMMON INTEREST (PCI) AND HAVE BEEN GRANTED CO-FINANCING FROM THE EUROPEAN UNION – EUROPEAN CO-FINANCING FOR INCREASING THE TRANSMISSION CAPACITY OF THE 330 KV ELECTRICITY TRANSMISSION LINES “TARTU (EE) – VALMIERA (LV)” AND “TSIRGULINA (EE) – VALMIERA (LV)”; CO-FINANCING FOR THE PURCHASING AND INSTALLATION OF SYSTEM SYNCHRONISATION AND POWER SYSTEM INERTIA EQUIPMENT WAS ALSO GRANTED IN 2019, AND FOR THE CONSTRUCTION OF THE ELECTICITY TRANSMISSION LINE “RIGA CHP-2 – RIGA HPP” IN 2017, WHEREAS FOR THE PROJECTS “CONSTRUCTION OF THE THIRD PHASE OF KURZEME RING” AND “CONSTRUCTION OF LATVIA-ESTONIA THIRD INTERCONNECTION”, EUROPEAN CO-FINANCING FROM THE CONNECTING EUROPE FACILITY WAS GRANTED IN NOVEMBER 2014.

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Also in 2019, the preparation of the necessary documentation for receiving the European Union’s co-financing from Connecting Europe Facility for the implementation of Stage 2 projects of the Synchronisation of the Baltic States with continental Europe was started. A decision on co-financing is expected at the end of 2020.

**Electricity transmission system sustainability projects** The prepared electricity transmission system development plan of Latvia for the next ten years envisages a number of measures to improve the electricity transmission infrastructure - reconstruction of existing 330 kV and 110 kV substations, improvement of electricity transmission lines, replacement of transformers, etc.

**Access of third parties to the electricity transmission network** Taking into account the principles of operation of the electricity market of Latvia, JSC “Augstsprieguma tīkls” will continue to provide non-discriminatory access to the electricity transmission system for both electricity producers and transmission system users in accordance with the principles of fairness, transparency, and equality, both by constructing new and renovating existing connections.

## SYSTEM MANAGEMENT AND ELECTRICITY MARKET DEVELOPMENT

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Carrying out the policy of the European Union regarding the single electricity market, JSC "Augstsprieguma tīkls" continues to actively participate in the activities of integration of the internal electricity market of the European Union, both within the European Union and in the Baltic region.

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

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

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

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

## TRANSMISSION AND STORAGE OF NATURAL GAS

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Following the decisions of the Cabinet of Ministers of 5 December and 19 December 2017, in 2017 the Company acquired 34.36% shares of the Latvian natural gas transmission and storage system operator JSC "Conexus Baltic Grid". The investment of the Company is managed in accordance with the Corporate Governance Guidelines. The acquisition of participation in JSC "Conexus Baltic Grid" will not affect the tariffs of electricity transmission system services.

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

On 28 June 2018, the Prime Ministers of the Baltic States and the President of the European Commission signed a synchronisation road map with recommended further steps for synchronisation with continental Europe and de-synchronisation with the unified power system of Russia.

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

On 23 January 2019, the CEF Steering Committee approved Phase 1 of the Baltic synchronisation application and decided to grant co-financing of 75% to the projects included in the application.

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ON 22 MAY 2019 JSC "AUGSTSPRIEGUMA TĪKLS" SIGNED AN AGREEMENT ON THE CONDITIONS OF THE FUTURE INTERCONNECTION OF POWER SYSTEMS OF BALTIC STATES AND POWER SYSTEM OF CONTINENTAL EUROPE .

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Synchronisation of the Baltic States with Continental Europe is expected by 2025.

Synchronisation will **result** in the electricity transmission systems of Baltic states becoming the part of the European system, meaning significant independence from Russia and a more reliable electricity supply.

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# CIRCUMSTANCES AND EVENTS

## AFTER THE END OF THE REPORTING YEAR

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According to JSC "Conexus Baltic Grid" annual report of 2019, the profit of JSC "Conexus Baltic Grid" for 2019 is EUR 17 945 thousand. thousand. On 30 April 2020, the shareholders' meeting of JSC "Conexus Baltic Grid" decided to pay out a dividend of EUR 0.41 per share for the year 2019. Considering the number of shares of JSC "Conexus Baltic Grid" owned by the Company, the Company will receive EUR 5 605 thousand in dividends. thousand.

Paragraph No. 38 of the protocol decision No. 46 of the Cabinet session of 8 October 2019 supported the implementation of the full ownership separation model regarding the electric power transmission system operator and assigned the task of contributing the JSC "Latvijas elektriskie tīkli" shares owned by the State to JSC "Augstsprieguma tīkls" by 1 July 2020.

In its turn, paragraph No. 75 of the protocol decision No. 59 of the Cabinet session of 17 December 2019 stipulated that after the contribution of the JSC "Latvijas elektriskie tīkli" shares owned by the State to JSC "Augstsprieguma tīkls", reorganisation of JSC "Augstsprieguma tīkls" and JSC "Latvijas elektriskie tīkli", LET should take place by incorporating JSC "Latvijas elektriskie tīkli" into JSC "Augstsprieguma tīkls" by 31 December 2020.

After the end of the financial year, in March 2020, restrictions related to the spread of the coronavirus were introduced in the Republic of Latvia and many other countries, which significantly limits economic growth in the country and in the world. It is not possible to predict how the situation will develop in the future, and therefore there is uncertainty about economic development. The Company's management continuously evaluates the situation, and at the time of the approval of the annual report the Company has not encountered significant disruptions in its business operations, no significant or potentially significant debt losses have been identified, and the Company continues to settle liabilities in a timely manner. However, this conclusion is based on the information available at the time of the preparation of the document; as influencing circumstances change, the impact on the Company's operations may differ from the current assessment.

In order to improve the balance and loss calculation processes for electricity market participants, providing the possibility to calculate the balance for the previous trading period within 15 minutes, eliminate electricity accounting risks and to automate the non-compliance identification, the Company implements Automated Electricity Data Accounting System (AEUS system) renewal and replacement project for all energy-meters.

At the end of the reporting year a substandard data collection from the electricity metering device located on the 110 kV transformer medium voltage output and counting the electricity transmitted to the company JSC "Sadales tīkls" was detected at the substation "Mārupe", thanks to the introduction of the new AEUS system. The operation of the electricity metering device was correct, but the transfer of data was inappropriate, reducing the accounted amount of electricity transmitted to the JSC "Sadales tīkls" by 25 GWh, the estimated monetary impact was EUR 1,273,463.

No damage has been caused to any third party as a result of this case. In 2020, in cooperation with JSC "Sadales tīkls", it is planned to evaluate the circumstances of the event and to agree on further actions. The impact on the Company depends on the agreement and on the solutions reached.

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

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# PROPOSED DISTRIBUTION OF THE PROFIT

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The Management of the Company, fulfilling Section 28 of the Law on the Management of Public Shareholdings and Corporations, in compliance with Article 36 of the Law "On the State Budget for 2020", proposes to pay out EUR 1 735 958 (including corporate income tax) to the State in dividends.

The profit distribution for 2019 is decided by the shareholders' meeting of JSC "Augstsprieguma tīkls".

*/Signature/*

**Varis Boks,**

Chairman of the Board

*/Signature/*

**Arnis Staltmanis,**

Member of the Board

*/Signature/*

**Īmants Zviedris,**

Member of the Board

*/Signature/*

**Gatis Junghāns,**

Member of the Board

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**Mārcis Kauliņš,**

Member of the Board

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**Māra Grava,**

Head of the Finance and  
Accounting Department

Riga, 15 May, 2020



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## STATEMENT OF THE BOARD'S RESPONSIBILITY

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# STATEMENT OF THE BOARD'S RESPONSIBILITY

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

The separate financial statements are prepared on the basis of accounting records and source documents and present fairly the financial position of the Company as of 31 December 2019, results of operations and cash flows for the year 2019.

The Board confirms that the separate financial statements included on pages 27 to 66 for the year ended on 31 December 2019 were prepared using appropriate accounting policies that have been consistently applied and that the Board has provided reasonable and prudent conclusions and estimates. The Board also confirms that the financial statements have been prepared in accordance with the relevant International Financial Reporting Standards as adopted by the European Union. The Financial statements are prepared on the principles of the continuation of activities.

*/Signature/*

**Varis Boks,**  
Chairman of the Board

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Member of the Board

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Head of the Finance and  
Accounting Department

Riga, 15 May, 2020





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# FINANCIAL STATEMENT

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## SEPARATE PROFIT OR LOSS STATEMENT FOR 2019

|                                       |       | 2019<br>EUR      | 2018<br>EUR      |
|---------------------------------------|-------|------------------|------------------|
| Revenue                               | 3     | 184 742 077      | 193 866 482      |
| Other income from business activities | 4     | 251 390          | 120 002          |
| Raw materials consumed, repair costs  | 5     | (28 640 577)     | (29 866 634)     |
| Staff costs                           | 6     | (16 230 471)     | (15 666 872)     |
| Depreciation and amortisation         | 2,5,9 | (36 002 386)     | (1 416 505)      |
| Other business costs                  | 7     | (99 607 516)     | (146 810 928)    |
| Income from investments               | 10    | 4 193 864        | 4 852 507        |
| Financial income                      | 8     | 44 224           | 19 620           |
| Interest expenses                     | 8     | (1 682 295)      | -                |
| Finance costs                         | 8     | (1 336)          | (420 554)        |
| <b>Profit before tax</b>              |       | <b>7 066 974</b> | <b>4 677 118</b> |
| Corporate income tax                  |       | -                | -                |
| <b>Profit for the reporting year</b>  |       | <b>7 066 974</b> | <b>4 677 118</b> |

Annexes from page 35 to 66 are an integral part of these financial statements.

/Signature/

**Varis Boks,**  
Chairman of the Board

/Signature/

**Arnis Staltmanis,**  
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/Signature/

**Mārcis Kauliņš,**  
Member of the Board

/Signature/

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

Riga, 15 May, 2020

## SEPARATE STATEMENT OF COMPREHENSIVE INCOME FOR 2019

|   | 2019<br>EUR      | 2018<br>EUR      |
|---|------------------|------------------|
| <b>Profit for the reporting year</b>                                    | <b>7 066 974</b> | <b>4 677 118</b> |
| Other income:   |                  |                  |
| <i>Items that will not be reclassified to profit or loss:</i>           |                  |                  |
| Actuarial gains/losses  | 259 393          | 19 920           |
| <b>Other income for the reporting year</b>                              | <b>259 393</b>   | <b>19 920</b>    |
| <b>Total comprehensive income attributable to owners of the company</b> | <b>7 326 367</b> | <b>4 697 038</b> |

Annexes from page 35 to 66 are an integral part of these financial statements.

/Signature/

**Varis Boks,**  
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Member of the Board

/Signature/

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

Riga, 15 May, 2020

## SEPARATE STATEMENT OF THE FINANCIAL POSITION ON 31 DECEMBER 2019

| Annex                                 | 31.12.2019<br>EUR  | 31.12.2018<br>EUR  |
|---------------------------------------|--------------------|--------------------|
| <b>ASSETS</b>                         |                    |                    |
| <b>Long-term investments</b>          |                    |                    |
| Intangible investments                | 9                  | 50 413 419         |
| Fixed assets                          | 9                  | 5 491 202          |
| Right to use assets                   | 2.5                | 35 920 323         |
| Other long-term financial investments | 10                 | 1 902 887          |
| Investments in associated companies   | 10                 | 57 394 971         |
| <b>Total long-term investments</b>    | <b>151 122 802</b> | <b>68 267 185</b>  |
| <b>Current assets</b>                 |                    |                    |
| <b>Stock</b>                          | <b>11</b>          | <b>480 112</b>     |
| <b>Accounts receivable</b>            |                    |                    |
| Net Trade receivables                 | 12                 | 7 966 220          |
| Deposits                              | 14                 | 20,000,000         |
| Other debtors                         | 14                 | 22 722             |
| Corporate income tax                  | 14                 | 11 512             |
| Deferred expenses                     |                    | 337 584            |
| Accrued revenue                       | 15                 | 13 777 092         |
| <b>Total accounts receivable</b>      | <b>42 115 130</b>  | <b>67 603 714</b>  |
| <b>Cash</b>                           | <b>16</b>          | <b>28 216 327</b>  |
| <b>Total current assets</b>           | <b>70 811 569</b>  | <b>124 732 381</b> |
| <b>SUM TOTAL OF ASSETS</b>            | <b>221 934 371</b> | <b>192 999 566</b> |

Annexes from page 35 to 66 are an integral part of these financial statements.

*/Signature/*

**Varis Boks,**  
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Head of the Finance and  
Accounting Department

Riga, 15 May, 2020

## SEPARATE STATEMENT OF THE FINANCIAL POSITION ON 31 DECEMBER 2019 (CONTINUED)

|  | Annex     | 31.12.2019<br>EUR  | 31.12.2018<br>EUR  |
|--|-----------|--------------------|--------------------|
| <b>LIABILITIES</b>                                       |           |                    |                    |
| <b>Equity</b>  |           |                    |                    |
| Share capital  | 17        | 64 218 079         | 63 139 313         |
| Reserves   |           | 2 786 621          | 2 527 228          |
| Retained earnings (accumulated losses)                   |           | (4 115 963)        | -                  |
| Profit/(loss) for the reporting year                     |           | 7 066 974          | 4 677 118          |
| <b>Total equity</b>                                      |           | <b>69 955 711</b>  | <b>70 343 659</b>  |
| <b>Long-term creditors</b>                               |           |                    |                    |
| Employee benefit obligations                             |           | 2 966 213          | 2 918 284          |
| Deferred revenue   |           | 89 963 992         | 87 090 454         |
| <b>Total long-term creditors</b>                         | <b>18</b> | <b>92 930 205</b>  | <b>90 008 738</b>  |
| <b>Short-term accounts payable</b>                       |           |                    |                    |
| Lease liabilities  | 2.5       | 37 475 766         |                    |
| Deferred revenue   | 19        | 4 946 387          | 5 962 839          |
| Trade payables   |           | 6 099 120          | 13 569 641         |
| Taxes and Mandatory State Social Insurance Contributions | 22        | 864 001            | 907 197            |
| Advance payments received from customers                 | 20        | 82 723             | 1 310 742          |
| Other creditors  | 20        | 3 218 170          | 3 692 462          |
| Accrued liabilities                                      | 21        | 6 362 288          | 7 204 288          |
| <b>Total short-term accounts payable</b>                 |           | <b>59 048 455</b>  | <b>32 647 169</b>  |
| <b>SUM TOTAL OF LIABILITIES</b>                          |           | <b>221 934 371</b> | <b>192 999 566</b> |

Annexes from page 35 to 66 are an integral part of these financial statements.

/Signature/

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**Mārcis Kauliņš,**  
Member of the Board

/Signature/

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

Riga, 15 May, 2020

## SEPARATE STATEMENT OF CHANGES IN EQUITY FOR 2019

|   | Annex     | Share capital<br>EUR | Accumulated<br>profit EUR | Reserves<br>EUR  | Total<br>EUR      |
|---|-----------|----------------------|---------------------------|------------------|-------------------|
| <b>BALANCE ON 31 DECEMBER 2017</b>                                  | <b>17</b> | <b>5 744 342</b>     | <b>309 244</b>            | <b>2 445 459</b> | <b>8 499 045</b>  |
| Dividends paid for 2017   |           | -                    | (247 395)                 | -                | (247 395)         |
| Redirected to reserves  |           | -                    | (61 849)                  | 61 849           | -                 |
| Share capital increase  |           | 57 394 971           | -                         | -                | 57 394 971        |
| Actuarial income  |           | -                    | -                         | 19 920           | 19 920            |
| Profit for the reporting year                                       |           | -                    | 4 677 118                 | -                | 4 677 118         |
| <b>BALANCE ON 31 DECEMBER 2018</b>                                  | <b>17</b> | <b>63 139 313</b>    | <b>4 677 118</b>          | <b>2 527 228</b> | <b>70 343 659</b> |
| Paid in dividends for 2018  |           | -                    | (3 598 352)               | -                | (3 598 352)       |
| Share capital increase  |           | 1 078 766            | (1 078 766)               | -                | -                 |
| Retained earnings (accumulated losses)<br>Implementation of IFRS 16 |           | -                    | (4 115 963)               | -                | (4 115 963)       |
| Actuarial income  |           | -                    | -                         | 259 393          | 259 393           |
| Profit for the reporting period                                     |           | -                    | 7 066 974                 | -                | 7 066 974         |
| <b>BALANCE ON 31 DECEMBER 2019</b>                                  | <b>17</b> | <b>64 218 079</b>    | <b>2 951 011</b>          | <b>2 786 621</b> | <b>69 955 711</b> |

Annexes from page 35 to 66 are an integral part of these financial statements.

/Signature/

**Varis Boks,**  
Chairman of the Board

/Signature/

**Arnīs Staltmanis,**  
Member of the Board

/Signature/

**Imants Zviedris,**  
Member of the Board

/Signature/

**Gatis Junghāns,**  
Member of the Board

/Signature/

**Mārcis Kauliņš,**  
Member of the Board

/Signature/

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

Rīga, 15 May, 2020

## SEPARATE CASH FLOW STATEMENT FOR 2019

|   | Annex | 31.12.2019<br>EUR | 31.12.2018<br>EUR |
|---|-------|-------------------|-------------------|
| <b>I CASH FLOW FROM OPERATING ACTIVITIES</b>  |       |                   |                   |
| Profit before taxes   |       | 7 066 974         | 4 677 118         |
| <b>Adjustments</b>  |       |                   |                   |
| a) depreciation, amortisation   | 9     | 1 541 204         | 1 418 638         |
| b) depreciation of asset lease rights*  | 2.5   | 33 335 161        | -                 |
| c) changes in provisions  |       | 307 322           | 339 475           |
| c) income from dividends  |       | (4 193 864)       | (4 852 507)       |
| d) interest income  | 8     | (44 224)          | (19 620)          |
| e) interest and exchange rate fluctuation costs   | 8     | 1 336             | 420 554           |
| f) interest costs of lease of the assets**  | 8     | 1 682 900         | -                 |
| <b>Profit before corrections of the influence of changes in the balances of the current assets and short-term creditors</b> |       | <b>39 696 809</b> | <b>1 983 658</b>  |
| <b>Adjustments</b>  |       |                   |                   |
| a) decrease/(increase) in trade receivables, other receivables and accrued income   |       | (6 120 731)       | 63 800 305        |
| b) decrease/(increase) in the balance of stock  |       | 11 655            | (13 948)          |
| c) (decrease)/increase in debts to suppliers and other creditors, accrued liabilities                                       |       | (12 443 962)      | (57 950 961)      |
| <b>Gross cash flow of the principal activity</b>  |       | <b>21 143 771</b> | <b>7 819 054</b>  |
| Losses from exchange rate fluctuations  |       | (1 336)           | (2 053)           |
| Corporate income tax***   |       | (719 670)         | (600 633)         |
| <b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>  |       | <b>20 422 765</b> | <b>7 216 368</b>  |

\* includes impact of the lease term changes EUR 2 496 700

\*\*\* includes set-off of the corporate income tax

\*\* includes impact of the lease term changes EUR 605

Annexes from page 35 to 66 are an integral part of these financial statements.

/Signature/

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Member of the Board

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

Riga, 15 May, 2020

## SEPARATE CASH FLOW STATEMENT FOR 2019 (CONTINUED)

|   | Annexes | 31.12.2019<br>EUR   | 31.12.2018<br>EUR |
|---|---------|---------------------|-------------------|
| <b>II CASH FLOW FROM INVESTMENT ACTIVITY</b>                              |         |                     |                   |
| Acquisition of intangible investments and fixed assets, income from sales |         | (12 899 380)        | (6 121 486)       |
| Creation of fixed assets and intangible investments                       |         | (35 139 407)        | -                 |
| Interest income from term deposits  |         | 44 224              | 19 620            |
| Placed deposits, Net  |         | 30 000 000          | (15 000 000)      |
| Dividends received  |         | 4 193 864           | 4 852 507         |
| Financial deposit with limited access                                     |         | -                   | 57 394 382        |
| <b>NET CASH FLOW FROM INVESTMENT ACTIVITIES</b>                           |         | <b>(13 800 699)</b> | <b>41 145 023</b> |
| <b>III CASH FLOW FROM FINANCING ACTIVITY</b>                              |         |                     |                   |
| Loans received/(repaid)   |         | -                   | (57 394 382)      |
| Investment in equity  |         | -                   | 57 394 382        |
| Asset lease payments  |         | (34 447 033)        | -                 |
| Received EU funding   |         | 2 283 076           | 828 235           |
| Interest paid for the loan  |         | -                   | (418 501)         |
| Dividends paid  |         | (2 878 682)         | (247 395)         |
| <b>NET CASH FLOW FROM FINANCING ACTIVITY</b>                              |         | <b>(35 042 639)</b> | <b>162 339</b>    |
| <b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>               |         | <b>(28 420 573)</b> | <b>48 523 730</b> |
| Cash and equivalents at the beginning of the reporting year               |         | 56 636 900          | 8 113 170         |
| <b>Cash and equivalents at the end of the reporting year</b>              |         | <b>28 216 327</b>   | <b>56 636 900</b> |

Annexes from page 35 to 66 are an integral part of these financial statements.

/Signature/

**Varis Boks,**

Chairman of the Board

/Signature/

**Arnis Staltmanis,**

Member of the Board

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Member of the Board

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**Māra Grava,**

Head of the Finance and  
Accounting Department

Riga, 15 May, 2020



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# ANNEXES OF SEPARATE FINANCIAL STATEMENTS

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## 1. GENERAL INFORMATION ABOUT THE COMPANY

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

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

As of 31 December 2019, all shares of JSC “Augstsprieguma tīkls” are owned by the Ministry of Finance of the Republic of Latvia. The registered address of the Company is Dārziema iela 86, Rīga, LV-1073, Latvia

The financial statements were approved by the Board of the Company on 15 May 2020 as follows: Varis Boks (Chairman of the Board), Imants Zviedris (Member of the Board), Arnis Staltmanis (Member of the Board), Mārcis Kauliņš (Member of the Board), Gatis Junghāns (Member of the Board).

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

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## 2. SIGNIFICANT ACCOUNTING PRINCIPLES

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

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

These financial statements are the separate financial statements of the Company, where investments in associates are measured at cost value. These financial statements do not use the equity method in measuring investments in associates.

The financial statements have been based on the initial cost accounting method. The cash flow statement has been prepared using the indirect method.

The financial indicators in the financial statements are presented in euros (EUR).

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

Financial statements cover the time period from 1 January to 31 December 2019.

To prepare the financial statements in accordance with the IFRS, the management of the Company based it on certain estimates and assumptions, which affect the balance of separate items reflected in certain statements, as well as the possible amount of liabilities.

#### **New standards and amendments to existing standards in force during the current reporting period**

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

- o IFRS 16 "Leases", adopted in the EU on 31 October 2017 (effective for reporting periods beginning on 1 January 2019 or later)

In the reporting year the Company applied IFRS 16 (issued by the IASB in January 2016), effective for reporting periods beginning on 1 January 2019 or later. IFRS 16 introduces new or amended requirements for lease accounting. It introduces significant changes to lessees' accounting by removing the distinction between operating and finance lease and demanding to recognise the right to use assets and lease liabilities for all lease contracts, except for short-term lease and lease of low-value assets. As opposed to requirements for lessees, the requirements for lessors' accounting have largely remained unchanged.

The Company applies IFRS 16 for the reporting year beginning on 1 January 2019. The Company chose to use the modified retrospective approach, which means that:

comparable information is not being corrected;

the cumulative effect of the initial application is recognised as retained earnings (or other equity components, as appropriate) at the date of initial application of the adjustment to the opening balance.

Future events may affect the assumptions on which the relevant estimates were based. Any impact of the changes of the estimates is reflected in the financial reports at the moment of identification thereof. Although these estimates are based on comprehensive information about the current events and activities available to the Company's management, actual results may differ from those estimates.

#### **(a) The impact of the new definition of a lease**

The Company has used the available practical relief by transitioning to IFRS 16 to avoid reassessing whether the contract is a lease contract or contains a lease. Accordingly, the definition of a lease corresponding with IAS 17 and IFRIC 4 is still going to be applied to contracts entered into or modified before 1 January 2019. The changes to the definition of lease were mainly related to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for compensation. It contrasts with "risks and rewards" in IAS 17 and IFRIC 4. The Company applies the definition of lease and instructions set out in IFRS 16 for all lease contracts concluded or amended starting from 1 January 2019. Based on the Company's assessment, the new definition in IFRS 16 will not significantly change the scope of contracts that correspond to the Company's definition of a lease.

#### **(b) The impact on lessees' accounting**

IFRS 16 changes how the Company accounts for leases previously classified as operating leases in accordance with IAS 17 and which were not included in the balance sheet. By applying IFRS 16 to all lease contracts (except as specified below), the Company:

- recognises lease assets and lease liabilities in the balance sheet, initially measured at the present value of unavoidable future lease payments;
- recognises depreciation of lease assets and interest on lease liabilities in the profit or loss statement over the lease term;
- separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the cash flow statement.

Lease discounts (for example, a free lease period) are recognised as part of right-of-use asset and lease liabilities, which in accordance with IAS 17 result in lease discounts and are amortised as a reduction of lease expenses by applying the straight-line method. In accordance with IFRS 16, right-of-use assets are evaluated regarding their impairment in accordance with IAS 36.



Regarding short-term leases (the lease term is 12 months or less) and lease of low-value assets (including lease of tablets and personal computers, as well as small office furniture and phone accessories), the Company has chosen to recognise lease costs on a straight-line basis. These costs are represented as "Other costs of business activity" in the profit or loss statement.

The Company has used the following practical reliefs by applying a modified retrospective approach to lease contracts previously classified as operating leases, applying IAS 17.

- The Company has chosen not to recognise right-of-use assets and lease liabilities for lease contracts expiring within 12 months from the date of their initial application;
- The Company has excluded initial direct costs from right-of-use asset evaluation at the date of initial application.

**(c) The financial impact of the initial application of IFRS 16**

See note 2.5 for additional information on the impact of the implementation of IFRS 16.

- 9. IFRS "Financial Instruments" – Early repayment elements with negative compensation – adopted by the EU on 22 March 2018 (effective for reporting periods starting on 1 January 2019 or later);

- Amendments to IAS 19 "Employee Benefits" – plan amendments, curtailment, or settlement – adopted by the EU on 13 March 2019 (effective for reporting periods starting on 1 January 2019 or later);
- Amendments to IAS 28 "Investments in Associates and Joint Ventures" – long-term participation in associates and joint ventures – adopted by the EU on 8 February 2019 (effective for annual periods beginning on or after 1 January 2019);
- Amendments to several standard Improvements to International Financial Reporting Standards (Cycle 2015-2017).
- Amendments to various standards are a result of the Annual Improvements to IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23), which are mainly related to the elimination of inconsistencies and clarification of wording – adopted by the EU on 14 March 2019 (effective for reporting periods starting on 1 January 2019 or later);
- IFRIC 23 "Uncertainty over Income Tax Treatments" – adopted by the EU on 23 October 2018 (effective for reporting periods starting on 1 January 2019 or later);

Except for the adoption of IFRS 16, the implementation of those new standards, amendments to existing standards, and respective guidance on the interpretation has no significant impact on the Company's financial statements.

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

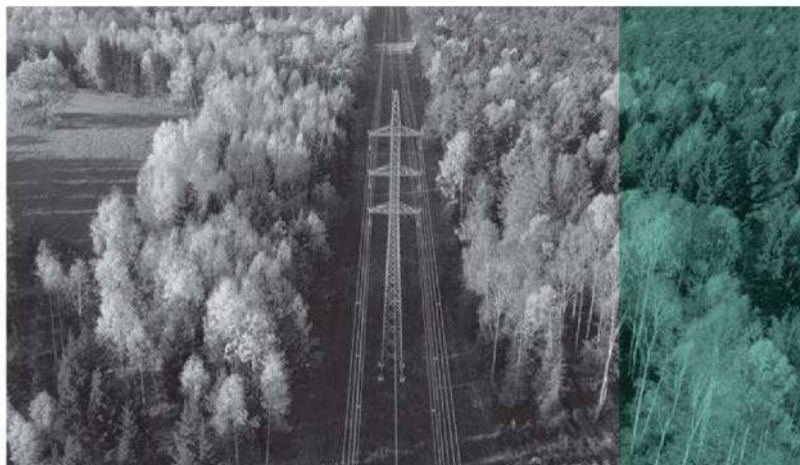
At the date of approval of the financial statements the following new standards, amendments to existing standards, and guidance on the interpretation issued by the IASB but not yet effective exist:

- Amendments to IAS 1 "Financial reporting" and IAS 8 "Accounting Policies, Changes in Accounting Estimates, and Errors" – definition of "material" (effective for reporting periods starting on 1 January 2020 or later);
- Amendments to references to the conceptual guidance in IFRS standards (effective for reporting periods starting on 1 January 2020 or later).

The Company decided not to introduce new standards, amendments to existing standards, and guidance on interpretation before their effective date. The Company expects that the adoption of those standards, as well as the amendments to existing standards, has no material impact on the Company's financial statements in the period of initial application.

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

At the moment, the IFRS adopted by the EU do not differ significantly from those adopted by the International Accounting Standards Board (IASB), except for the following standards, amendments of existing standards, and guidance on the interpretation not yet endorsed by the EU as of 31 December 2019 (effective dates refer to IFRSs issued by the IASB):



- IFRS 14 “Regulatory Deferral Accounts” (effective for reporting periods beginning on January 1 2016 or later) – the European Commission has decided not to initiate the application for the interim standard, instead opting for awaiting the final version of the standard;
- IFRS 17 “Insurance Contracts” (effective for reporting periods beginning on 1 January 2021 or later).
- Amendments to IFRS 3 “Business Combinations” – definition of a business (effective for business combinations in which the business has been acquired during the first reporting period starting on 1 January 2020 or later, as well as for asset acquisition made at the beginning of this period or later).
- Amendments to IFRS 9 “Financial instruments”, IAS 39 “Financial Instruments: Recognition and Measurement” and IFRS 7 “Financial Instruments: Disclosures” – interest rate benchmark reform (effective for reporting periods starting on 1 January 2020 or later);
- Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” – asset sales or investment transaction between the investor and its associate or joint venture and further amendments (entry into force pending indefinitely until the completion of the research project on the equity method).

The Company expects that the adoption of the new standards, as well as the amendments to existing standards, has no material impact on the Company’s financial statement in the period of initial application.

## 2.1. FINANCIAL INSTRUMENTS

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

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

### Financial assets

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

#### *Classification of financial assets*

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

- the financial asset is held as part of a business model that seeks to hold financial assets for the purpose of collecting contractual cash flows; and
- the terms of a financial asset contract generate cash flows at specified dates that are only principal and interest payments.

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

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

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

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

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

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

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

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

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

#### *Impairment of financial assets*

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

#### *Derecognition of financial assets*

The Company only derecognises a financial asset when the contractual rights to the cash flows from the asset expire or when it transfers the financial asset and substantially all the risks and rewards of ownership to another

entity. If the Company does not transfer or retain substantially all of the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest and related liabilities to the extent that it may be required to pay. If the Company retains substantially all the risks and rewards of ownership of the transferred financial asset, the Company continues to recognise the financial asset and also recognises a secured loan for revenue received.

#### **Financial liabilities**

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

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

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

#### *Derecognition of financial liabilities*

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

## **2.2. TRANSACTIONS IN FOREIGN CURRENCIES**

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

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

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

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

## 2.3. INTANGIBLE INVESTMENTS AND FIXED ASSETS

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

JSC "Augstsprieguma tīkls" implements transmission system congestion and overload management in accordance with Article 13, Section 4 and Article 13<sup>1</sup>, 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. The use of the received congestion charge is regulated by the European Commission and the Council of Europe Regulation No. 714/2009 on conditions for access to the network for cross-border exchanges in electricity and repealing Regulation (EC) No 1228/2003 (hereinafter – the Regulation). Considering the provisions of the Regulation, revenues received from congestion management which are not used to eliminate overload and congestion in the transmission network are reflected in the balance sheet as deferred income. Once this income has been used to finance a specific long-term investment project, transmission right-of-use assets are recognised as part of intangible investments and, along with deferred income, are amortised through the progressive recognition of that income and amortisation in the income statement for the current financial year in accordance with the amortisation period of the long-term investment created. Intangible investments and fixed assets are presented according to their acquisition value, minus any wear and depreciation accrued. The acquisition value includes costs

directly related to the acquisition of the fixed asset. Depreciation of fixed assets is calculated using the straight-line method over the useful life of the asset, to allocate the acquisition cost to its estimated residual value at the end of the useful life period. For other fixed assets and equipment (means of communication and equipment, office supplies and equipment) it shall not exceed two to five years.

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

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

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

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

## 2.4. LONG-TERM FINANCIAL INVESTMENTS

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

### Investments in associates

Investments in associates are investments in companies, in which the Company has significant influence but has no control over the activities of the other company.

In these separate statements, investments in associates are stated at their acquisition cost.

### Other long-term financial investments

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

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

## 2.5. 2.5 LEASEHOLD

Leases to which the Company is a lessor are classified as finance leases or operating leases. If the terms of the lease transfer all risks and rewards of ownership to the lessee, the contract is classified as a finance lease. Other leases are classified as operating leases.

If the Company is an intermediate lessor, its main lease and sublease are accounted for as two separate contracts. Subleases are classified as finance leases or operating leases, referring to the right-of-use asset arising from the main lease.

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

### The Company as the lessee

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

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

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

- fixed lease payments (including, in substance, fixed lease payments), with the exception of lease payments receivable;
- variable lease payments that depend on an index or rate and were initially evaluated by using an index or rate at the initial date;
- the amounts that the lessee would have to pay as guarantees of residual value;

- the exercise price of the call option, if there are sufficient grounds to believe that the lessee will exercise this option; and
- penalty payments for the termination of the lease, if the term of the lease reflects that the lessee uses the option to terminate the lease.

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

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

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

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

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

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

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

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

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

Paragraph No. 75 of the protocol decision No. 59 of the Cabinet sitting of 17 December 2019 stipulated that after the contribution of the JSC "Latvijas elektriskie tīkli" shares owned by the State to JSC "Augstsprieguma tīkls", reorganisation of JSC "Augstsprieguma tīkls" and JSC "Latvijas elektriskie tīkli" should take place by incorporating JSC "Latvijas elektriskie tīkli" into JSC "Augstsprieguma tīkls" by 31 December 2020

The Company as a lessee recognised the **right-of-use assets**:

|  | <b>31.12.2019</b> |
|--|-------------------|
|  | EUR               |
| <b>Right-of-use assets</b>                                     |                   |
| <b>Residual value at the beginning of the reporting period</b> | -                 |
| Initial recognition value on 01.01.2019.                       | 214 885 303       |
| Recognized changes in lease contracts                          | (143 133 079)     |
| Depreciation recognised in the income statement                | (35 831 901)      |
| <b>Residual value at the end of the reporting period</b>       | <b>35 920 323</b> |

The Company as a lessee recognised **lease liabilities** in its financial statements:

|  | <b>31.12.2019</b>  |
|--|--------------------|
|  | EUR                |
| <b>Lease liabilities</b>   |                    |
| Operating lease liabilities on 31.12.2018 in accordance with IAS 17                      | 225 471 486        |
| Discounted value using the original interest rate at the initial date of implementation. | (6 470 220)        |
| <b>Initial recognition value on 01.01.2019.,</b>   | <b>219 001 266</b> |
| Recognised changes in lease contracts  | (145 629 214)      |
| Decrease in lease liabilities  | (37 578 581)       |
| Recognised interest liabilities  | 1 682 295          |
| <b>Residual value at the end of the reporting period, including:</b>                     | <b>37 475 766</b>  |
| Long-term lease liabilities  | -                  |
| Short-term lease liabilities   | 37 475 766         |



## 2.6. STOCK

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

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

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

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

## 2.7. DEFERRED REVENUE

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

Deferred revenue from congestion management revenue is amortised after its use for funding a specific long-term period project

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

## 2.8. PENSIONS, POST-EMPLOYMENT BENEFITS

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### **(a) Pension liabilities**

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

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

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

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

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

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

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

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

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

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

## 2.9. CORPORATE INCOME TAX

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Starting from the tax year 2018, the corporate income tax shall be calculated for the distributed profit (20/80 from the net sum to be paid to the shareholders).

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

The corporate tax for distributed profit will be recognised at the time when the shareholder of the Company makes a decision regarding the distribution of profit.

The payment of corporate tax to the Company is deferred until the profits are distributed as dividends or non-operating expenses are paid.

## 2.10. SAVINGS

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

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

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

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

## 2.11. REVENUE RECOGNITION

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

- a) the parties to the contract have approved the contract (in writing, orally or in accordance with other normal commercial practices) and have undertaken to comply with their respective obligations;
- b) the Company may determine the rights of each party regarding the goods or services to be transferred;
- c) the Company may establish payment terms for the goods or services to be transferred;
- d) the contract is of a commercial nature (i.e. it is expected that the contract will result in a change in the Company's future cash flow risk, schedule or amount); as well as
- e) there is a possibility that the Company will charge an indemnity in exchange for goods or services transferred to the customer. When assessing whether it is possible to collect the indemnity amount, the Company only takes into consideration the ability and intention of the client to repay the indemnity in a timely manner.

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

- a) the customer simultaneously receives and consumes the benefits that are assured by the Company's activities in the course of the Company's business;
- b) with operation of the Company the asset is created or improved (for example, repairs) and the customer controls the asset at the time the asset is created or improved; or
- c) The Company's operation does not constitute an asset that the Company could use as an alternative and the Company has enforceable rights to payment for timely completion.

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

**The main types of income of the Company are as follows:**

**(a) Electricity transmission system services**

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

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

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

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

**(b) Congestion and overload management**

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

According to Article 16 of Regulation (EC) No. 714/2009 of the European Parliament and of the Council "On conditions for access to the network for cross-border exchanges in electricity and repealing Regulation (EC) No. 1228/2003" (hereinafter referred to as "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) where revenues cannot be used effectively for the above purposes, they may be used as revenues up to a maximum value,

subject to the approval of the regulatory authorities of the respective member states, to be taken into account by national regulatory authorities when approving network tariff calculation methodologies; and/or setting network tariffs.

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

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

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

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

**(c) Mandatory procurement component income**

According to Article 105 of Regulation No. 50 of the Cabinet of Ministers of 21 January 2014, "Regulations for electricity trade and use", the Company shall charge the Mandatory procurement component (hereinafter also referred to as MPC) from all electricity end users or traders, if the end user has delegated settlements with the company for system services and ancillary services.

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

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

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

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

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

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

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

## **2.12. RECOGNITION OF COSTS**

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

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

#### **(e) New construction and renovation of transmission assets**

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

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

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

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

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

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

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

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

## 2.14. RELATED PARTIES

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

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

## 2.15. USE OF SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

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When preparing financial statements, the Company's management must make estimations and assumptions that affect the valuation of assets and liabilities recorded in the financial statements at the date of preparation of the financial statements, and revenue and expenses recorded for the specific reporting period. The following estimates of the Company's management have a significant impact on the results of the financial statements:

- Based on statistical and analytical information as well as expert forecasts, the Company makes estimates and assumptions regarding revenues and expenses related to the Company's participation in the Inter Transmission System Operator Compensation Mechanism (ITC mechanism) developed by ENTSO-E. The ITC mechanism is a transit mechanism to cover the costs of transit losses of 35 transmission system operators in Europe, with two funds: the Framework Fund and the united European Union TSOs transit flow volume fund (WWT – with and without transit), which varies according to the electricity market situation. The most important factor influencing the estimate are the electricity transit flows affecting the volume of the WWT Fund in all European electricity transmission networks, as well as the price of transit losses in the ITC Member States. The forecast is made in each Member State on the basis of six monthly loss measurements and the price of the losses. Revenue is projected using the precautionary principle. The amount of accrued income in December 2019 is EUR 858 728. Provisions are made on the basis of settlement statements accepted by the Company, which are not invoiced on 31 December 2019.

- Pursuant to the transmission system operator separation model introduced in Latvia, the Company has entered into a lease agreement for transmission system assets. In accordance with the protocol decisions of the Cabinet sessions of 8 October 2019 and 17 December 2019, by 31 December 2020 the full ownership separation model shall be implemented, with the Company acquiring ownership rights of the transmission system assets. In view of the above, the assets and liabilities related to the lease of transmission assets are estimated by establishing a lease term of 31 December 2020 and applying a discount rate in accordance with the loan rate set by the Treasury for state capital companies in the amount of 0.5%.
- Based on statistical and analytical information as well as estimates made by specialists, the Company makes estimates and assumptions about post-employment benefit obligations as described in Annex 2.8. In the reporting year, the discount rate used to discount post-employment benefit obligations is fixed at 0.744% (in 2018: 1.52%). The discount rate is determined in accordance with the requirements of International Financial Reporting Standards whereby the discount rate should be determined by reference to the market rate of return on high-quality corporate bonds at the balance sheet date; moreover, the discount rate should reflect the time value of money rather than the actuarial or investment risk. Following the provisions of the Collective agreement, which provide the annual indexation of employees' wages to inflation, calculating the provision for post-employment benefits in 2020, it is planned to increase the salary of employees by 2.6%, by 2.1% in 2021, and 2.0% thereafter.

## SENSITIVITY ANALYSIS OF TOTAL POST-EMPLOYMENT BENEFIT VALUE ON 31 DECEMBER 2019, EUR

|                                  | Increase       | Decrease          |
|----------------------------------|----------------|-------------------|
| Discount rate (+/-1%)            | 217 222<br>7%  | (246 937)<br>-8%  |
| Monthly salary increase (+/- 1%) | 561 778<br>19% | (405 027)<br>-14% |
| Employee turnover rate (+/- 1%)  | 315 940<br>11% | (263 033)<br>-9%  |

### 3. REVENUE

|  | 2019<br>EUR        | 2018<br>EUR        |
|--|--------------------|--------------------|
| Transmission asset reconstruction and renovation works | 85 729 175         | 85 791 503         |
| Transmission network service                           | 72 787 419         | 72 576 114         |
| Sale of balancing electricity                          | 13 504 002         | 15 379 400         |
| Congestion management at borders (auction)             | 3 864 585          | 7 739 340          |
| Electricity transit service                            | 2 405 603          | 3 109 079          |
| Liquidation of electrical capacity overload            | 2 227 422          | 7 132 778          |
| Sale of regulatory electricity                         | 2 170 975          | 111 309            |
| Revenue from reactive electricity                      | 692 336            | 702 995            |
| Other services   | 1 360 560          | 1 323 964          |
| <b>TOTAL INCOME</b>                                    | <b>184 742 077</b> | <b>193 866 482</b> |

Pursuant to the Energy Law, the Electricity Market Law, and the Network Code, JSC "Augstsprieguma tīkls" is obliged to implement the operational management of the transmission system and to ensure the safe, stable transmission of electricity.

\* Executing the decision of the PUC Council No. 18 of 30 January 2013, "On certification of Electricity Transmission System Operator", from 1 January 2015 the Company has taken over the maintenance and development of business lines of transmission system assets from JSC "Latvijas elektriskie tīkli" and ensures active construction, rebuilding, and renewal of the transmission system (see Annex 7). According to Article 21.<sup>2</sup> of the Electricity Market Law, the transmission system asset owner JSC "Latvijas elektriskie tīkli" finances capital investments in the transmission system assets, which are decided by JSC "Augstsprieguma tīkls".

\*\* In accordance with the Company's accounting policy, the congestion management income is reflected in the income statement according to the amount of costs related to the prevention of congestion in the transmission. In accordance with PUC Council Resolution No. 30 of 6 April 2017, the congestion charge revenue necessary to ensure the Company's profitability in accordance with the methodology is recognised in the income statement.

### 4. OTHER INCOME FROM BUSINESS ACTIVITIES

|  | 2019<br>EUR    | 2018<br>EUR    |
|--|----------------|----------------|
| Fines received                                     | 189 776        | 40 601         |
| Sale of current assets and fixed assets            | 60 383         | 24 616         |
| Received compensation for damages                  | 1 231          | 53 615         |
| EU financial support                               | -              | 1 170          |
| <b>TOTAL OTHER INCOME FROM BUSINESS ACTIVITIES</b> | <b>251 390</b> | <b>120 002</b> |

## 5. RAW MATERIALS CONSUMED, REPAIR COSTS

|   | 2019<br>EUR       | 2018<br>EUR       |
|---|-------------------|-------------------|
| Purchase of balancing electricity                             | 11 237 536        | 11 385 742        |
| Transmission electricity losses and technological consumption | 9 124 185         | 9 113 668         |
| Purchase of regulatory electricity                            | 3 851 795         | 3 771 213         |
| Electricity transit losses                                    | 2 123 434         | 2 835 744         |
| Costs of materials used and repairs                           | 2 020 794         | 2 428 029         |
| Electricity for own consumption                               | 282 833           | 332 238           |
| <b>USED RAW MATERIALS,<br/>TOTAL REPAIR COSTS</b>             | <b>28 640 577</b> | <b>29 866 634</b> |

## 6. PERSONAL COSTS

|  | 2019<br>EUR       | 2018<br>EUR       |
|--|-------------------|-------------------|
| Remuneration for work  | 12 066 959        | 11 642 664        |
| Mandatory State social security contributions and<br>Benefits determined by the collective agreement | 3 551 356         | 3 432 619         |
| Contributions to the pension plan  | 612 156           | 591 589           |
| <b>TOTAL STAFF COSTS (INCLUDING REMUNERATION TO THE<br/>MANAGEMENT OF THE COMPANY)</b>               | <b>16 230 471</b> | <b>15 666 872</b> |

including remuneration to the management of the Company

|  | 2019<br>EUR    | 2018<br>EUR    |
|--|----------------|----------------|
| Remuneration for work  | 638 124        | 574 902        |
| Mandatory State social security contributions and<br>Benefits determined by the collective agreement | 156 083        | 137 551        |
| <b>TOTAL REMUNERATION TO THE MANAGEMENT OF THE COMPANY</b>   | <b>794 207</b> | <b>712 453</b> |

Number of employees

|  | 2019<br>EUR | 2018<br>EUR |
|--|-------------|-------------|
| Number of employees at the end of the reporting year | 551         | 552         |
| Average number of employees in the reporting year    | 552         | 548         |

## 7. OTHER COSTS OF BUSINESS ACTIVITY

|  | 2019<br>EUR       | 2018<br>EUR        |
|--|-------------------|--------------------|
| Transmission asset reconstruction and renovation works | 85 705 387        | 85 791 503         |
| Electricity capacity reserve maintenance costs         | 4 659 045         | 4 371 017          |
| Telecommunication provision services                   | 2 920 005         | 2 833 048          |
| Liquidation of electrical capacity overload            | 2 446 502         | 10 385 978         |
| Transportation costs                                   | 999 214           | 979 451            |
| Premises and territory maintenance costs               | 921 200           | 291 157            |
| IT system maintenance costs                            | 747 822           | 853 999            |
| Local taxes and fees                                   | 166 346           | 155 411            |
| Nature and labour protection costs                     | 106 639           | 128 638            |
| Lease of fixed assets (transmission assets)            | -                 | 38 698 823         |
| Other business costs                                   | 935 356           | 2 321 903          |
| <b>TOTAL OTHER COSTS OF BUSINESS ACTIVITY</b>          | <b>99 607 516</b> | <b>146 810 928</b> |

## 8. NET FINANCIAL INCOME/(COSTS)

|  | 2019<br>EUR        | 2018<br>EUR      |
|--|--------------------|------------------|
| <b>a) Financial income</b>               |                    |                  |
| Interest income from credit institutions | 44 224             | 19 620           |
| <b>Total financial income</b>            | <b>44 224</b>      | <b>19 620</b>    |
| <b>b) Financial costs</b>                |                    |                  |
| Interest costs                           | -                  | (418 501)        |
| Interest expense for right-of-use assets | (1 682 295)        | -                |
| Fluctuations in currency exchange rates  | (1 336)            | (2 053)          |
| <b>Total financial expenses</b>          | <b>(1 683 631)</b> | <b>(420 554)</b> |
| <b>NET FINANCIAL INCOME/(COSTS)</b>      | <b>(1 639 407)</b> | <b>(400 934)</b> |



## 9. INTANGIBLE INVESTMENTS, FIXED ASSETS

### 9.1. INTANGIBLE ASSETS

|                                      | Computer programmes<br>EUR | Right-of-use transmission assets*<br>EUR | Advance payment for right-of-use assets<br>EUR | Total<br>EUR      |
|--------------------------------------|----------------------------|--|--|-------------------|
| <b>2018</b>                          |                            |  |  |                   |
| Balance at the beginning of the year | 384 084                    | -  | -  | 384 084           |
| Purchased                            | 196 020                    | -  | 4 118 381                                      | 4 314 401         |
| Creation of intangible investments   | 102 588                    | -  | -  | 102 588           |
| Calculated amortisation              | (150 680)                  | -  | -  | (150 680)         |
| <b>RESIDUAL VALUE ON 31.12.2018.</b> | <b>532 012</b>             | <b>-</b>                                 | <b>4 118 381</b>                               | <b>4 650 393</b>  |
| <b>as of 31 December 2018</b>        |                            |  |  |                   |
| Initial value                        | 829 266                    | -  | 4 118 381                                      | 4 947 647         |
| Creation of intangible investments   | 153 175                    | -  | -  | 153 175           |
| Accumulated amortisation             | (450 429)                  | -  | -  | (450 429)         |
| <b>RESIDUAL VALUE ON 31.12.2018.</b> | <b>532 012</b>             | <b>-</b>                                 | <b>4 118 381</b>                               | <b>4 650 393</b>  |
| <b>2019</b>                          |                            |  |  |                   |
| Purchased                            | 334 232                    | 11 493 000                               | 33 909 709                                     | 45 736 941        |
| Creation of intangible investments   | 229 532                    | -  | -  | 229 532           |
| Calculated amortisation              | (190 352)                  | (13 095)                                 | -  | (203 447)         |
| <b>RESIDUAL VALUE ON 31.12.2019.</b> | <b>905 424</b>             | <b>11 479 905</b>                        | <b>38 028 090</b>                              | <b>50 413 419</b> |
| <b>31 December 2019</b>              |                            |  |  |                   |
| Initial value                        | 1 163 498                  | 11 493 000                               | 38 028 090                                     | 50 684 588        |
| Creation of intangible investments   | 382 707                    | -  | -  | 382 707           |
| Accumulated amortisation             | (640 781)                  | (13 095)                                 | -  | (653 876)         |
| <b>RESIDUAL VALUE ON 31.12.2019.</b> | <b>905 424</b>             | <b>11 479 905</b>                        | <b>38 028 090</b>                              | <b>50 413 419</b> |

\* In accordance with the Transmission System Development Plan approved by the Public Utilities Commission, the Company directs the accumulated congestion fee revenue to the capital financing of the capital investment transmission system. Taking into account the separation model of the electricity transmission system operator, which has been implemented in Latvia and according to which the transmission assets are owned by JSC "Latvijas elektriskie tīkli", the Company recognises the right-of-use transmission assets in the amount of the investments made.

## 9.2. FIXED ASSETS

|                                      | Technological plants<br>and equipment<br>EUR | Other fixed assets and<br>inventory<br>EUR | Total<br>EUR     |
|--------------------------------------|--|--|------------------|
| <b>2018</b>                          |  |  |                  |
| Balance at the beginning of the year | 2 211  | 3 814 891                                  | 3 817 102        |
| Purchased                            | -  | 1 769 790                                  | 1 769 790        |
| Excluded initial value               | -  | (17 323)                                   | (17 323)         |
| Excluded accrued depreciation        | -  | 15 189                                     | 15 189           |
| Depreciation                         | (1 535)                                      | (1 264 290)                                | (1 265 825)      |
| <b>RESIDUAL VALUE ON 31.12.2018.</b> | <b>676</b>                                   | <b>4 318 257</b>                           | <b>4 318 933</b> |
| <b>31 December 2018</b>              |  |  |                  |
| Initial value                        | 12 505                                       | 8 449 207                                  | 8 461 712        |
| Accrued depreciation                 | (11 829)                                     | (4 130 950)                                | (4 142 779)      |
| <b>RESIDUAL VALUE ON 31.12.2018.</b> | <b>676</b>                                   | <b>4 318 257</b>                           | <b>4 318 933</b> |
| <b>2019</b>                          |  |  |                  |
| Balance at the beginning of the year | 676  | 4 318 257                                  | 4 318 933        |
| Purchased                            | -  | 1 599 330                                  | 1 599 330        |
| Excluded initial value               | (5 690)                                      | (83 780)                                   | (89 470)         |
| Excluded accrued depreciation        | 5 690  | 83 248                                     | 88 938           |
| Establishment of fixed assets        | -  | 1 000 165                                  | 1 000 165        |
| Depreciation                         | (676)  | (1 426 018)                                | (1 426 694)      |
| <b>RESIDUAL VALUE ON 31.12.2019.</b> | <b>-</b>                                     | <b>5 491 202</b>                           | <b>5 491 202</b> |
| <b>31 December 2019</b>              |  |  |                  |
| Initial value                        | 6 815  | 9 964 757                                  | 9 971 572        |
| Establishment of fixed assets        | -  | 1 000 165                                  | 1 000 165        |
| Accrued depreciation                 | (6 815)                                      | (5 473 720)                                | (5 480 535)      |
| <b>RESIDUAL VALUE ON 31.12.2019.</b> | <b>-</b>                                     | <b>5 491 202</b>                           | <b>5 491 202</b> |

## 10. OTHER LONG-TERM FINANCIAL INVESTMENTS

|   | 31.12.2019<br>EUR | 31.12.2018<br>EUR |
|---|-------------------|-------------------|
| <b>Ownership in the capital of associated companies, including:</b> |                   |                   |
| JSC "Conexus Baltic Grid"   | 57 394 971        | 57 394 971        |
| <b>Ownership in the capital of other companies, including:</b>      |                   |                   |
| JSC "Nord Pool Holding"   | 1 901 465         | 1 901 465         |
| JSC "Pirmais slēgtais pensiju fonds"                                | 1 422             | 1 422             |
| <b>TOTAL</b>  | <b>59 297 858</b> | <b>59 297 858</b> |

| Name of the Company                  | Location | Type of business activity                               | Shares (percentage) |
|--------------------------------------|----------|---|---------------------|
| JSC "Conexus Baltic Grid"            | Latvia   | Natural gas transmission and storage operator in Latvia | 34.36%              |
| JSC "Nord Pool Holding"              | Norway   | Organisation of an Electricity exchange                 | 2.0%                |
| JSC "Pirmais slēgtais pensiju fonds" | Latvia   | Management of pension plans                             | 1.9%                |

According to the decision of the Shareholders' Meeting of JSC "Conexus Baltic Grid" of 25 April 2019, in the reporting year the Company received dividends in the amount of EUR 4 100 957.

\*\* By the order of the Cabinet of Ministers of 17 December 2019, the Company was granted permission to terminate the participation in JSC "Nord Pool Holding" and to establish a joint venture for the management of JSC "Nord Pool Holding", acquiring a 2% share in it. The Cabinet of Ministers took note of the information included in the annotation of the order that after the implementation of the transaction with the investor, the Company will dispose of its shares in the joint venture, thus terminating its participation in the group.

According to the decision of the Shareholders' Meeting of JSC "Nord Pool" of 3 May 2019, in the reporting year the Company received dividends in the amount of EUR 92 907.

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

## 11. STOCK

|                           | 31.12.2019<br>EUR | 31.12.2018<br>EUR |
|---------------------------|-------------------|-------------------|
| <b>STOCK</b>              |                   |                   |
| Materials and spare parts | 480 112           | 491 767           |
| <b>TOTAL INVENTORIES</b>  | <b>480 112</b>    | <b>491 767</b>    |

## 12. NET TRADE RECEIVABLES

|  | 31.12.2019<br>EUR | 31.12.2018<br>EUR |
|--|-------------------|-------------------|
| <b>Accounts receivable</b>                                     |                   |                   |
| Electricity transmission system service debt                   | 747 506           | 1 567 253         |
| Other trade receivables  | 7 249 868         | 52 236            |
| <b>Total debtors</b>   | <b>7 997 374</b>  | <b>1 619 489</b>  |
| For electricity transmission system service debt               | (24 234)          | (2 053)           |
| For other trade receivables                                    | (6 920)           | (15 755)          |
| <b>Total provisions for doubtful and non-recoverable debts</b> | <b>(31 154)</b>   | <b>(17 808)</b>   |
| <b>Net accounts receivable</b>                                 |                   |                   |
| Electricity transmission system service debt                   | 723 272           | 1 565 200         |
| Other trade receivables  | 7 242 948         | 36 481            |
| <b>NET TRADE RECEIVABLES</b>                                   | <b>7 966 220</b>  | <b>1 601 681</b>  |

## 13. IMPAIRMENT OF DEBTORS

|   | 31.12.2019<br>EUR | 31.12.2018<br>EUR |
|---|-------------------|-------------------|
| At the beginning of the reporting year  | 17 808            | 15 404            |
| Provisions for doubtful debtors used    | (11 529)          | -                 |
| Charged to the income statement         | 24 875            | 2 404             |
| <b>At the end of the reporting year</b> | <b>31 154</b>     | <b>17 808</b>     |

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

## 14. OTHER DEBTORS

|   | 31.12.2019<br>EUR | 31.12.2018<br>EUR |
|---|-------------------|-------------------|
| Deposits                                  | 20,000,000        | 50 000 000        |
| Overpaid taxes (see Annex 22), including: | 11 512            | 11 512            |
| Corporate income tax                      | 11 512            | 11 512            |
| The rest of the receivables               | 22 722            | 54 646            |
| <b>TOTAL OTHER DEBTORS</b>                | <b>20 034 234</b> | <b>50 066 158</b> |

## 15. ACCRUED INCOME

|  | 31.12.2019<br>EUR | 31.12.2018<br>EUR |
|--|-------------------|-------------------|
| <b>Provisions for revenue from provided services</b>       |                   |                   |
| For transmission system service revenue                    | 6 247 801         | 6 300 085         |
| For transmission asset reconstruction and renovation works | 3 828 182         | 4 889 222         |
| For sale of balancing electricity                          | 850 470           | 1 312 407         |
| Liquidation of electrical capacity overload                | -                 | 605 760           |
| For mandatory purchase component revenue                   | 379 458           | 361 841           |
| For revenue from reactive electricity                      | 41 287            | 71 115            |
| For building maintenance service revenue                   | 41 142            | 46 414            |
| For revenue from sale of regulatory electricity            | 34 343            | 23 619            |
| Provisions for loss compensation in transformers           | 16 610            | 23 925            |
| For balancing administration service revenue               | 3 557             | 3 557             |
| For revenue from other services                            | 9 947             | 54 865            |
| <b>Total provisions for revenue from provided services</b> | <b>11 452 797</b> | <b>13 692 810</b> |
| Electricity transit service revenue (ITC)                  | 858 728           | 1 873 974         |
| Other accrued revenue                                      | 1 465 567         | 27 186            |
| <b>TOTAL ACCRUED REVENUE</b>                               | <b>13 777 092</b> | <b>15 593 970</b> |

## 16. CASH AND CASH EQUIVALENTS

|                         | 31.12.2019<br>EUR | 31.12.2018<br>EUR |
|-------------------------|-------------------|-------------------|
| <b>CASH IN THE BANK</b> | <b>28 216 327</b> | <b>56 636 900</b> |

## 17. EQUITY

As of 31 December 2019, the registered share capital of JSC "Augstsprieguma tīkls" is EUR 64 218 079 (EUR 63 139 313 on 31 December 2018), consisting of 64 218 079 shares (63 139 313 shares on 31 December 2018).

By the 31 May 2019 decision of the Shareholders' Meeting (Protocol No. 3 2§), the share capital of the Company was increased by making an investment of EUR 1 078 766.

The Company determines the amount of profit to be paid out as dividends for the reporting year 2019 in accordance with the requirements of Article 36 of the "Law On State Budget for 2020".

The Company has made payments to the state budget for the use of state capital from the net profit of the previous year:

- In 2016 – EUR 155 345;
- In 2017 – EUR 299 511;
- In 2018 – EUR 247 395;
- In 2019 – EUR 3 598 352.

Reserves consist of retained earnings of the previous period, which, by the decision of the owner, are transferred to other reserves for the development of the Company.

## 18. LONG-TERM CREDITORS

|   | 31.12.2019<br>EUR | 31.12.2018<br>EUR |
|---|-------------------|-------------------|
| <b>Provisions for post-employment benefit liabilities:</b>                |                   |                   |
| <b>At the beginning of the reporting year</b>                             | <b>2 918 284</b>  | <b>2 598 729</b>  |
| Current payroll cost  | 225 848           | 227 638           |
| Interest costs  | 21 582            | 39 235            |
| Benefits paid   | (93 495)          | (100 705)         |
| Revaluations due to changes in actuarial assumptions - replaced in equity | (106 006)         | 153 387           |
| <b>At the end of the reporting year</b>                                   | <b>2 966 213</b>  | <b>2 918 284</b>  |
| <b>Deferred revenue</b>   |                   |                   |
| Long-term share of congestion management revenue received*                | 89 963 992        | 87 090 454        |
| <b>TOTAL LONG-TERM CREDITORS</b>  | <b>92 930 205</b> | <b>90 008 738</b> |

\* According to the conditions of 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", congestion charge revenue received, which is not used to relieve congestion within the transmission system, shall be entered in the balance sheet as deferred income.

## 19. SHORT-TERM DEFERRED INCOME

|                              | 31.12.2019       | 31.12.2018       |
|------------------------------|------------------|------------------|
|                              | EUR              | EUR              |
| Congestion charge income     | 4 776 510        | 5 041 798        |
| EU financing received        | 169 877          | 921 041          |
| <b>TOTAL deferred income</b> | <b>4 946 387</b> | <b>5 962 839</b> |

## 20. ADVANCE PAYMENTS AND OTHER CREDITORS

|   | 31.12.2019       | 31.12.2018       |
|---|------------------|------------------|
|   | EUR              | EUR              |
| Settlements with employees                  | 619 356          | 602 985          |
| Connection fee advances received *          | 82 723           | 1 310 742        |
| Other creditors                             | 2 598 814        | 3 089 477        |
| <b>ADVANCE PAYMENTS AND OTHER CREDITORS</b> | <b>3 300 893</b> | <b>5 003 204</b> |

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



## 21. ACCRUED LIABILITIES

|   | 31.12.2019<br>EUR | 31.12.2018<br>EUR |
|---|-------------------|-------------------|
| <b>Accrued liabilities for expenses for services received</b>       |                   |                   |
| Lease of fixed assets (transmission assets)                         | 3 131 548         | 3 679 074         |
| Purchase of balancing electricity                                   | 778 154           | 943 151           |
| Mandatory procurement component                                     | 379 458           | 361 841           |
| Electricity capacity reserve maintenance costs                      | 345 960           | 345 960           |
| Expenses for telecommunications                                     | 248 305           | 240 983           |
| Transmission asset reconstruction and renovation works              | 130 776           | 133 963           |
| Use of synchronous compensators                                     | 76 365            | 56 219            |
| Purchase of regulatory electricity                                  | 47 437            | 266 736           |
| Information Technology Services                                     | 21 679            | 22 424            |
| Electricity for own consumption                                     | 16 770            | -                 |
| Annual review and auditing costs                                    | 16 100            | -                 |
| Liquidation of electrical capacity overload                         | -                 | 26 188            |
| Creation of intangible investments                                  | -                 | 65 292            |
| Cleaning of power transmission lines                                | -                 | 12 830            |
| Provisions for other services                                       | 102 427           | 109 205           |
| <b>Total accrued liabilities for expenses for services received</b> | <b>5 294 979</b>  | <b>6 263 866</b>  |
| Accrued cost of unused holidays                                     | 657 646           | 569 491           |
| Accrued bonus costs for previous year results                       | 342 928           | 333 661           |
| Accrued benefit costs and pension plan contributions                | 40 818            | 34 303            |
| Accrued liabilities to compensate the transit losses                | 25 917            | 2 967             |
| <b>ACCRUED LIABILITIES</b>  | <b>6 362 288</b>  | <b>7 204 288</b>  |



## 22. TAXES AND MANDATORY STATE SOCIAL INSURANCE CONTRIBUTIONS

|  | 31.12.2018<br>EUR | Calculated<br>EUR  | Paid/ (repaid)<br>EUR | 31.12.2019<br>EUR |
|--|-------------------|--------------------|-----------------------|-------------------|
| <b>Corporate income tax</b>                    | 11 512            | (719 670)          | 719 670               | 11 512            |
| Value added tax                                | (285 910)         | 5 583 796          | (5 485 307)           | (187 421)         |
| Mandatory State social insurance contributions | (405 783)         | (4 363 454)        | 4 326 491             | (442 746)         |
| Personal income tax                            | (214 902)         | (2 190 559)        | 2 172 140             | (233 321)         |
| State risk fee                                 | (199)             | (2 384)            | 2 385                 | (198)             |
| Electricity tax                                | (403)             | (2 591)            | 2 679                 | (315)             |
| <b>TOTAL TAXES</b>                             | <b>(895 685)</b>  | <b>(1 694 862)</b> | <b>1 738 058</b>      | <b>(852 489)</b>  |
| Tax obligations                                | (907 197)         | -                  | -                     | (864 001)         |
| Tax overpaid                                   | 11 512            | -                  | -                     | 11 512            |



## 23. FAIR VALUE CONSIDERATIONS

13. IFRS 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 fair value hierarchy level of a financial instrument should be designated as the lowest level, if a significant part of their value is formed of lower level data.

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

1. Classify each level of data to determine the fair value hierarchy;
2. Classify the financial instrument itself on the basis of the lowest level, if a significant part of their value is formed of lower-level data.

### Quoted market prices - Level 1

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

### Valuation techniques, when using market data – Level 2

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

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

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

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

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

| Balance item                          | Carrying amount<br>EUR | 1st pillar<br>EUR | 2nd pillar<br>EUR | 3rd pillar<br>EUR |
|---------------------------------------|------------------------|-------------------|-------------------|-------------------|
| <b>31.12.2018</b>                     |                        |                   |                   |                   |
| Cash and cash equivalents             | 56 636 900             | -                 | 56 636 900        | -                 |
| Trade receivables                     | 1 601 681              | -                 | -                 | 1 601 681         |
| Deposit                               | 50 000 000             | -                 | 50 000 000        | -                 |
| Other long-term financial investments | 1 902 887              | -                 | -                 | 1 902 887         |
| Other financial assets                | 54 646                 | -                 | -                 | 54 646            |
| Trade payables                        | 13 569 641             | -                 | -                 | 13 569 641        |
| Other financial liabilities           | 3 089 477              | -                 | -                 | 3 089 477         |

| Balance item                          | Carrying amount<br>EUR | 1st pillar<br>EUR | 2nd pillar<br>EUR | 3rd pillar<br>EUR |
|---------------------------------------|------------------------|-------------------|-------------------|-------------------|
| <b>31.12.2019</b>                     |                        |                   |                   |                   |
| Cash and cash equivalents             | 28 216 327             | -                 | 28 216 327        | -                 |
| Trade receivables                     | 7 966 220              | -                 | -                 | 7 966 220         |
| Deposit                               | 20,000,000             | -                 | 20,000,000        | -                 |
| Other long-term financial investments | 1 902 887              | -                 | -                 | 1 902 887         |
| Other financial assets                | 22 722                 | -                 | -                 | 22 722            |
| Trade payables                        | 6 099 120              | -                 | -                 | 6 099 120         |
| Other financial liabilities           | 2 598 814              | -                 | -                 | 2 598 814         |

## 24. FINANCIAL RISK MANAGEMENT

### (a) Turnover risk

External circumstances that could have an unintended effect on the Company's net sales, affecting its ability to meet its current and non-current financial liabilities (solvency), are identified as turnover risks. The economic activity of the Company is exposed to turnover risks such as service tariff and volume of services. Given that, according to Article 9 of the "Law on Public Utilities Regulators", PUC promotes the development of public service providers, and according to Article 20, provides that public service tariffs shall be set at a level that covers the economically justified costs of the public service and ensures the profitability of the public service, the impact of the Company's turnover risks on the Company's liquidity shortage is assessed as low to medium. The Company's turnover risks are managed in accordance with strategic and operational risk mitigation measures specified in the Financial risk management policy, ensuring constant monitoring of the service tariffs against the costs related to the provision of the services.

### (b) Cash flow/balance sheet risks

Financial means that potentially expose the Company to a certain degree of risk concentration are mostly cash and trade receivables. Although the Company has a significant concentration of risk with respect to one counterparty or a group of similar counterparties, this risk is considered to be limited, considering that the most important Cooperation partner is the state-owned commercial company JSC "Latvenergo", as well as its group companies. Trade receivables are presented according to the recoverable value. The Company's cash flow/balance sheet risks are managed in accordance with the strategic and operational risk mitigation measures specified in the Financial risk management policy by performing the analysis of receivables every month or at least quarterly. On 31 December 2019, the amount of delayed bills amounted to EUR 824 341, which represents 0.4% of the Company's net turnover, of which EUR 569 397 was paid in January 2020. Financial risks arising from the Company's cash and deposits with banks are managed in accordance with the Company's Financial risk management policy. According to this policy, in cooperation with banks and financial institutions, such business partners are accepted, whose credit rating or credit rating of the parent bank set by an international credit rating agency is at least at the investment grade level.

The credit ratings of the banks used by the Company according to the bank credit ratings assigned by Moody's and the balances on current accounts and term deposits with these banks were as follows:

| Balance item   | Credit rating | 31.12.2019<br>EUR | 31.12.2018<br>EUR |
|--|---------------|-------------------|-------------------|
| <b>Cash, including:</b>  |               |                   |                   |
| Cash in current accounts, company cards  | Aa2           | 28 216 327        | 56 636 900        |
| <b>Total cash</b>  |               | <b>28 216 327</b> | <b>56 636 900</b> |
| <b>Cash with accounts receivables *, including:</b>                            |               |                   |                   |
| <b>With short-term accounts receivables:</b>                                   |               |                   |                   |
| Deposits with a maturity of between three months and twelve months, including: | Baa1          | 20,000,000        | 50 000 000        |
| <b>Total deposits with maturity over three months</b>                          |               | <b>20,000,000</b> | <b>50 000 000</b> |

**(c) Liquidity risk**

The Company complies with prudential liquidity risk management, ensuring that appropriate financial resources are available to it for the settlement of liabilities within the set time periods. The management of the Company expects that it will not have liquidity problems and that the Company will be able to settle accounts with creditors within the set terms.

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

**(d) Capital risk management**

The shareholder of the Company is the Ministry of Finance in the name of the Republic of Latvia (100%) The objective of capital risk management is to ensure the sustainable operation and development of the Company.

In accordance with the separation model of the electricity transmission system operator that has been implemented in Latvia, the Company leases the assets necessary for the provision of transmission system services from JSC "Latvijas elektriskie tīkli". Taking the above mentioned into account, the Company's capital structure is characterised by a low equity ratio. Such capital structure does not create any risk to the sustainable development of the Company, as, according to the Electricity Market Law, financing of the Company's capital investments in transmission system assets is provided by JSC "Latvijas elektriskie tīkli" as the owner of electricity transmission system assets.

**(e) Credit risk**

The Company does not use loans to finance its operating activities. Financial means that potentially expose the Company to a certain degree of risk concentration are mostly cash and trade receivables. In accordance with the Accounting policy of the Company, impairment allowance for doubtful debts is calculated at least quarterly, based on the age of the receivables.

The Company is exposed to credit risk as it is shown in the table below:

|  | <b>31.12.2019</b> | <b>31.12.2018</b> |
|--|-------------------|-------------------|
|  | EUR               | EUR               |
| Cash and cash equivalents  | 28 216 327        | 56 636 900        |
| Trade receivables and other payables (gross amount) excluding advances and prepayments | 7 997 374         | 1 619 489         |
| <b>Total</b>   | <b>36 213 701</b> | <b>58 256 389</b> |

In addition, the following information regarding credit risk shall be disclosed:

|                                   | <b>31.12.2019</b> | <b>31.12.2018</b> |
|-----------------------------------|-------------------|-------------------|
|                                   | EUR               | EUR               |
| <b>Debts that are not overdue</b> | 7 169 245         | 70 970            |
| <b>Overdue debts</b>              |                   |                   |
| Up to 3 months                    | 634 168           | 1 527 150         |
| From 3 to 12 months               | 187 633           | 5 661             |
| From 1 to 5 years                 | 6 328             | 11 833            |
| More than 5 years                 | -                 | 3 875             |
| <b>TOTAL</b>                      | <b>7 997 374</b>  | <b>1 619 489</b>  |

## 25. PROSPECTIVE TAX LIABILITIES

The tax authorities may carry out an audit of accounts at any time within three years of the tax year and additionally calculate the tax liabilities and penalties. The management of the Company is not aware of any circumstances that could create material future liabilities.

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## 26. CAPITAL INVESTMENT LIABILITIES

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According to Article 13 Section 6 of the Electricity Market Law, the Company as a transmission system operator shall be responsible for the planning, construction, and commissioning of new transmission infrastructure objects during the development of the transmission system. In view of the above, the Company implements capital investment projects in transmission system assets in accordance with the ten-year development plan approved by the Public utilities regulation commission.

In accordance with the electricity transmission system operator separation model, the owner of the transmission system assets is JSC "Latvijas elektriskie tīkli".

According to Article 21<sup>2</sup> Section 3 of the Electricity Market Law, the transmission system asset lease agreement of 30 December 2014 between the Company and JSC "Latvijas elektriskie tīkli", JSC "Latvijas elektriskie tīkli", as the owner of electricity transmission system assets, provides financing to the capital investments of the Company for the development of the transmission system. Thereby the Company is not exposed to credit risk when carrying out capital investment projects, and no capital investment liabilities arise.

In addition to the financing provided by JSC "Latvijas elektriskie tīkli", co-financing from the European Union is attracted to the capital investment projects, including:

- Grant agreement with INEA (Innovation and Networks Executive Agency) concluded in May 2015 for co-financing the project "330 kV EPL connection Kurzemes loks" Phase 3: 330 kV overhead line "Ventspils – Tume – Imanta" co-financing 45% of the eligible costs in the amount of EUR 55 089 000 (the project is expected to be completed by the end of 2019);
- In May 2015 an agreement was concluded with INEA to receive European Union co-financing for the project "Estonia-Latvia Third Interconnection" at 65% of the eligible costs in the amount of EUR 63 380 070 (the project is expected to be completed by the end of 2020);
- In May 2017 an agreement was concluded with INEA to receive European Union co-financing for the project "Construction of 330 kV power line 'Rīga TPP-2 – Rīga HPP'" at 50% of the eligible costs in the amount of EUR 9 990 000 (the project is expected to be completed by the end of 2020);
- On 19 March 2019 an agreement was concluded with INEA to receive European Union co-financing for the project "Baltic synchronisation project, Phase 1" at 75% of the eligible costs in the amount of EUR 57 750 000 (the project is expected to be completed by the end of 2025).

## 27. TRANSACTIONS WITH RELATED PARTIES

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

except for the capital company JSC "Latvenergo" and its subsidiaries – the owner of transmission assets JSC "Latvijas elektriskie tīkli", the energy supply service provider JSC "Latvenergo", the distribution system operator JSC "Sadales tīkls", the public electricity trader JSC "Energijas publiskais tirgotājs".

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

|  | 31.12.2019<br>EUR  | 31.12.2018<br>EUR                  |
|--|--------------------|------------------------------------|
|  |                    | <b>State controlled companies*</b> |
| <b>Income</b>  |                    |                                    |
| Revenue from the sale of electricity, electric capacity maintenance services | 6 262 195          | 5 089 993                          |
| Mandatory procurement component  | 4 065 761          | 4 068 123                          |
| Transport system service   | 72 469 813         | 72 300 401                         |
| Transmission asset reconstruction and renovation works                       | 85 727 617         | 85 839 950                         |
| Revenue from other services  | 749 473            | 878 139                            |
| <b>Total revenue from transactions with related companies</b>                | <b>169 274 859</b> | <b>168 176 607</b>                 |
| <b>Distributions</b>   |                    |                                    |
| Advance payments for connection usage rights                                 | 33 909 709         | 4 118 381                          |
| Electricity purchase   | 13 618 590         | 17 255 321                         |
| Right-of-use transmission assets   | 11 493 000         | -                                  |
| Mandatory procurement component  | 4 065 761          | 4 068 123                          |
| Lease of fixed assets  | -                  | 38 698 823                         |
| Communication expenses   | 3 190 660          | 3 284 181                          |
| Other costs  | 855 796            | 1 194 432                          |
| <b>Total expenses of transactions with related companies</b>                 | <b>67 133 516</b>  | <b>68 619 261</b>                  |

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

|                                  | 31.12.2019<br>EUR | 31.12.2018<br>EUR |
|----------------------------------|-------------------|-------------------|
| <b>Accounts receivable:</b>      |                   |                   |
| state controlled companies       | 17 748 534        | 12 058 549        |
| <b>Liabilities of creditors:</b> |                   |                   |
| state controlled companies       | 5 370 327         | 11 844 734        |

## 28. REMUNERATION TO CERTIFIED AUDITORS COMMERCIAL COMPANY

|  | 2019          | 2018         |
|--|---------------|--------------|
|  | EUR           | EUR          |
| Audit service  | 22 510        | 7 110        |
| Consulting service   | 35 000        | -            |
| <b>TOTAL REMUNERATION TO CERTIFIED AUDITORS COMMERCIAL COMPANY</b> | <b>57 510</b> | <b>7 110</b> |

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

According to JSC "Conexus Baltic Grid" annual report of 2019, the profit of JSC "Conexus Baltic Grid" for 2019 is EUR 17 945 thousand. thousand. On 30 April 2020, the shareholders' meeting of JSC "Conexus Baltic Grid" decided to pay out a dividend of EUR 0.41 per share for the year 2019. Considering the number of shares of JSC "Conexus Baltic Grid" owned by the Company, the Company will receive EUR 5 605 thousand in dividends. thousand.

Paragraph No. 38 of the protocol decision No. 46 of the Cabinet session of 8 October 2019 supported the implementation of the full ownership separation model regarding the electric power transmission system operator and assigned the task of contributing the JSC "Latvijas elektriskie tīkli" shares owned by the State to JSC "Augstsprieguma tīkls" by 1 July 2020.

In its turn, paragraph No. 75 of the protocol decision No. 59 of the Cabinet session of 17 December 2019 stipulated that after the contribution of the JSC "Latvijas elektriskie tīkli" shares owned by the State to JSC "Augstsprieguma tīkls", reorganisation of JSC "Augstsprieguma tīkls" and JSC "Latvijas elektriskie tīkli", LET should take place by incorporating JSC "Latvijas elektriskie tīkli" into JSC "Augstsprieguma tīkls" by 31 December 2020.

After the end of the financial year, in March 2020, restrictions related to the spread of the coronavirus were introduced in the Republic of Latvia and many other countries, which significantly limits economic growth in the country and in the world. It is not possible to predict how the situation will develop in the future, and therefore there is uncertainty about economic development. The Company's management continuously evaluates the situation, and at the time of the approval of the annual report the Company has not encountered significant disruptions in its business operations, no significant or potentially significant debt losses have been identified, and the Company continues to settle liabilities in a timely manner. However, this conclusion is based on the information available at the time of the preparation of the document; as influencing circumstances change, the impact on the Company's operations may differ from the current assessment.

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





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**INDEPENDENT  
AUDITOR'S  
REPORT**

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## INDEPENDENT AUDITORS' REPORT

### To the shareholder of JSC "Augstsprieguma tīkls"

#### *Our Opinion on the Financial Statements*

We have audited the separate financial statements of JSC "Augstsprieguma tīkls" (the Company) set out on pages 27 to 66 of the annual accounts enclosed. The accompanying separate financial statements include:

- Statement of Financial Position on 31 December 2019;
- Profit and loss account for the year ending on 31 December 2019;
- Statement of Comprehensive Income for the year ending on 31 December 2019;
- Statement of changes in equity for the year ending on 31 December 2019;
- Statement of Cash Flows for the year ending on 31 December 2019, as well as
- an attachment to the financial statements which contains a summary of significant accounting principles and other explanatory information.

In our opinion, the accompanying separate financial statements give a true and fair view of the financial position of JSC "Augstsprieguma tīkls" as of 31 December 2019 and of its operating results and cash flow for the year which ended on 31 December 2019, in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

#### *Basis for the opinion*

In accordance with the Law on Auditing Services of the Republic of Latvia (Law on Auditing Services), we have carried out an audit pursuant to the International Standards on Auditing recognised in the Republic of Latvia (hereinafter – ISA). Our obligations prescribed in these standards are hereinafter described in the "Auditor's Responsibility for the Audit of the Financial Statement" section of our report.

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

We believe that our obtained audit evidence provides sufficient and adequate justification for our opinion.

#### *Providing other information*

The Company's management shall be responsible for other information. The other information is composed of:

- information about the Company provided on page 2 of the attached financial statement,
- management report provided on pages 5–24 of the attached annual report.

Our opinion regarding the financial statements does not pertain to other information included in the annual report, and we do not provide any type of certification regarding it, except for that which is indicated in the *Other reporting requirements in accordance with the requirements of the laws and regulations of the Republic of Latvia* section of our report.

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## **INDEPENDENT AUDITOR'S REPORT (continued)**

In respect of the audit of the financial statements, our obligation is to familiarise ourselves with other information and by doing so, to evaluate whether this other information significantly differs from the information of the financial statements or the knowledge which we obtained during the audit, or whether it contains any other significant discrepancies.

If based on the work performed, and taking into account the information and understanding regarding the Company and its working environment obtained during the audit, we conclude that other information contains significant discrepancies, our obligation is to report on such circumstances. The circumstances which we should report on have not come to our attention.

### *Other Reporting Requirements in Accordance with the Requirements of the Laws and Regulations of the Republic of Latvia*

In addition, pursuant to the Law on Auditing Services, our obligation is to provide an opinion as to whether the management report has been prepared in accordance with the requirements of the law or regulation governing its preparation and the Law On Annual Financial Statements and Consolidated Financial Statements.

Based on the procedures carried out within the scope of our audit only, in my opinion:

- the information provided in the management report for the reporting year for which the financial statements were prepared conforms to the financial statements, and
- the Management Report has been prepared in accordance with the requirements of the Law On Annual Financial Statements and Consolidated Financial Statements.

### *Responsibility of the Management and Persons Entrusted with the Company Administration for the Financial Statements*

The management shall be responsible for the preparation of the financial statements, providing a correct and clear idea in accordance with IFRS as adopted by the European Union, as well as for maintaining the internal control system, which in the management's opinion is necessary to be able to prepare financial statements without any significant discrepancies caused by fraud or error.

An obligation of the management when preparing financial statements is to evaluate the Company's ability to continue operation, if necessary providing information regarding the circumstances related to the Company's ability to continue operation and application of the principle of continuation of operation, unless the management is planning the liquidation of the Company or the termination of its operation or it does not have any alternative other than the liquidation or termination of operation of the Company.

The persons entrusted with the administration of the Company are responsible for the supervision of the preparation process of the Company's financial statements.

### *Auditor's Responsibilities for the Audit of Financial Statements*

Our goal is to gain sufficient assurance that the financial statements in general do not contain any significant discrepancies caused either by fraud or by error and to issue an auditors' report containing an opinion. Sufficient assurance is a high level of assurance, but it does not guarantee that a significant discrepancy will always be detected during the audit carried out in accordance with the ISA, if any exists. Discrepancies may occur as a result of fraud or error, and they are considered significant if it can be justly believed that they each individually or altogether could affect the economic decisions that the users adopt based on these financial statements. By carrying out an audit in accordance with ISA, during the entire audit process we make professional judgements and maintain professional scepticism. We also:

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#### INDEPENDENT AUDITOR'S REPORT (continued)

- identify and assess the risks that the financial statements could contain significant discrepancies caused by fraud or by error, develop and perform the audit procedures to mitigate these risks, and obtain audit evidence which gives us sufficient and appropriate justification for our opinion. A risk that significant discrepancies due to fraud will not be detected is higher than the risk that discrepancies caused by an error will not be detected, because fraud can involve secret agreements, falsification of documents, failure to provide information with intention, incorrect indication of information, or violations of internal control;
- gain an understanding regarding internal control, which is significant for carrying out the audit to develop the audit procedures appropriate for the specific circumstances, but not to give an opinion regarding efficiency of the internal control of the Company;
- assess the conformity of the applied accounting policy with the justification of the accounting estimates and the relevant information provided by the management;
- draw conclusions on conformity of the principle of continuation of operation applied by the management, and, based on the obtained audit evidence, regarding whether a significant uncertainty exists in respect of events or circumstances that can cause significant doubts regarding the Company's ability to continue operation. If we conclude that a significant uncertainty exists, attention is turned to information provided in the financial statements regarding these circumstances in the auditors' report; if such information has not been provided, we issue a modified opinion. Our conclusions are justified by the audit evidence obtained prior to the date of the auditors' report. The Company under the influence of future events or circumstances can, however, discontinue its operation;
- evaluate the overall structure and content of the financial statements, including the disclosed information and explanations in the annex, or whether the financial statements correctly show the transactions and events on the basis of the statements.

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

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

Riga, Latvia  
15 May 2020

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**AUGSTSPRIEGUMA TĪKLS GROUP'S CONSOLIDATED AND  
AS "AUGSTSPRIEGUMA TĪKLS" UNAUDITED CONDENSED  
INTERIM FINANCIAL STATEMENTS**

**FOR 6 MONTHS OF 2021**

For the 6 month period  
from 01.01.2021. until 30.06.2021.

Prepared in accordance  
with the 34.International  
Accounting Standard



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# CONTENTS

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|  |           |
|--|-----------|
| <b>Information about the Group and the Company</b>                 | <b>3</b>  |
| <b>Key financial and operational indicators</b>                    | <b>5</b>  |
| <b>Management Report</b>   | <b>6</b>  |
| <b>Statement of Board's responsibility</b>                         | <b>17</b> |
| <b>Consolidated and separate financial statements</b>              | <b>19</b> |
| Condensed profit or loss statement                                 | 20        |
| Condensed statement of comprehensive income                        | 21        |
| Condensed statement of financial position as at 30 June 2021       | 22        |
| Condensed statement of changes in equity                           | 24        |
| Condensed cash flow statement                                      | 26        |
| <b>Notes to the consolidated and separate financial statements</b> | <b>28</b> |



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**INFORMATION  
ABOUT THE GROUP  
AND THE COMPANY**

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## INFORMATION ABOUT THE GROUP AND THE COMPANY

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|  |   |
|--|---|
| <b>Name of the parent company</b>                                      | Akciju sabiedrība "Augstsprieguma tīkls"  |
| <b>Legal status of the parent company</b>                              | Joint Stock Company   |
| <b>Registration number, place and date of the parent company</b>       | 000357556<br>Riga, 28 December 2001<br><br>Re-registration in the Commercial Register was performed on 13 November 2004 under unified registration number 40003575567   |
| <b>Address</b>   | Dārziema iela 86<br>Riga, LV-1073<br>Latvia   |
| <b>Type of principal activity of the parent company</b>                | Electricity supply, NACE code 35.12   |
| <b>Type of principal activity of the Group</b>                         | Electricity supply, NACE code 35.12 and Pipeline transport (NACE code 49.50)  |
| <b>Parent company shareholder</b>                                      | From 2 January 2012:<br>Ministry of Finance in the name of the Republic of Latvia (100%)<br>Smilšu iela 1, Riga, LV-1050, Latvia  |
| <b>Names, surnames and positions held of the board members</b>         | Gunta Jēkabsone – Chairperson of the Board (from 15.07.2021)<br>Imants Zviedris – Board Member<br>Gatis Junghāns – Board Member<br>Mārcis Kauliņš – Board Member<br>Arnis Daugulis – Member of the Board (from 15.07.2021.)<br>Varis Boks – Chairperson of the Board (until 31.03.2021)<br>Arnis Staltmanis – Board Member (until 07.04.2021) |
| <b>Names, surnames and positions held of Supervisory Board members</b> | Kaspars Āboliņš – Council Chairperson<br>Olga Bogdanova – Deputy Council Chairperson<br>Armands Eberhards – Council Member<br>Madara Melne – Council Member<br>Aigars Ģērmanis – Council Member   |
| <b>Participation in other companies</b>                                | JSC "Conexus Baltic Grid" (68.46% from 21.07.2020; 34.36% until 20.07.2020.)  |
| <b>Accounting period</b>   | 1 January 2021 – 30 June 2021   |

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## KEY FINANCIAL AND OPERATIONAL INDICATORS

| FINANCIAL INDICATORS   | JSC "Augstsprieguma tīkls" |                         | GROUP                   |                         |
|--|----------------------------|-------------------------|-------------------------|-------------------------|
|  | 6 months of 2021           | 6 months of 2020        | 6 months of 2021        | 6 months of 2020        |
| Revenue, thous. EUR  | 50 905                     | 80 156                  | 80 353                  | 72 847                  |
| EBITDA, thous. EUR   | 23 005                     | 21 667                  | 42 298                  | 21 970                  |
| Profit, thous. EUR   | 63 805                     | 7 494                   | 14 135                  | 11 819                  |
|  | <b>30.06.2021</b>          | <b>31.12.2020</b>       | <b>30.06.2021</b>       | <b>31.12.2020</b>       |
| Balance sheet total, thous. EUR  | 922 222                    | 905 527                 | 1 219 395               | 1 213 515               |
| Equity, thous. EUR   | 440 615                    | 384 809                 | 617 671                 | 639 203                 |
| Loans, thous. EUR  | 156 200                    | 202 872                 | 240 203                 | 224 747                 |
| Cash and its equivalents, thous. EUR*                                    | 72 316                     | 57 225                  | 74 721                  | 72 388                  |
| <b>FINANCIAL RATIOS</b>  |                            |                         |                         |                         |
| Liquidity total ratio  | 1.8                        | 4.7                     | 1.2                     | 2.0                     |
| EBITDA Profitability   | 45%                        | 27%                     | 52%                     | 30%                     |
| Equity ratio ( $\geq 35\%$ )   | 48%                        | 42%                     | 51%                     | 53%                     |
| <b>OPERATIONAL INDICATORS</b>  | <b>6 months of 2021</b>    | <b>6 months of 2020</b> | <b>6 months of 2021</b> | <b>6 months of 2020</b> |
| Electricity transmitted to users in Latvia, MWh                          | 3 087 048                  | 2 925 788               | 3 087 048               | 2 925 788               |
| Capital investments in the electricity transmission system, thousand EUR | 11 632                     | 36 084                  | 11 632                  | 36 084                  |

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

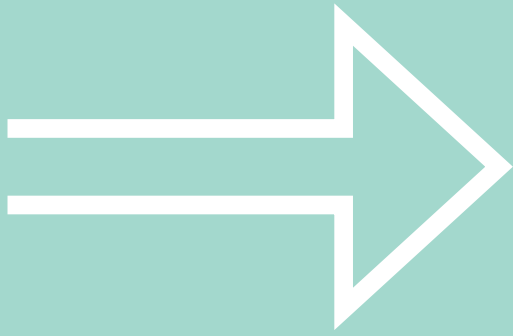
**EBITDA** – earnings before interest, financial income, taxes, depreciation and amortisation

**Total liquidity ratio** – current assets/current liabilities (excluding the part of the short-term loan to be refinanced in 2021)

**EBITDA profitability** – EBITDA/revenue

**Equity ratio** = Equity/Balance sheet total

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



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**MANAGEMENT  
REPORT**

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## SIGNIFICANT FACTS AND EVENTS

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### THE PRICE OF ELECTRICITY IS RISING SIGNIFICANTLY

In June 2021, the average electricity price on the Nord Pool (NP) stock exchange in the Latvian trading area was 76.23 EUR/MWh and, compared to May, the price increased by 57.4%, but compared to June of the previous year, when it was 31.80 EUR/MWh, the price has increased by 140%. 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.

### INVESTMENTS IN THE SECURITY OF THE ENERGY SUPPLY: THE THIRD ESTONIA-LATVIA 330KV INTERCONNECTION HAS BEEN PUT INTO OPERATION

The State Construction Control Bureau (SCCB) has put into operation the project "The third 330kV interconnection of Estonia and Latvia" developed by JSC "Augstsprieguma tīkls". The project "Third Estonia – Latvia 330 kV Interconnection" is also important for the security of the energy supply and stable operation of the electricity transmission network both in Latvia and in the Baltics as a whole.

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

In the 6 months of 2021, the amount of electricity transmitted to the users of JSC "Augstsprieguma

tīkls" in Latvia was 3 087 GWh, which is 6% more than in the corresponding period of the previous year (2 926 GWh).

### THE VOLUME OF NATURAL GAS TRANSPORTED IS 31% HIGHER THAN A YEAR EARLIER

In the 6 months of 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 22.2 TWh, exceeding the previous year by 31%.

### FOR THE THIRD TIME - A PLATINUM RATING IN THE SUSTAINABILITY INDEX

For the third time already, JSC "Augstsprieguma tīkls" received the highest award, the Platinum Award, of the Sustainability Index managed by the Corporate Sustainability and Responsibility Institute, demonstrating the compliance of its corporate responsibility level with the strictest of standards and showing that the company cares about the welfare of its employees and clients.

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## ABOUT THE AUGSTSPRIEGUMA TĪKLS GROUP

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**THE PRINCIPAL ACTIVITY OF THE AUGSTSPRIEGUMA TĪKLS GROUP** is the provision of electricity transmission system operator functions, efficient management of energy supply system assets, natural gas transmission and storage.

As of 30 June 2021, the Augstsprieguma tīkls group structure consists of a group of commercial companies in which the parent company JSC "Augstsprieguma tīkls" (hereinafter also – AST or the Parent Company) has a decisive influence, and which includes the subsidiary JSC "Conexus Baltic Grid" (hereinafter also – Conexus or the Subsidiary).

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

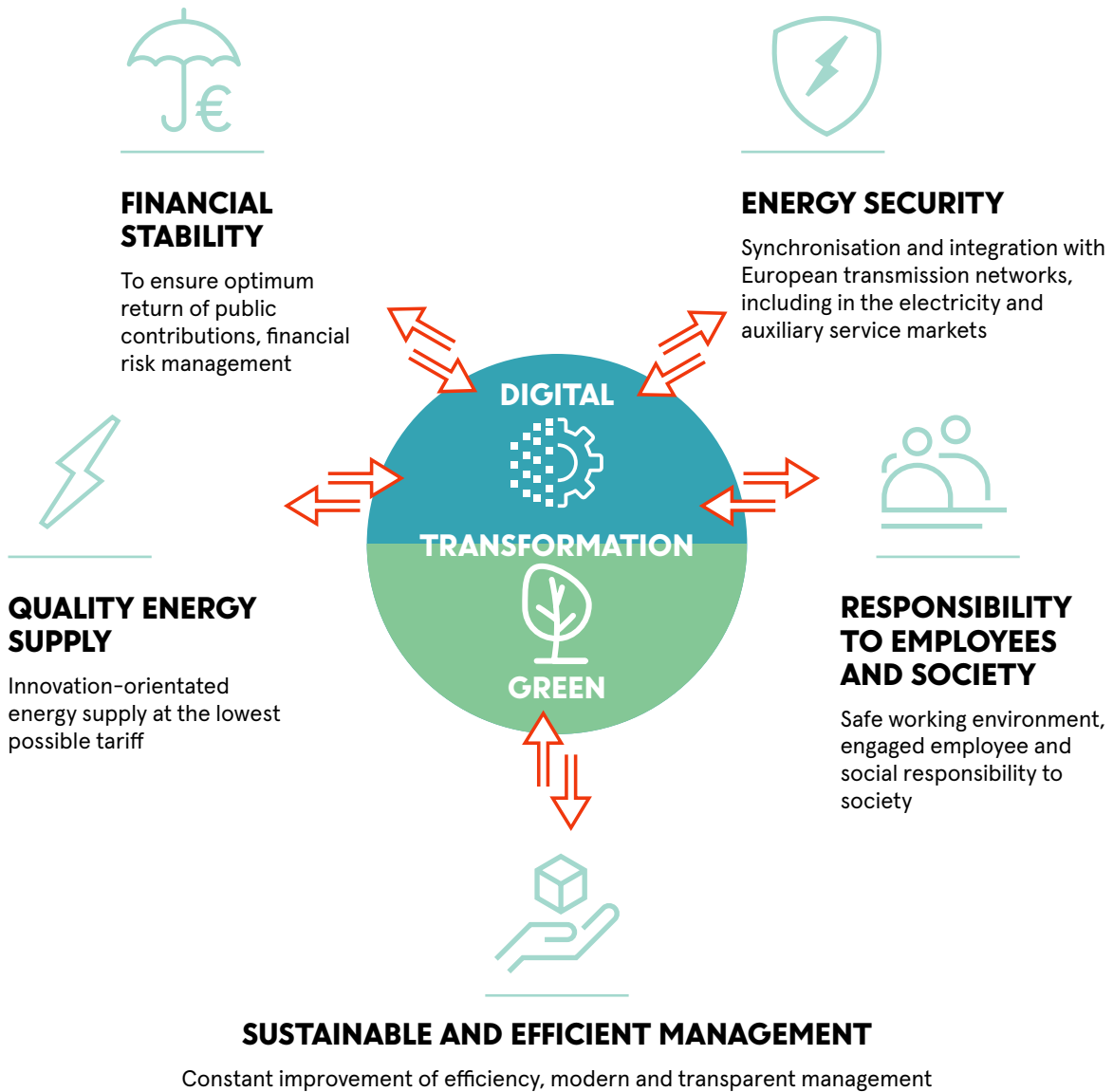
The structure of the Augstsprieguma tīkls group is organised in two operating segments: electricity

transmission and transmission and storage of natural gas. The division is made on the basis of the Group's internal organisational structure, which forms the basis for monitoring and control of the segment's performance.

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

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

Augstsprieguma tīkls group's  
STRATEGIC DEVELOPMENT IS FOCUSED ON:



## ELECTRICITY TRANSMISSION

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

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

### Quality Management System and Values

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

The implemented Integrated Management System ensures the efficient operation of AST, observing internationally accepted operating mechanisms regarding quality, energy management, environment protection, occupational and occupational health management, ensuring correct compliance with regulatory requirements, promoting awareness of

the business context of AST, taking the view of AST's risks and processes into account.

The parent company has developed a quality policy which defines the following **AST CORE VALUES** based on the Energy Law, the Electricity Market Law and the Network Code:



### Corporate and Social Responsibility

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

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

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

The Parent Company has developed and approved a CORPORATE SOCIAL RESPONSIBILITY POLICY. Corporate and social responsibility (hereinafter - CSR) policy defines the forms, basic principles and directions of CSR, as well as criteria for choosing activities.

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

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

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

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## TRANSMISSION AND STORAGE OF NATURAL GAS

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

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

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

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

Conexus **MISSION** is to promote the sustainable operation of the energy market in the region by ensuring the reliable operation of the natural gas transmission and storage system.

Conexus **VALUES**:

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

- Flexibility and openness through competent solutions - we support market development and are open to new solutions that support market development.
- Sustainable development - in order to protect the population and the environment from potential security risks, we regularly invest in the modernisation and increase of security of the gas system, as well as in the development of the technological system.
- Professional and united team - we value professionalism in everything, and we can be relied on by colleagues, clients and partners.

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

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

## DESCRIPTION OF THE BUSINESS ENVIRONMENT

### Electricity Transmission

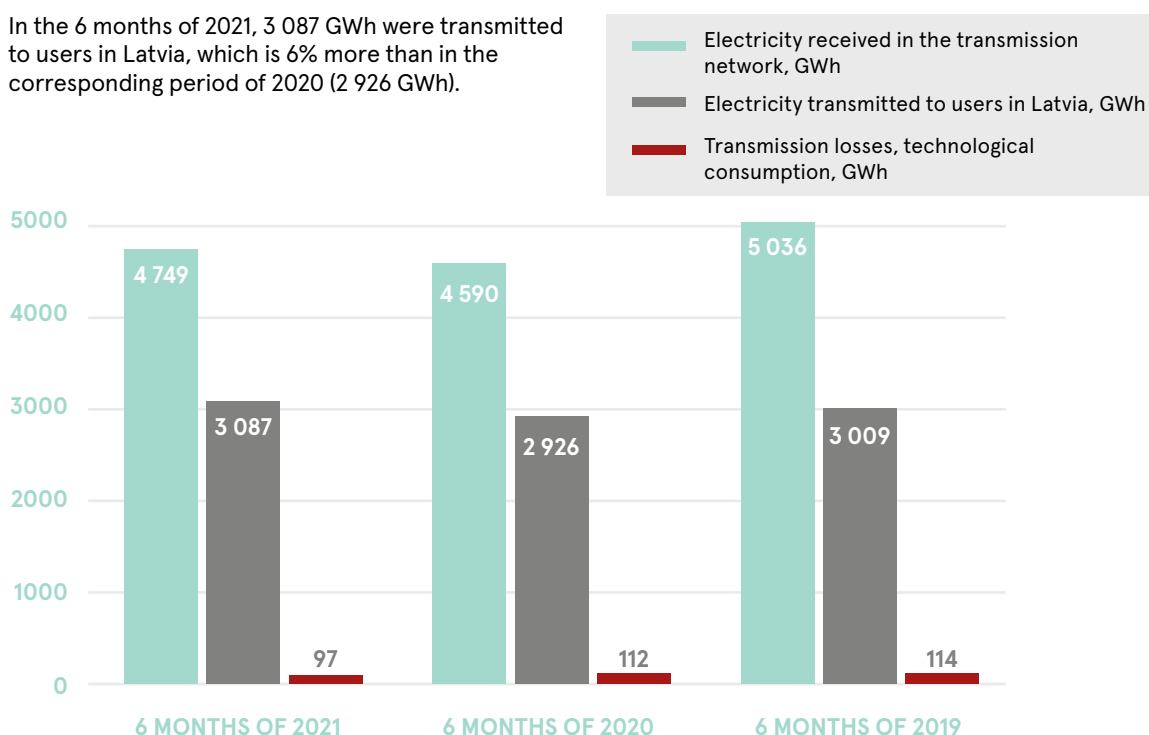
Electricity transmission is carried out by the transmission system operator through a transmission system that includes interconnected networks and equipment, including cross-border connections, with a voltage of 110 kilovolts or more, that are used for transmission to the relevant distribution system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

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

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

| Highest voltage (kV) | Number of substations (pcs) | Number of autotransformers and transformers (pcs) | Installed power (MVA) | Transmission Lines (km) |
|----------------------|-----------------------------|---|-----------------------|-------------------------|
| 330 kV               | 17                          | 27  | 4 000                 | 1 742.13                |
| 110 kV               | 123                         | 246   | 5 231                 | 3 870.78                |
| <b>TOTAL</b>         | <b>140</b>                  | <b>273</b>  | <b>9 231</b>          | <b>5 612.1</b>          |

In the 6 months of 2021, 3 087 GWh were transmitted to users in Latvia, which is 6% more than in the corresponding period of 2020 (2 926 GWh).



### Transmission and Storage of Natural Gas

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

The main natural gas transmission system is 1 188 km long and is directly connected to the natural gas transmission systems of Lithuania, Estonia and Russia, providing both natural gas transmission in

regional gas pipelines on the territory of Latvia and interconnections with the natural gas transmission systems of neighbouring countries.

In the first six months of 2021, the total amount of gas transported reached 22.2 TWh, which is an increase of 31% compared to the same period a year ago. During the reporting period, the volumes of transported gas for the needs of Latvian users increased by 17%, reaching 32% of the total transported flows.

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



## SEGMENT PERFORMANCE RESULTS

During the reporting period, Augstsprieguma tīkls group's net turnover was 80 353 thousand EUR, net profit was 14 135 thousand EUR.

### SEGMENT INFORMATION

|                          | JSC "Augstsprieguma tīkls"                      |   | Group   |   |
|--------------------------|---|---|---|---|
|                          | 6 months of 2021 or<br>30.06.2021<br>thous. EUR | 6 months of 2020 or<br>30.06.2020<br>thous. EUR | 6 months of 2021 or<br>30.06.2021<br>thous. EUR | 6 months of 2020 or<br>30.06.2020<br>thous. EUR |
| <b>Net turnover</b>      |   |   |   |   |
| Electricity Transmission | 50 905  | 80 156  | 80 353  | 80 156  |
| Gas transmission         | -   | -   | 18 450  | -   |
| Gas storage              | -   | -   | 10 998  | -   |
| <b>EBITDA</b>            |   |   |   |   |
| Electricity Transmission | 23 005  | 21 667  | 23 005  | 21 667  |
| Gas transmission         | -   | -   | 12 472  | -   |
| Gas storage              | -   | -   | 6 821   | -   |

### Electricity transmission segment

The net turnover of the segment was EUR 50 905 thousand, including revenue from electricity transmission network services of EUR 38 166 thousand, which makes up 75% of the segments' net turnover. Segment profit in the reporting period was 5 519 thousand EUR. Changes in both the net turnover and the amount of profit in 2021, compared to 2020, are related to the reform of the ownership rights of the transmission system assets implemented in 2020.

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

The profitability of the segment from provision of electricity transmission services complies with the terms and conditions of Tariff methodology of the Electricity Transmission System Services.

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

### Natural gas transmission and storage segment

In January-June 2021, the total net turnover of the segments was EUR 29 447 thousand, profit EUR 8 138 thousand. Revenues of the natural gas transmission segment in January-June 2021 were EUR 18 450 thousand, of the natural gas storage segment - EUR 10 998 thousand.

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

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

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## FINANCIAL RISK MANAGEMENT

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

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

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

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

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

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

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

### Financing and liquidity

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

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

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

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

On 18 June 2020, JSC "Augstsprieguma tīkls" concluded a loan agreement with JSC "SEB banka" for EUR 116 200 thousand with a maturity of 18 months and an interest rate of 3 months EURIBOR and the added interest rate (see also Annex 20). The purpose of this loan is to partially refinance the liabilities of JSC "Latvijas elektriskie tīkli" to JSC "Latvenergo". Using the loan of JSC "SEB banka" and the own funds available to JSC "Augstsprieguma tīkls", on 19 June 2020 the loan from JSC "Latvenergo" was refinanced in the amount of EUR 138 560 thousand. AST agreed to repay the remaining part of the loan to Latvenergo in the amount of EUR 86 672 thousand in two equal instalments in 2022 and 2023.

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

According to the above, on 30 June 2021, the AST loan basket consists of a loan from JSC "Latvenergo" of EUR 40 000 thousand with a repayment date of July 2021 and a loan from JSC "SEB banka" of EUR 116 200 thousand with a repayment term of December 2021.

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

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

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

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

In October 2020, the Company initiated the credit rating procedure by concluding an agreement with the international credit rating agency S&P Global Ratings. The international credit rating agency S&P Global Ratings (S&P) has for the first time assessed and ASSIGNED THE LONG-TERM CREDIT RATING BBB+/STABLE TO THE LATVIAN TRANSMISSION SYSTEM OPERATOR JSC "AUGSTSPRIEGUMA TĪKLS".

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## ELECTRICITY TRANSMISSION SYSTEM SERVICES TARIFF

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

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

The Parent Company has set the implementation of measures to reduce the increase in electricity transmission system service tariffs as one of the priority objectives. In order to achieve the set goal, the Parent Company actively attracts

European Union (EU) co-financing to finance capital investments. Currently, EU co-financing is attracted for five capital investment projects. In addition, in order to minimise the impact on the transmission tariffs, the Company redistributes the accumulated transmission congestion income to finance the capital investments.

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

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

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## FURTHER DEVELOPMENT

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### Synchronization of the Baltic States with Continental Europe

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

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

Synchronisation of the Baltic states with continental Europe is expected by 2025. Synchronisation will result in the Baltic electric power transmission system becoming part of the European system, meaning more independence from Russia and a more reliable electric power supply.

### Development of the Electricity Transmission System

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

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

The approved Development Plan determines the development of the transmission system and the necessary financial investments in the transmission infrastructure for the next 10 years, envisaging the **INVESTMENT OF EUR 405 MILLION IN THE DEVELOPMENT OF THE ELECTRICITY TRANSMISSION SYSTEM, EUR**. It is possible to get acquainted in detail with the approved Development Plan at: [https://www.ast.lv/sites/default/files/editor/AST\\_Attistibas\\_plans\\_2021\\_2030.pdf](https://www.ast.lv/sites/default/files/editor/AST_Attistibas_plans_2021_2030.pdf)

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

- The third Estonia – Latvia 330 kV interconnection – EU co-financing of up to 65% of eligible costs, or EUR 51 198 thousand has been attracted.
- The Project "Synchronisation of the Baltic Power System with the Trans-European Network, Phase 1" – EU co-financing of up to 75% of eligible costs, or EUR 57 750 thousand.
- Project "Synchronisation of the Baltic Electricity Transmission System with the European Network, Phase 2" - in 2020 EU co-financing of 75% of the eligible costs or EUR 55 500 thousand has been attracted for urgent projects of Phase 2. In 2021, it is planned to submit EU co-financing for the remaining part of the project.

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

The company has developed and on 28 June 2021 submitted for consideration to the PUC the electricity transmission system development plan for 2022 – 2031. It is possible to get acquainted with the submitted plan in detail at: [https://www.ast.lv/sites/default/files/AST\\_Attistibas\\_plans\\_2022-2031.pdf](https://www.ast.lv/sites/default/files/AST_Attistibas_plans_2022-2031.pdf)

### System Management and Electricity Market Development

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

Over the coming years, **IT IS PLANNED TO CONTINUE WORKING ON THE DEVELOPMENT AND IMPROVEMENT OF THE SINGLE EUROPEAN DAY-AHEAD AND INTRADAY MARKET**. This will include new opportunities for participants in the European Union's internal electricity market, including Latvian and Baltic market participants.

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

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

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

## Transmission and Storage of Natural Gas

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

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

## EVENTS AND OCCURRENCES AFTER THE END OF THE REPORTING PERIOD

In accordance with the agreement of 18 June 2021 between JSC "Augstsprieguma tīkls" and JSC "Latvenergo", in July 2021 the remaining loan from JSC "Latvenergo" in the amount of EUR 40 000 thousand was repaid.

In August 2021 Augstsprieguma tīkls credit ratings affirmed at BBB+, outlook revised to Positive on lower country risk

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

**Gunta Jēkabsone**  
Board Chairperson

**Imants Zviedris**  
Board Member

**Mārcis Kauliņš**  
Board Member

**Gatis Junghāns**  
Member of the Board

**Arnis Daugulis**  
Member of the Board

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

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Riga, 21 September 2021



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**STATEMENT  
OF BOARD'S  
RESPONSIBILITY**

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## STATEMENT OF BOARD'S RESPONSIBILITY

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Based on the information being at the disposal of the Board of JSC "Augstsprieguma tīkls", the unaudited interim abridged financial statements of the Augstsprieguma tīkls Group and JSC "Augstsprieguma tīkls" for the 6-month period, which ended on 30 June 2021, provide a true and fair view in all material aspects about the assets, liabilities, financial status and profit or loss of the Augstsprieguma tīkls group and JSC "Augstsprieguma tīkls".

**Gunta Jēkabsone**  
Board Chairperson

**Imants Zviedris**  
Board Member

**Mārcis Kauliņš**  
Board Member

**Gatis Junghāns**  
Member of the Board

**Arnis Daugulis**  
Member of the Board

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

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Riga, 21 September 2021



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**CONSOLIDATED  
AND SEPARATE  
FINANCIAL  
STATEMENTS**

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## CONDENSED PROFIT OR LOSS STATEMENT

|  | Notes | JSC "Augstsprieguma tīkls" |                      | Group                |                      |
|--|-------|----------------------------|----------------------|----------------------|----------------------|
|  |       | 6 months of 2021 EUR       | 6 months of 2020 EUR | 6 months of 2021 EUR | 6 months of 2020 EUR |
| <b>REVENUE</b>                                 | 3     | <b>50 905 349</b>          | <b>80 155 575</b>    | <b>80 352 790</b>    | <b>72 846 917</b>    |
| Other income                                   | 4     | 1 655 394                  | 150 025              | 2 100 278            | 161 363              |
| Used raw materials and materials, repair costs | 5     | (14 660 512)               | (9 663 254)          | (17 393 827)         | (2 065 918)          |
| Personnel expenses                             | 6     | (8 398 917)                | (8 242 613)          | (14 161 731)         | (8 256 895)          |
| Other operating expenses                       | 7     | (6 495 892)                | (40 733 195)         | (8 599 649)          | (40 715 169)         |
| Depreciation and amortisation                  | 9, 21 | (16 144 684)               | (19 572 540)         | (24 928 001)         | (18 952 204)         |
| Income from participation                      | 10    | 58 286 236                 | 5 604 642            | -                    | 5 604 642            |
| Finance income                                 | 8     | 2 290                      | 54 187               | 2 549                | 54 187               |
| Finance costs                                  | 8     | (1 344 162)                | (258 772)            | (1 458 552)          | (444 006)            |
| Consolidation difference                       |       | -                          | -                    | -                    | 3 586 293            |
| <b>Profit before taxes</b>                     |       | <b>63 805 102</b>          | <b>7 494 055</b>     | <b>15 913 857</b>    | <b>11 819 210</b>    |
| Deferred corporate income tax                  |       | -                          | -                    | (1 779 103)          | -                    |
| <b>Profit for the reporting period</b>         |       | <b>63 805 102</b>          | <b>7 494 055</b>     | <b>14 134 754</b>    | <b>11 819 210</b>    |
| <b>Profit attributable to:</b>                 |       |                            |                      |                      |                      |
| Equity holder of the Parent Company            |       | 63 805 102                 | 7 494 055            | 11 567 918           | 11 819 210           |
| Non-controlling interests                      |       | -                          | -                    | 2 566 836            | -                    |

Notes from page 27 to 65 are an integral part of these financial statements.

**Gunta Jēkabsone**  
Board Chairperson

**Imants Zviedris**  
Board Member

**Mārcis Kauliņš**  
Board Member

**Gatis Junghāns**  
Member of the Board

**Arnīs Daugulis**  
Member of the Board

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

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Riga, 21 September 2021

## CONDENSED STATEMENT OF COMPREHENSIVE INCOME

|  | Notes | JSC "Augstsprieguma tīkls" |                                      | Group                   |                                      |
|--|-------|----------------------------|--------------------------------------|-------------------------|--------------------------------------|
|  |       | 6 month of 2021<br>EUR     | 6 month of 2020,<br>unaudited<br>EUR | 6 months of 2021<br>EUR | 6 month of 2020,<br>unaudited<br>EUR |
| <b>PROFIT FOR THE PERIOD</b>   |       | 63 805 102                 | 7 494 055                            | 14 134 754              | 11 819 210                           |
| <i>Items that will not be reclassified to profit or loss statement</i> |       |                            |                                      |                         |                                      |
| Other income   |       | -                          | -                                    | -                       | -                                    |
| <b>Other income for the reporting period</b>                           |       | -                          | -                                    | -                       | -                                    |
| <b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>                       |       | 63 805 102                 | 7 494 055                            | 14 134 754              | 11 819 210                           |
| Attributable to:   |       |                            |                                      |                         |                                      |
| Equity holder of the Parent Company                                    |       | 63 805 102                 | 7 494 055                            | 11 567 918              | 11 819 210                           |
| Non-controlling interests  |       | -                          | -                                    | 2 566 836               | -                                    |

Notes from page 27 to 65 are an integral part of these financial statements.

**Gunta Jēkabsone**  
Board Chairperson

**Imants Zviedris**  
Board Member

**Mārcis Kauliņš**  
Board Member

**Gatis Junghāns**  
Member of the Board

**Arnīs Daugulis**  
Member of the Board

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

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Riga, 21 September 2021

## CONDENSED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2021

|                                   | Notes | JSC "Augstsprieguma tīkls" |                    | Group                |                      |
|-----------------------------------|-------|----------------------------|--------------------|----------------------|----------------------|
|                                   |       | 30.06.2021<br>EUR          | 31.12.2020<br>EUR  | 30.06.2021<br>EUR    | 31.12.2020<br>EUR    |
| <b>ASSETS</b>                     |       |                            |                    |                      |                      |
| <b>NON-CURRENT ASSETS</b>         |       |                            |                    |                      |                      |
| Intangible investments            | 9.1   | 1 786 098                  | 1 435 210          | 3 602 324            | 3 307 881            |
| Fixed assets                      | 9.2   | 653 163 343                | 654 359 778        | 1 068 209 639        | 1 067 674 394        |
| Right-of-use assets               | 21    | 15 074 695                 | 14 212 293         | 15 531 913           | 14 715 877           |
| Non-current financial investments | 10    | 134 396 393                | 134 396 393        | 1 160 466            | 1 210 860            |
| <b>TOTAL NON-CURRENT ASSETS</b>   |       | <b>804 420 529</b>         | <b>804 403 674</b> | <b>1 088 504 342</b> | <b>1 086 909 012</b> |
| <b>CURRENT ASSETS</b>             |       |                            |                    |                      |                      |
| Inventories                       | 11    | 524 267                    | 514 087            | 3 473 911            | 3 535 090            |
| Advances paid for inventories     |       | -                          | -                  | 24 966               |                      |
| Trade receivables                 | 12    | 1 141 163                  | 1 673 797          | 8 267 231            | 8 528 491            |
| Deposits                          | 13    | -                          | 25 000 000         | -                    | 25 000 000           |
| Other current assets              | 13    | 31 873 502                 | 31 647 751         | 31 944 651           | 31 740 753           |
| Corporate income tax              | 13    | 1 611 415                  | 11 512             | 1 611 415            | 11 512               |
| Deferred expenses                 |       | 1 194 797                  | 629 093            | 1 707 081            | 979 586              |
| Accrued income                    | 14    | 9 140 637                  | 9 422 703          | 9 140 637            | 9 422 703            |
| Cash                              | 15    | 72 315 812                 | 32 224 560         | 74 721 071           | 47 388 296           |
| <b>Total current assets</b>       |       | <b>117 801 593</b>         | <b>101 123 503</b> | <b>130 890 963</b>   | <b>126 606 431</b>   |
| <b>TOTAL ASSETS</b>               |       | <b>922 222 122</b>         | <b>905 527 177</b> | <b>1 219 395 305</b> | <b>1 213 515 443</b> |

Notes from page 27 to 65 are an integral part of these financial statements.

**Gunta Jēkabsons**  
Board Chairperson

**Imants Zviedris**  
Board Member

**Mārcis Kauliņš**  
Board Member

**Gatis Junghāns**  
Member of the Board

**Arnis Daugulis**  
Member of the Board

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

Riga, 21 September 2021

## STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2020

(continued)

|  | Notes | JSC "Augstsprieguma tīkls" |                    | Group                |                      |
|--|-------|----------------------------|--------------------|----------------------|----------------------|
|  |       | 30.06.2021<br>EUR          | 31.12.2020<br>EUR  | 30.06.2021<br>EUR    | 31.12.2020<br>EUR    |
| <b>EQUITY AND LIABILITIES</b>                            |       |                            |                    |                      |                      |
| <b>EQUITY</b>  |       |                            |                    |                      |                      |
| Share capital  | 16    | 363 896 079                | 363 896 079        | 363 896 079          | 363 896 079          |
| Reserves   |       | 4 001 410                  | 4 172 258          | 2 194 176            | 6 304 575            |
| Retained earnings  |       | 8 912 359                  | 6 741 633          | 142 884 629          | 82 722 433           |
| Profit for the reporting year                            |       | 63 805 102                 | 9 999 392          | 11 567 918           | 64 051 311           |
| Non-controlling interests                                |       | -                          | -                  | 97 128 694           | 122 228 140          |
| <b>Total equity</b>                                      |       | <b>440 614 950</b>         | <b>384 809 362</b> | <b>617 671 496</b>   | <b>639 202 537</b>   |
| <b>Non-current liabilities</b>                           |       |                            |                    |                      |                      |
| Employee benefit obligations                             |       | 2 440 205                  | 2 636 255          | 3 468 699            | 3 664 749            |
| Lease liabilities  | 21    | 14 595 086                 | 13 761 561         | 15 048 938           | 14 215 413           |
| Loans  | 20    | -                          | 86 672 207         | 66 694 444           | 86 672 207           |
| Deferred revenue   | 17    | 282 653 434                | 279 847 333        | 293 266 416          | 290 629 069          |
| <b>Total non-current liabilities</b>                     |       | <b>299 688 725</b>         | <b>382 917 356</b> | <b>378 478 497</b>   | <b>395 181 438</b>   |
| <b>Current liabilities</b>                               |       |                            |                    |                      |                      |
| Loans  | 20    | 156 200 000                | 116 200 000        | 173 508 561          | 138 075 000          |
| Lease liabilities  | 21    | 734 265                    | 657 434            | 750 713              | 717 652              |
| Deferred revenue   | 17    | 7 064 361                  | 6 135 817          | 10 670 629           | 7 388 747            |
| Trade payables   |       | 10 170 811                 | 8 086 381          | 17 485 213           | 15 722 857           |
| Taxes and mandatory state social insurance contributions | 22    | 3 257 939                  | 1 754 449          | 6 951 665            | 2 811 710            |
| Deferred corporate income tax liabilities                |       | -                          | -                  | 5 494 468            | 5 152 360            |
| Advance payments received                                | 18    | 300 196                    | 602 252            | 1 138 525            | 1 255 537            |
| Other creditors  | 18    | 1 919 166                  | 2 232 912          | 3 041 693            | 2 963 606            |
| Accrued liabilities                                      | 19    | 2 271 709                  | 2 131 214          | 4 203 845            | 5 043 999            |
| <b>Total current liabilities</b>                         |       | <b>181 918 447</b>         | <b>137 800 459</b> | <b>223 245 312</b>   | <b>179 131 468</b>   |
| <b>TOTAL EQUITY AND LIABILITIES</b>                      |       | <b>922 222 122</b>         | <b>905 527 177</b> | <b>1 219 395 305</b> | <b>1 213 515 443</b> |

Notes from page 27 to 65 are an integral part of these financial statements.

**Gunta Jēkabsons**  
Board Chairperson

**Imants Zviedris**  
Board Member

**Mārcis Kauliņš**  
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Member of the Board

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

Riga, 21 September 2021

## CONDENSED STATEMENT OF CHANGES IN EQUITY

|  | JSC "Augstsprieguma tīkls" |                               |                  |                                       |  |                          |                    |
|--|----------------------------|-------------------------------|------------------|---------------------------------------|--|--------------------------|--------------------|
|  | Share capital              | Profit for the reporting year | Other reserves   | Noncurrent assets revaluation reserve | Post-Employment benefit plan revaluation reserve | Reorganiza-tion reserves | Total              |
|  | EUR                        | EUR                           | EUR              | EUR                                   | EUR  | EUR                      | EUR                |
| <b>As at 31 December 2019</b>  | <b>64 218 079</b>          | <b>2 951 011</b>              | <b>2 680 615</b> | -                                     | <b>106 006</b>                                   | -                        | <b>69 955 711</b>  |
| Dividends paid for 2019  | -                          | (1 735 958)                   | -                | -                                     | -  | -                        | (1 735 958)        |
| Share capital increase   | 299 678 000                | -                             | -                | -                                     | -  | -                        | 299 678 000        |
| Profit for the reporting period  | -                          | 7 494 055                     | -                | -                                     | -  | -                        | 7 494 055          |
| Changes in reserves  | -                          | (1 215 053)                   | 1 215 053        | -                                     | -  | -                        | -                  |
| <b>As at 30 June 2020</b>  | <b>363 896 079</b>         | <b>7 494 055</b>              | <b>3 895 668</b> | -                                     | <b>106 006</b>                                   | -                        | <b>375 391 808</b> |
| Profit for the reporting period  | -                          | 3 720 390                     | -                | -                                     | -  | -                        | 3 720 390          |
| Other income for the reporting year                                      | -                          | -                             | -                | -                                     | 384 250  | -                        | 384 250            |
| Addition of JSC Latvijas elektriskie tīkli as a result of reorganisation | -                          | 5 211 434                     | -                | -                                     | -  | (27 336 704)             | (22 125 270)       |
| Recognition of revaluation reserve as a result of reorganisation         | -                          | -                             | -                | 27 438 184                            | -  | -                        | 27 438 184         |
| Transfer of retained earnings  | -                          | 315 146                       | -                | (315 146)                             | -  | -                        | -                  |
| <b>As at 31 December 2020</b>  | <b>363 896 079</b>         | <b>16 741 025</b>             | <b>3 895 668</b> | <b>27 123 038</b>                     | <b>490 256</b>                                   | <b>(27 336 704)</b>      | <b>384 809 362</b> |
| Dividends paid for 2020  | -                          | (7 999 514)                   | -                | -                                     | -  | -                        | (7 999 514)        |
| Retained earnings  | -                          | 170 848                       | -                | (170 848)                             | -  | -                        | -                  |
| Profit for the reporting period  | -                          | 63 805 102                    | -                | -                                     | -  | -                        | 63 805 102         |
| <b>As at 30 June 2021</b>  | <b>363 896 079</b>         | <b>72 717 461</b>             | <b>3 895 668</b> | <b>26 952 190</b>                     | <b>490 256</b>                                   | <b>(27 336 704)</b>      | <b>440 614 950</b> |

Notes from page 27 to 65 are an integral part of these financial statements.

**Gunta Jēkabsons**  
Board Chairperson

**Imants Zviedris**  
Board Member

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**Gatis Junghāns**  
Member of the Board

**Arnīs Daugulis**  
Member of the Board

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

Rīga, 21 September 2021

## CONDENSED STATEMENT OF CHANGES IN EQUITY

(continued)

|   | Group              |                               |                  |                                       |  |                         |                         |                    |
|---|--------------------|-------------------------------|------------------|---------------------------------------|--|-------------------------|-------------------------|--------------------|
|   | Share capital      | Profit for the reporting year | Other reserves   | Noncurrent assets revaluation reserve | Post-Employment benefit plan revaluation reserve | Reorganization reserves | Noncontrolling interest | Total              |
|   | EUR                | EUR                           | EUR              | EUR                                   | EUR  | EUR                     | EUR                     | EUR                |
| <b>As at 31 December 2019</b>   | <b>64 218 079</b>  | <b>56 367 925</b>             | <b>2 680 615</b> | -                                     | <b>75 844</b>                                    | -                       | -                       | <b>123 342 463</b> |
| Dividends paid for 2019   | -                  | (1 735 959)                   | -                | -                                     | -  | -                       | -                       | (1 735 959)        |
| Other income for the reporting period   | -                  | 31 719                        | -                | -                                     | -  | -                       | -                       | 31 719             |
| Share capital increase  | 299 678 000        | -                             | -                | -                                     | -  | -                       | -                       | 299 678 000        |
| Profit for the reporting period   | -                  | 11 819 210                    | -                | -                                     | -  | -                       | -                       | 11 819 210         |
| <b>As at 30 June 2020</b>   | <b>363 896 079</b> | <b>66 482 896</b>             | <b>2 680 615</b> | -                                     | <b>75 844</b>                                    | -                       | -                       | <b>433 135 434</b> |
| Profit for the reporting period   | -                  | 52 200 381                    | -                | -                                     | -  | -                       | 1 307 174               | 53 507 555         |
| Other income for the reporting year   | -                  | -                             | -                | -                                     | 381 463  | 28 120 629              | 8 275                   | 28 510 367         |
| Transfer of revaluation surplus upon acquisition of control of an associate             | -                  | 28 090 467                    | -                | -                                     | -  | (28 090 467)            | -                       | -                  |
| Transaction between companies under common control – net result                         | -                  | -                             | -                | -                                     | -  | (25 778 705)            | -                       | (25 778 705)       |
| Transaction between companies under common control – acquisition of revaluation reserve | -                  | -                             | -                | 28 915 196                            | -  | -                       | -                       | 28 915 196         |
| Acquisition of a subsidiary with a noncontrolling interest                              | -                  | -                             | -                | -                                     | -  | -                       | 120 912 690             | 120 912 690        |
| <b>As at 31 December 2020</b>   | <b>363 896 079</b> | <b>146 773 744</b>            | <b>2 680 615</b> | <b>28 915 196</b>                     | <b>457 308</b>                                   | <b>(25 748 545)</b>     | 122 228 140             | <b>639 202 537</b> |
| Dividends paid for 2020   | -                  | (7 999 514)                   | -                | -                                     | -  | -                       | (26 846 636)            | (34 846 150)       |
| Write-off of revaluation reserve  | -                  | 3 939 550                     | -                | (3 939 550)                           | -  | -                       | -                       | -                  |
| Retained earnings   | -                  | 170 848                       | -                | (170 848)                             | -  | -                       | -                       | -                  |
| Profit for the reporting period   | -                  | 11 567 919                    | -                | -                                     | -  | -                       | -                       | 11 567 919         |
| Non-controlling interest  | -                  | -                             | -                | -                                     | -  | -                       | 1 747 190               | 1 747 190          |
| <b>As at 30 June 2021</b>   | <b>363 896 079</b> | <b>154 452 547</b>            | <b>2 680 615</b> | <b>24 804 798</b>                     | <b>457 308</b>                                   | <b>(25 748 545)</b>     | <b>97 128 694</b>       | <b>617 671 496</b> |

Notes from page 27 to 65 are an integral part of these financial statements.

**Gunta Jēkabsons**  
Board Chairperson

**Imants Zviedris**  
Board Member

**Mārcis Kauliņš**  
Board Member

**Gatis Junghāns**  
Member of the Board

**Arnis Daugulis**  
Member of the Board

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

Riga, 21 September 2021

## CONDENSED CASH FLOW STATEMENT

|  | Notes        | JSC "Augstsprieguma tīkls" |                                       | Group                   |                                       |
|--|--------------|----------------------------|---------------------------------------|-------------------------|---------------------------------------|
|  |              | 6 months of 2021<br>EUR    | 6 months of 2020,<br>unaudited<br>EUR | 6 months of 2021<br>EUR | 6 months of 2020,<br>unaudited<br>EUR |
| <b>I. CASH FLOWS FROM OPERATING ACTIVITIES</b>   |              |                            |                                       |                         |                                       |
| <b>Profit before taxes</b>   |              | <b>63 805 102</b>          | <b>7 494 055</b>                      | <b>15 913 857</b>       | <b>11 819 210</b>                     |
| ADJUSTMENTS:   |              |                            |                                       |                         |                                       |
| - amortisation, depreciation and impairment in value of intangible assets, fixed assets and rights to use assets | 9.1, 9.2, 21 | 16 256 252                 | 18 024 477                            | 24 993 203              | 18 960 493                            |
| - increase/(decrease) in provisions  |              | (196 050)                  | (161 380)                             | (196 050)               | (161 380)                             |
| - finance costs  | 8            | 1 921 843                  | 95 112                                | 2 241 025               | 375 679                               |
| - other adjustments  | 21           | 1 203 159                  | -                                     | 1 084 797               | -                                     |
| - income from dividends  |              | (58 286 236)               | (5 604 642)                           | -                       | (5 604 642)                           |
| <b>Operating profit before working capital adjustments</b>   |              | <b>24 704 070</b>          | <b>19 847 622</b>                     | <b>44 036 832</b>       | <b>25 389 360</b>                     |
| ADJUSTMENTS:   |              |                            |                                       |                         |                                       |
| - decrease of trade receivables  |              | 29 013 124                 | 23 514 629                            | 28 601 886              | 4 244 906                             |
| - (increase)/reduction of inventory  |              | (10 180)                   | (8 103)                               | 68 238                  | 12 434                                |
| - increase/(reduction) in trade payables   |              | (26 705 365)               | 6 243 816                             | (28 559 521)            | 31 055 292                            |
| <b>Gross cash flows from operating activities</b>  |              | <b>27 001 649</b>          | <b>49 597 964</b>                     | <b>44 147 435</b>       | <b>60 701 992</b>                     |
| Interest payments  |              | (2 105)                    | (76 270)                              | 111 284                 | (76 270)                              |
| Asset lease interest payments  |              | -                          | -                                     | -                       | (9 322)                               |
| Corporate income tax payments  | 22           | (1 599 903)                | (347 192)                             | (1 599 903)             | (347 192)                             |
| <b>Net cash flows from operating activities</b>  |              | <b>25 399 641</b>          | <b>49 174 502</b>                     | <b>42 658 816</b>       | <b>60 269 208</b>                     |

Notes from page 27 to 65 are an integral part of these financial statements.

**Gunta Jēkabsone**  
Board Chairperson

**Imants Zviedris**  
Board Member

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Member of the Board

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Member of the Board

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

Riga, 21 September 2021

## CONDENSED CASH FLOW STATEMENT

(continued)

|   | Notes    | JSC "Augstsprieguma tīkls" |                      | Group                |                      |
|---|----------|----------------------------|----------------------|----------------------|----------------------|
|   |          | 6 months of 2021 EUR       | 6 months of 2020 EUR | 6 months of 2021 EUR | 6 months of 2020 EUR |
| <b>II. Cash flows from investing activities</b>                       |          |                            |                      |                      |                      |
| Acquisition of fixed assets and intangible investments                | 9.1, 9.2 | (14 369 220)               | (844 316)            | (25 047 117)         | (9 437 117)          |
| Sale of fixed assets and intangible assets                            | 9.2      | 68 641                     | 105 703              | 132 633              | 105 703              |
| Issued loans  |          | -                          | (138 560 000)        | -                    | -                    |
| Received deposits   |          | 25 000 000                 | -                    | 25 000 000           | -                    |
| Investment in shares  |          | -                          | 77 000 000           | -                    | 77 000 000           |
| Dividends received  |          | 58 286 236                 | 5 604 642            | -                    | 5 604 642            |
| Proceeds from the sale of shares                                      |          | -                          | 1 729 071            | -                    | 1 729 071            |
| Interest income from payments   |          | -                          | 54 187               | -                    | 54 187               |
| <b>Net cash flows from/(used in) investing activities</b>             |          | <b>68 985 657</b>          | <b>(54 910 713)</b>  | <b>85 516</b>        | <b>75 056 486</b>    |
| <b>III. Cash flows from financing activities</b>                      |          |                            |                      |                      |                      |
| Loans from credit institutions, net                                   |          | -                          | 116 200 000          | 62 128 005           | (44 013 136)         |
| Borrowings from JSC "Latvenergo"                                      | 20       | (46 672 207)               | -                    | (46 672 207)         | 40 744 264           |
| Expenses for repayment of loans                                       | 20       | (1 717 784)                | -                    | (1 819 782)          | -                    |
| Interest payments, net  |          | -                          | -                    | -                    | (175 105)            |
| Asset lease payments  | 21       | (411 789)                  | (15 373 191)         | (466 951)            | (12 296 677)         |
| Asset lease interest payments   | 21       | 118 986                    | -                    | 118 986              | -                    |
| European Union funding received                                       | 17       | 788 359                    | 3 959                | 3 807 579            | 3 959                |
| Expenditure on investments in affiliated or associated companies      |          | -                          | 172 394              | -                    | 172 394              |
| Dividends paid to shareholders  |          | (6 399 611)                | (1 388 765)          | (32 507 187)         | (1 388 765)          |
| (decrease) of loans   |          | -                          | -                    | -                    | (19 608 955)         |
| <b>Net cash flows (used in)/from financing activities</b>             |          | <b>(54 294 046)</b>        | <b>99 614 397</b>    | <b>(15 411 557)</b>  | <b>(36 562 021)</b>  |
| Increase in net cash and cash equivalents during the reporting period |          | 40 091 252                 | 93 878 186           | 27 332 775           | 98 763 673           |
| Cash and cash equivalents at the beginning of the reporting period    |          | 32 224 560                 | 28 216 327           | 47 388 296           | 28 216 327           |
| <b>Cash and cash equivalents at the end of the reporting period</b>   |          | <b>72 315 812</b>          | <b>122 094 513</b>   | <b>74 721 071</b>    | <b>126 980 000</b>   |

Notes from page 27 to 65 are an integral part of these financial statements.

**Gunta Jēkabsons**  
Board Chairperson

**Imants Zviedris**  
Board Member

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Board Member

**Gatis Junghāns**  
Member of the Board

**Arnis Daugulis**  
Member of the Board

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

Riga, 21 September 2021





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**NOTES TO THE  
CONSOLIDATED  
AND SEPARATE  
FINANCIAL  
STATEMENTS**

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## 1. GENERAL INFORMATION ABOUT THE GROUP

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

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

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

JSC “Augstsprieguma tīkls” is a transmission system operator, licensed by the Public Utilities Commission under licence No. E12001, that ensures the security of the operation of the transmission network and the power supply system of Latvia, provides the transmission service on the basis of published transmission service tariffs, and ensures the availability of the transmission system services on a continuous basis. JSC “Augstsprieguma tīkls” is engaged in the operational management of the transmission system and ensures secure and reliable electric power transmission. The Company as a transmission system operator operates in a relatively non-cyclical or late-cyclical industry. However, an unexpected downturn in the economy may have an impact on the Group’s customers and negatively

affect its growth and results of operations through reduced electricity consumption.

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

The financial statements were approved by the Board of the Company on 21 September 2021 composed of: Gunta Jēkabsons (Chairperson of the Board), Imants Zviedris (Member of the Board), Mārcis Kauliņš (Member of the Board), Gatis Junghāns (Member of the Board), Arnis Daugulis (Member of the Board).

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

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## 2. SIGNIFICANT ACCOUNTING PRINCIPLES

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

The consolidated and separate financial statements have been prepared in accordance with the 34. International Accounting Standard (IAS). Taking the European Union approval process into account, this Annex also presents standards and interpretations that have not been approved for application in the European Union, as those standards and interpretations may have an impact on the Company’s financial statements in future periods, if they are adopted.

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

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

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

Financial statements cover the time period from 1 January to 30 June 2021. The consolidated financial

statements of the Group include the financial results of the subsidiary JSC "Latvijas elektriskie tīkli" from 1 June to 30 September 2020, when the company merged as a result of the reorganisation, and the financial results of the subsidiary JSC "Conexus Baltic Grid" from 1 August 2020. As a result of merger AS Latvijas elektriskie tīkli transferred all its property,

rights and obligations to the Company and ceased to exist without a liquidation process. Following the merger, the Company continues the commercial activities of AS Latvijas elektriskie tīkli.

As at 30 June 2021, the Group's parent company had investments in the following subsidiaries:

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

## Principles of drawing up financial statements

### Standards and interpretations applicable during the reporting year

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

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

### Application of new or revised standards and interpretations

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

- Amendments to IAS 1 "Financial reporting" and IAS 8 "Accounting Policies, Changes in Accounting Estimates, and Errors" – definition of "material" (effective for reporting periods starting on 1 January 2020 or later);
- Amendments to IFRS 3 "Business Combinations" – definition of a business (effective for business combinations in which the business has been acquired during the first reporting period starting on 1 January 2020 or later, as well as for asset acquisition made at the beginning of this period or later);
- Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures" – The reform of the interest rate benchmark adopted by the EU on 15 January 2020 (effective for annual periods beginning on or after 1 January 2020), issued on 26 January 2019 by the IASB;

- Amendments to IFRS 16 "Leases" – Covid-19 related rental concessions (adopted by the EU on 9 October 2020 and effective no later than 1 June 2020 for financial years beginning on or after 1 January 2020);
- Amendments on references to the conceptual framework of IFRSs adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020).

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

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

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

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

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

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

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

- 14. IFRS “Deferred Items Established by the Regulator” (effective for annual periods beginning on or after 1 January 2016) – the European Commission has decided not to initiate the application process for the interim standard, but to await the final version of the standard;
- 17. 17 “Insurance Contracts” and amendments to IFRS 17 (effective for reporting periods beginning on 1 January 2023 or after).
- Amendments to IAS 1 “Presentation of Financial Statements” – classification of liabilities as current or non-current (effective for annual periods beginning on or after 1 January 2023);
- Amendments to IAS 1 “Presentation of Financial Statements” – Disclosure of Accounting Policy (effective for annual periods beginning on or after 1 January 2023);
- Amendments to IAS 8 “Accounting Policy, Changes in Accounting Estimates, and Errors” – Definition of Accounting Estimates (effective for reporting periods starting on 1 January 2023 or later),
- Amendments to IAS 16 “Fixed Assets” – Revenue Before Intended Use (effective for annual periods beginning on or after 1 January 2022);
- Amendments to IAS 37 “Provisions, Contingent Liabilities and Contingent Assets” – Onerous Contracts – Contract Performance Costs (effective for annual periods beginning on or after 1 January 2022);
- Amendments to IFRS 3 “Business Combinations” – Reference to the Conceptual Framework with amendments to IFRS 3 (effective for reporting periods beginning on 1 January 2022 or after).
- Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” – asset sales or investment transaction between the investor and its associate or joint venture and further amendments (entry into force pending indefinitely until the completion of the research project on the equity method).
- Amendments to various standards related to “Improvements to IFRSs (2018-2020 Cycle)” resulting from the Annual Improvements to IFRSs (IFRS 1, IFRS, 9 IFRS, 16 and IAS 41 mainly to eliminate inconsistencies and clarify wording (Amendment to IFRS 1 IFRS 9, and IAS 41, shall be effective for reporting periods beginning on

1 January 2022 or after. Amendment to IFRS 16 is for illustrative purposes only, so the effective date is not specified).

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

## **Consolidation**

### **a) Subsidiaries**

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

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

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

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

### **b) Transactions with minority shareholders**

The Company’s transactions with minority shareholders are treated as external transactions, while the Augstsprieguma tīkls group’s transactions with minority shareholders are treated as transactions with the owners of the parent company. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as a capital transaction directly in equity. The Group recognises the difference between sales consideration and the carrying amount of non-controlling interest sold as a capital transaction in the statement of changes in equity.

### c) Associated undertakings

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

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

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

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

The Group ceases to use the equity method from the date on which the investment ceases to be an

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

### d) Goodwill

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

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

Business combinations involving companies under common control

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

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## 2.1. FINANCIAL INSTRUMENTS

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

Financial assets and financial liabilities are initially recorded at fair value. All other financial instruments are initially recorded at fair value adjusted for transaction costs. Fair value at initial recognition is

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

## Financial assets

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

### Classification of financial assets

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

- the financial asset is held within the framework of a business model, the purpose of which is to hold the financial assets in order to collect the contractual cash flows;
- the terms of a financial asset contract generate cash flows at specified dates that are only principal and interest payments.
- Debt instruments that meet the following conditions after initial recognition are measured at fair value through the statement of Other Comprehensive Income (FVTOCI):
- the financial asset is held in a business model, the objective of which is achieved both by collecting the contractual cash flows and by selling the financial asset;
- the terms of a financial asset contract generate cash flows at specified dates that are only principal and interest payments.

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

Notwithstanding the above, upon the initial recognition of a financial asset, the Company may irrevocably choose:

- to classify equity instruments at fair value through other comprehensive income, if certain criteria are met.

### Equity instruments at fair value through other comprehensive income

After initial recognition, the Company may irrevocably select (for each instrument separately) certain equity instruments at fair value recognised in other comprehensive income. This classification is not allowed, if the equity instrument is held for trading or if it is a variable consideration received as a result of business combination.

Investments in equity instruments recognised in other comprehensive income are measured initially at fair value adding transaction costs. They are subsequently measured at fair value, with profit or loss arising from changes in fair value, recognised in other comprehensive income in the revaluation reserve. At the time the equity instrument is disposed of, the cumulative gain or loss is not reclassified to the profit or loss statement, but it is transferred to retained earnings.

Dividends from those investments in equity instruments are recognised in the profit or loss statement in accordance with IFRS 9, unless the dividends clearly represent a return on the investment cost.

At the initial application of IFRS 9 the Company has classified all investments in equity instruments that are not held for trading, in the category at fair value through other comprehensive income.

### Impairment of financial assets

The Company recognises a deduction for expected credit losses on investments in debt instruments that are measured at amortised costs or fair value recognised in other comprehensive income, lease trade receivables, trade receivables, as well as financial guarantee contracts. The expected amount of credit risk losses shall be reviewed at each date of the report to reflect changes in credit risk since the initial recognition of the financial instrument. The Company always recognises life expectancy credit losses on trade receivables and contract assets. The expected credit losses from these financial assets are calculated by using a provision matrix based on the Company's historical credit loss experience.

### Derecognition of financial assets

The Company only derecognises a financial asset when the contractual rights to the cash flows from the asset expire or when it substantially transfers all the risks and rewards incidental to ownership of the financial asset to another entity. If the Company does not transfer or retain substantially all of the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest and related liabilities to the extent that it may be required to pay. If the Company substantially retains all the risks and rewards of ownership of the transferred financial asset, the Company continues to recognise the financial asset and also recognises a secured loan for revenue received.

## Financial liabilities

All financial liabilities are initially measured at amortised cost using the effective interest method or at fair value, recognising it in the profit or loss statement.

### **Financial liabilities with evaluation at amortised cost**

Financial liabilities other than i) the potential consideration from the acquirer in a business combination, ii) held for trading or iii) initially recognised at fair value through the income statement, after initial recognition, are subsequently measured at amortised cost using the effective interest method.

The effective interest method is the method of calculating the amortised cost of financial liabilities and allocating the interest expense over the period. The effective interest rate is the rate at which discounted future cash flows or revenue (including any fees and interest paid or received by the parties

to the contract that are an integral part of the effective interest rate, transaction costs and any other premiums or discounts) during the expected life of the financial asset or financial liability, the gross carrying amount of a financial asset, or the amortised cost of a financial liability, is precisely obtained.

### **Derecognition of financial liabilities**

The Company only derecognises a financial liability when the Company's liabilities are extinguished, cancelled, or terminated. The difference between the book value of financial liabilities and the consideration paid or payable is recognised in the profit or loss statement.

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## **2.2. TRANSACTIONS IN FOREIGN CURRENCIES**

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### **e) Functional and presentation currency**

The items of financial statements of the Company are measured in the currency of the economic environment in which the Company operates (the functional currency). The items of the financial statements are presented in euros (EUR), which is the Company's functional and presentation currency.

### **f) Transactions and balances**

All transactions in foreign currencies are revalued into euros at the official exchange rate set by the European Central Bank ruling on the date of the relevant transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated to euros at the exchange rates prevailing on the last day of the reporting year. Gained profit or losses are recognised in the income statement for the relevant period.

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## **2.3. INTANGIBLE INVESTMENTS AND FIXED ASSETS**

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All intangible investments are capitalised on the basis of the costs incurred to acquire and bring them to use. Computer software licences, computer software and related implementation costs are recognised as intangible investments and amortised on a straight-line basis over the estimated useful lives of these assets, up to five years.

The Group's property, plant and equipment (excluding Buildings and structures and technological equipment) are stated at cost less accumulated depreciation and impairment losses. The acquisition value includes expenses that are directly related to the acquisition of the intangible investment or fixed asset. Depreciation of fixed assets is calculated using the straight-line method over the useful life of the asset, to allocate the acquisition cost to its estimated residual value at the end of the useful life period. For other fixed assets and equipment (means of communication and equipment, office supplies and equipment), it shall not exceed two to five years.

The main groups of the Group's fixed assets are real estate (buildings and structures) related to electricity transmission assets, electricity transmission lines and technological equipment, buildings related to natural gas transmission and storage, natural gas transmission gas pipelines and related technological equipment, Inčukalns underground gas storage facilities, equipment and machinery related to natural gas transmission. Buildings and structures and technological equipment are stated at revalued amount in the financial statements. Revaluations are performed with sufficient regularity to ensure that the carrying amount of these assets does not differ materially from that which would be determined using fair value at the end of the reporting period (but at least every five years). Other fixed assets, including land, buffer gas in the Inčukalns underground gas storage, technological natural gas in transmission pipelines and the emergency reserve for fixed assets spare parts, are stated at cost.

The increase in value resulting from the revaluation of property, plant and equipment is presented in the equity item "Reserves". The revaluation reserve is reduced if the revalued property, plant and equipment is disposed of, liquidated or there is no longer a basis for an increase in value according to management's assessment. The balance of the revaluation reserve written off in the financial statements is included in retained earnings. During the period of use of the revalued asset in each reporting period, a portion of the revaluation reserve, calculated as the difference between the depreciation on the revalued carrying amount of the asset and the depreciation on the asset's original cost, is recognized in retained earnings.

Further expenses are included in the balance sheet value of the asset or only recognised as a separate asset when there is a great possibility that the future commercial benefits related to this item will flow in the Company and expenses related to this item can be credibly determined. Such costs are written off

during the remaining period of the service life of the relevant fixed asset.

Current repairs and maintenance of fixed assets are included in the profit or loss statement for the period when they were incurred.

Profit or loss from excluding fixed assets is calculated as the difference between the balance sheet value of the fixed asset and the revenue obtained as a result of selling it and included in the profit or loss statement for the period when they were incurred.

If the balance value of some intangible investment or fixed asset is above the recoverable value thereof, the value of the relevant intangible investment or fixed asset is written off without delay to the recoverable value thereof. The recoverable value is the highest value from the fair value of the relevant intangible investment or fixed asset, less sales costs or value of use.

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## 2.4. THE FAIR VALUE

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IFRS13 establishes a hierarchy of valuation techniques based on whether observable market data is used in the valuation technique or whether there is any observable market data. Observable market data is obtained from independent sources. If market data is not observable, the valuation technique reflects the Company's management's assumptions about the market situation. This hierarchy requires the use of observable market data, if it is available. When carrying out the revaluation, the Company shall take into account the relevant observable market prices, if it is possible. The objective of measuring the fair value, even if the market is not active, is to determine the transaction price at which market participants would be ready to sell the asset or make a commitment at a given valuation date under current market conditions. Several methods are used to determine the fair value of a financial instrument: quoted prices or valuation techniques that incorporate observable market data and are based on internal models. Based on the fair value hierarchy, all valuation techniques are divided into Level 1, Level 2, and Level 3. The level of the fair value hierarchy of a financial instrument should be determined as the lowest level if a significant part of their value consists of lower level data. The classification of a financial instrument in the fair value hierarchy is carried out in two steps: 1. Classify data at each level to determine the fair value hierarchy; 2. Classify the financial instrument itself on the basis of the lowest level if a significant part of its value consists of lower level data.

Quoted market prices - Level 1 The valuation technique in Level 1 uses unadjusted quoted prices

in an active market for identical assets or liabilities, when quoted prices are readily available and the price represents the actual market position for the transactions under fair competition.

Valuation techniques, when using market data – Level 2 In the valuation technique used in Level 2 models, all relevant data, directly or indirectly, is observable from the asset or liability side. The model uses market data that is not the quoted prices at Level 1, but that is observable directly (i.e., price) or indirectly (i.e., derived from price).

Valuation technique using market data that is not based on observable market data – Level 3 Valuation technique using market data that is not based on observable market data (non-observable market data) is classified in Level 3. Non-observable market data is data that is not easily available in an active market due to the illiquidity of the market or the complexity of the financial instrument. Level 3 data is determined mainly on the basis of observable market data of a similar nature, historical observations or analytical approaches.

### Assets measured at fair value

The revaluation of the Group's property, plant and equipment is performed by independent externally certified appraisers using the depreciated replacement cost method. Revaluations of property, plant and equipment are performed with sufficient regularity to ensure that the carrying amount of property, plant and equipment subject to revaluation



does not differ materially from that which would be determined using fair value at the end of the reporting period.

#### **Fixed assets of the electricity transmission system**

The following transmission system assets (fixed assets) are re-evaluated regularly, but no less than once in 5 years:

- electricity transmission networks,
- transformer substation electrical equipment.

The valuation is performed according to the property valuation standards and is based on the existing use of fixed assets, which is considered to be the best and most efficient. As a result of revaluation, the residual replacement value of each fixed asset is determined. The residual replacement value is the difference between the replacement or replacement cost of an analogue asset at the time of valuation and the accumulated total physical, functional, economic impairment.

The assets of the Parent Company's electricity transmission system (power lines and electrical equipment) were revalued in 2016. The revaluation was performed by an external valuer estimating the cost of replacing or renewing each fixed asset based on the actual cost of creating or acquiring analogue or similar fixed assets shortly before the revaluation in accordance with the Company's records. With regard to fixed assets, which in 2011 were invested in the share capital of JSC "Latvijas elektriskie tīkli" as a property investment, the external valuer performed a revaluation to assess how the components of replacement or renewal costs of these fixed assets have changed, since they were invested in fixed capital, adjusting the values of certain subgroups of fixed assets for changes in material costs, and the wage component was indexed on the basis of publicly available national statistics on wage growth over the period. For each item of property, plant and equipment, the external valuer estimated its functional and physical depreciation, which reduced the estimated replacement or replacement value. Management has assessed changes in the criteria used in the valuation since the revaluation and has estimated that these changes do not have a material effect on the value of the revalued groups of property, plant and equipment.

#### **Fixed assets of the natural gas transmission and storage segment**

The Group's buildings, structures, including gas pipeline infrastructure, and technological equipment are stated at revalued amounts that approximate their fair values. The revaluation of fixed assets in the natural gas transmission and storage segment was performed in 2020. Due to the unique nature and use of the assets, Level 3 data was used for the revaluation, which means that the data is not freely observable for the respective type of assets. This was a revaluation (the previous one took place in 2016, when the assets were still owned by JSC Latvijas Gāze), and the level of data of the used assumptions was not changed. The revaluation was performed by an external expert using the amortised replacement cost method. Under this method, the initial value of assets is determined according to the current prices and requirements as well as the materials used. The main assumptions in the revaluation process relate to the cost of materials used and average construction prices at the time of the revaluation. To determine the values, data available from JSC Conexus Baltic Grid on the construction of similar objects in recent years were also used. An important part of the revaluation was the revaluation of underground gas pipelines. The total length of the natural gas transmission pipelines is 1,188 kilometres. If the average construction costs in the country increase or the cost of materials used increases significantly, the value of the assets will also increase. If, as a result, construction costs fall or material costs fall, the value of the assets will also fall. Along with the initial value, the accumulated depreciation of each asset was also determined, taking the physical, functional and technical depreciation of the asset into account as the main factors. If revalued assets are used significantly differently or are functionally depreciated, the value of the revalued assets may decrease significantly. Management has assessed the price level of the pipelines and general construction as of 30 June 2021 and has not identified any material changes since the assessment. In the absence of any other significant changes, the management concluded that the carrying amount of revalued property, plants and equipment does not differ materially from the amount that would have been determined using fair value at the end of the reporting year.

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## **2.5. LONG-TERM FINANCIAL INVESTMENTS**

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Long-term financial investments are investments in the equity of other companies.

#### **Investments in associates**

Investments in associates are investments in companies in which the Company has significant influence, but not control over the other company.

In the parent company's financial statements, investments in associates are stated at cost less impairment losses, if any.

In the consolidated financial statements, investments in equity of an associate are accounted for in accordance with International Accounting Standard (hereinafter – IAS) 28, and such investments are accounted for using the equity method.

### Other long-term financial investments

Other long-term financial investments are investments in the equity of other companies in which the Company has no significant influence or control.

According to IFRS 9, equity instruments after initial recognition are measured at fair value. The Company chose the approach allowed by IFRS 9, initially recognising the financial asset, to irrevocably choose to reflect equity instruments that are not held for trading or are acquired in a business combination, at fair value through other comprehensive income.

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## 2.6. LEASE

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At the time of concluding the agreement, the Group and the Parent Company assess whether the agreement is a lease or includes a lease. An agreement is a lease or includes a lease if it gives the right to control the use of an identifiable asset for a specified period of time in exchange for consideration.

### The Company as the lessee

When concluding a contract, the Company assesses whether the contract is a lease or includes a lease. The Company recognises the right-of-use asset and the corresponding lease liabilities in respect to all lease contracts in which it is the lessee; exceptions are possible for short-term leases (the lease term being 12 months or less) and leases of low-value assets (for example, lease of tablets and personal computers, as well as small office furniture and phone accessories). The Company recognises lease payments related to leases as operating expenses on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern in which the economic benefits of the leased assets are used.

At the initial date, the Company measures the lease liabilities at the present value of the lease payments outstanding at that date. Lease payments are discounted using the interest rate implied by the lease. If this rate cannot be readily determined, the Company uses its comparable interest rate.

Lease payments included in the evaluation of lease liabilities include the following payments:

- fixed lease payments (including, in substance, fixed lease payments), with the exception of lease payments receivable;
- variable lease payments that depend on an index or rate and were initially evaluated by using an index or rate at the initial date;
- the amounts that the lessee would have to pay as guarantees of residual value;

- the exercise price of the call option, if there are sufficient grounds to believe that the lessee will exercise this option;
- penalty payments for the termination of the lease, if the term of the lease reflects the fact that the lessee uses the option to terminate the lease.

Lease liabilities are presented as a separate item in the statement of financial position.

Leases are subsequently evaluated at cost, using the effective interest method, and decreasing the carrying amount to reflect the lease payments.

The Company reassesses the lease liabilities (and adjusts the related right-of-use asset accordingly) whenever:

- the lease term has changed or a significant event or change in circumstances has occurred, resulting in a change in the measurement of the call option, in which case the lease liabilities are reevaluated by discounting the revised lease payments using the revised discount rate;
- the lease payments change due to a change in an index or rate, or expected payments change due to a guaranteed residual value; in such cases, the lease liability is remeasured by discounting the revised lease payments at a constant discount rate (unless the lease payments change due to a change in a variable interest rate, in which case a revised discount rate is used).

The lease contract is changed and the change in lease is not accounted for as a separate lease, in which case the lease liability is reevaluated based on the term of the modified lease, discounting the revised lease payments by using the revised discount rate at the effective date of the modification.

The right-of-use asset includes the initial evaluation of the corresponding lease liabilities, lease payments made on or before the initial date, deducting any lease discounts received and any initial direct costs. They are subsequently measured at cost from which the accumulated depreciation and impairment losses have been deducted.

The right-of-use asset is amortised over the term of the contract.

Pursuant to the transmission system operator unbundling model introduced in Latvia, on 31 December 2014, the Company entered into a transmission system asset lease agreement with the transmission system asset owner JSC "Latvijas elektriskie tīkli". In accordance with the lease agreement for the transmission system assets by implementing IFRS 16, the lease term is set at 5 years.

Pursuant to the protocol decision of the Cabinet session of 8 October 2019 (No. 46, § 38), supporting

the implementation of the full ownership separation model regarding the electric power transmission system operator and assigning the task to contribute the JSC "Latvijas elektriskie tīkli" shares owned by the State to JSC "Augstsprieguma tīkls" by 1 July 2020, the Company reviewed the lease term and established a deadline of 31 December 2020.

It was established by the protocol decision of the Cabinet session of 17 December 2019 (No. 59, § 75) that after the contribution of JSC "Latvijas elektriskie tīkli" shares owned by the State to JSC "Augstsprieguma tīkls", reorganisation of JSC "Augstsprieguma tīkls" and JSC "Latvijas elektriskie tīkli" should take place by incorporating JSC "Latvijas elektriskie tīkli" into JSC "Augstsprieguma tīkls" by 31 December 2020.

Pursuant to the above-mentioned decisions of the Cabinet of Ministers with the decision of the Register of Enterprises of 25 November 2020, JSC "Latvijas elektriskie tīkli" was added to JSC "Augstsprieguma tīkls" on 25 November 2020.

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## 2.7. INVENTORIES

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Stock is presented in the lowest value of the prime cost or net sale value. The net sale value is the selling price of the stock determined during the course of regular operation of the Company, minus variable selling expenses. The prime cost is calculated using the weighted average method.

Purchase costs of stock include the purchase price, import duties and other taxes and fees,

transportation and associated costs, as well as other costs directly related to the delivery of materials and goods. Trade discounts, rebates and similar discounts are deducted in determining the value of inventories.

The amount of inventories is verified by taking an inventory at the end of the year.

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## 2.8. DEFERRED REVENUE

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Revenue received before the balance sheet date but relating to the following twelve months (short-term) or after twelve months (long-term) is included in the deferred income in the balance sheet of short-term or long-term creditors.

Deferred income from European Union funding and congestion management income, once it has been used to finance a specific long-term investment project, is amortised through the progressive recognition of that income in the Profit or Loss Statement for the current financial year in accordance with the amortisation/depreciation period of the long-term investment created. Respectively, when the asset is disposed of or excluded, the proceeds are recognised at their residual value.

Connection fees to transmission system are non-refundable upfront fees paid by customers to secure connection to the transmission network, such fees are not distinct performance obligations as are highly interrelated with transmission system services. Connection fees partly reimburses for the cost of infrastructure to be built needed to connect the respective customer to the network. Connection fees to transmission system fee is calculated in accordance with Latvian regulatory authority (Public Utilities Commission) stated methodology. Revenue from connection fees to transmission system are initially recognised as deferred income and recognised over the estimated customer relationship period of 20 years.

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## 2.9. PENSIONS, POST-EMPLOYMENT BENEFITS

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### a) Pension liabilities

The Company makes monthly contributions to a closed, fixed contribution pension plan on behalf of employees. The plan is managed by the Joint Stock Company "First Closed Pension Fund" in which the Company participates. Contributions to a fixed contribution pension plan does not give the Company any additional legal or practical obligation to make further payments, if the plan does not have sufficient resources to pay all employee benefits for services provided by the employee in current or prior periods. Contributions are made in the amount of 5% (from 1 January 2018 – 6%) of the salary of each member of the pension plan. Contributions to a fixed contribution plan are recognised by the Company at the time when the employee provides the service in exchange for those contributions.

### b) Post-employment benefit liabilities

In addition to the above mentioned pension plan, the Company provides certain post-employment benefits to employees whose employment conditions meet certain criteria. The liabilities for the benefits are calculated on the basis of the current salary levels and the number of employees who are required to receive payments, the amount of historical termination of labour relations, and actuarial assumptions.

Liabilities recognised in the balance sheet in respect to post-employment benefits are reflected at their

present value at the balance sheet date, less any past costs.

Post-employment benefit obligations are recalculated for each reporting year by an independent actuary using the projected unit credit method.

The present value of the benefit obligations is determined by discounting the expected future cash outflows using interest rates of government securities.

The Company uses the projected unit valuation method to estimate the present value of its fixed benefit obligations and the related present and future costs.

According to this method it is considered that each period of service creates an additional unit of entitlement to receive the benefit and that the sum of all such units represents the total liability for post-employment benefits.

The Company also uses objective and mutually agreed actuarial assumptions about variable demographic factors (such as staff turnover and mortality rates) and financial factors (such as expected salary increases and certain changes in benefit levels).

Actuarial gains and losses arising from adjustments and changes in actuarial assumptions are recognised in the statement of comprehensive income in the period in which they arise.

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## 2.10. CORPORATE INCOME TAX

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Corporate income tax is calculated in accordance with the tax legislation of the Republic of Latvia, taking income subject to income tax in the taxation period into account.

The tax rate is 20 percent of the calculated tax applicable base, which is adjusted before the tax rate is applied, by dividing the object value applicable to corporate tax by a coefficient of 0.8.

Corporate income tax on dividend payments is recognised in the profit or loss statement as an expense in the period in which the dividends are declared, and for other contingent items in the period in which the expenses are incurred in the reporting year, regardless of the time of payment.

### Deferred income tax

Deferred income tax arising from temporary differences between the tax bases of assets and liabilities and their carrying amounts has been calculated in these financial statements using the liability method. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the temporary differences reverse. The main temporary differences arise from the different depreciation rates used for accounting and tax purposes for property, plants and equipment and certain non-deductible provisions for tax purposes, as well as tax losses carried forward.

In accordance with International Accounting Standard No. 12 "Income taxes" requirements in cases where income tax is payable at a higher or lower rate depending on whether the profit is distributed, current and deferred tax assets and liabilities should be measured at the tax rate applicable to the retained earnings. In Latvia, retained earnings will be subject to a 0% tax rate.

As the parent controls the dividend policy of its subsidiaries, it is able to control the timing of the

reversal of the temporary difference relating to that investment, including the temporary difference arising from retained earnings. Therefore, in the consolidated financial statements, the Group was able to recognise deferred tax assets and liabilities in respect to investments in subsidiaries using the tax rate applicable to distributed profits. Where the Parent company has determined that the subsidiary's profits will not be distributed in the foreseeable future, the Parent company does not recognise deferred tax assets and liabilities.

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## 2.11. PROVISIONS

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Provisions are recognised when the Company has legal or other construction obligations triggered by a certain past event and there is a probability present that the fulfilment of such liabilities would require the outflow of resources containing economic benefits from the Company, and it is possible to sufficiently assess the scope of liabilities. No provisions are made for future operating losses.

Provisions are recognised in the balance sheet by determining the amount of expenditure that would be required to settle the obligation at the balance sheet date as precisely as possible. Provisions are only used for the expenses for which the provision

was initially recognised, and they are reversed if a potential outflow of resources is no longer expected.

Provisions are measured based on the present value of the expenses that are expected to be incurred to settle the present obligations, using a pre-tax discount rate that includes the current market value of the cash and the risks specific to the liabilities.

Provisions for unused holiday are made to accurately reflect the Company's liabilities to employees for unused holiday, if there are any. Accruals for unused holiday are calculated monthly in the HORIZON resource accounting system.

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## 2.12. REVENUE RECOGNITION

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The Company's revenue from customers is the value of products sold and services provided as a result of operating activities. The Company only keeps records for contracts with the client within the scope of IFRS 15 if all of the following criteria are met:

- a) the parties to the contract have approved the contract (in writing, orally or in accordance with other normal commercial practices) and have undertaken to comply with their respective obligations;
- b) the Company may determine the rights of each party regarding the goods or services to be transferred;
- c) the Company may establish payment terms for the goods or services to be transferred;
- d) the agreement is of a commercial nature (i.e. it is expected that the contract will result in a change in the Company's future cash flow risk, schedule or amount);
- e) there is a possibility that the Company will charge an indemnity in exchange for goods or services transferred to the customer. When assessing whether it is possible to collect

the indemnity amount, the Company only takes the ability and intention of the client to repay the indemnity in a timely manner into consideration.

In accordance with IFRS 15 the Company transfers control of a good or service over time, and thereby carries out its obligation of fulfilment and recognises revenue over time, if one of the following criteria is met:

- a) the customer simultaneously receives and consumes the benefits that are assured by the Company's activities in the course of the Company's business;
- b) with the operation of the Company, the asset is created or improved (for example, repairs) and the customer controls the asset at the time the asset is created or improved;
- c) the Company's operation does not constitute an asset that the Company could use as an alternative and the Company has enforceable rights to payment for timely completion.

For each performance obligation that has been discharged over time, the Company only recognises revenue over time if the Company can reasonably measure its progress towards the full implementation of the performance obligation.

The significant types of the Company's revenue are as follows:

#### **a) Electricity transmission system services**

Based on the fact that the customer simultaneously receives and consumes the benefits provided by the Company's operations in the course of the Company's operations, the Company transfers control over the service over time and thus fulfils the performance obligation and recognises revenue over time.

The Company only recognises revenue from the performance of obligations over the term when control over the service is transferred to the customer, when (or as soon as) the customer decides to use the asset and benefits from it, and when the Company can reasonably measure its progress towards the full implementation of their obligations.

Based on the fact that revenues from transmission system services are based on tariffs approved by the Public Utilities Commission, according to IFRS 15, the Company is entitled to receive reimbursement from the customer for an amount that directly reflects the value the customer receives from the Company's timely completion of Company activities; for practical purposes, the Company may recognise revenue in the amount the Company is entitled to collect.

The Company recognises revenue from the provided transmission system services at the end of each month on the basis of automatically read meter readings.

#### **b) Congestion and overload management**

JSC "Augstsprieguma tīkls" implements transmission system congestion and overload management in accordance with Article 13, Section 4 and Article 13<sup>1</sup>, Section 6 of the Electricity Market Law, and receives a fee for cross-section restricted capacity auction in accordance with the mutual compensation mechanism and concluded contracts of the transmission system operators.

According to Article 16 of Regulation (EC) No. 714/2009 of the European Parliament and of the Council "On conditions for access to the network for cross-border exchanges in electricity and repealing Regulation (EC) No. 1228/2003" (hereinafter – the "Regulation"), any revenues resulting from the allocation of interconnection capacity shall be used for one or more of the following purposes:

- a) ensuring the actual availability of the allocated capacity and/or
- b) maintaining or improving interconnection capacity through network investments, in particular in new interconnectors;
- c) if the revenues cannot be used effectively for the above purposes, they may – subject to approval by the regulatory authorities of the relevant member states – up to a maximum value to be determined by the mentioned regulatory authorities, be used as revenues to be taken into account by the national regulatory authorities when approving the methodology for calculating network tariffs/or setting network tariffs.

Considering the provisions of the Regulation, revenues received from congestion management, which are not used to eliminate overload and congestion in the transmission network, are reflected in the balance sheet as deferred income. Once this income has been used to finance a specific long-term investment project, deferred income is amortised through the progressive recognition of that income in the profit or loss statement for the current financial year in accordance with the amortisation/depreciation period of the long-term investment created.

Based on the fact that the customer simultaneously receives and consumes the benefits provided by the Company's operations in the course of the Company's operations, the Company transfers control over the service over time and thus fulfils the performance obligation and recognises revenue over time.

The Company only recognises revenue from the performance of obligations over the term when control over the service is transferred to the customer, when (or as soon as) the customer decides to use the asset and benefits from it, and when the Company can reasonably measure its progress towards the full implementation of their obligations.

In accordance with the principle of reconciliation of revenues and costs, the revenues of congestion management that are used to eliminate congestion and overload in the transmission network, shall be shown in the profit or loss statement according to the amount of costs (resource method for measuring progress) associated with congestion and overload elimination.

#### **c) Mandatory procurement component income**

In accordance with Paragraph 105 of Cabinet Regulation No. 50 of 21 January 2014, Electricity Trading and Use Regulations, the Company collects mandatory procurement components (hereinafter – MPC) from all electricity end-users or their traders, if the end-user has delegated settlements to the trader with the Company for system and ancillary services.

The revenues of MPC are determined in accordance with the tariffs set by the Public Utilities Commission and the volumes of electricity transmitted. At the same time, the Company is obliged to make MPC payments to the Public Energy Trader for the electricity transmitted to the end users.

Given that the Company has no influence over the pricing of the service and does not have the power to determine the price directly or indirectly, MPC revenue is recognised on an agent basis, with revenue recognised in the profit or loss statement on a net basis.

#### **d) Income from electricity/capacity sales**

According to Article 11 Section 2 of the Electricity Market Law, the transmission system operator may participate in electricity trading, if the purchase and sale of electricity or capacity is necessary for system balancing, buying ancillary services, covering electricity transmission losses, for the transmission system operator's own consumption, or if there is a deviation in the system from a normal operation or there has been an accident.

When participating in the trade of electricity, the transmission system operator shall act in accordance with open, non-discriminatory and market based procedures, except in the event of deviations from the normal operating system or if there has been an accident. In the event of deviations from the normal operating system or in the event of an accident, the transmission system operator shall act in accordance with the provisions of the Network code.

Based on the fact that the customer simultaneously receives and consumes the benefits provided by the Company's operations in the course of the Company's operations, the Company transfers control over the service over time and thus fulfils the performance obligation and recognises revenue over time.

The Company only recognises revenue from the performance of obligations over the term when control over the service is transferred to the customer, when (or as soon as) the customer decides to use the asset and benefits from it, and when the Company can reasonably measure its progress towards the full implementation of their obligations.

Revenue from the sale of electricity/capacity is recognised on the basis of acceptance notes and bills, which are invoiced each month for the electricity/capacity delivered during the month in accordance with the contracts entered into with each other.

#### **e) New construction and renewal of transmission assets (until 01.10.2020)**

According to Article 13. Section 6 of the Electricity Market Law, the Company shall be responsible for the planning, construction, and commissioning of

new transmission infrastructure objects during the development of the transmission system. In turn, according to Article 21.<sup>2</sup> Section 2 of the Electricity Market Law, the transmission system asset owner JSC "Latvijas elektriskie tīkli" finances capital investments in the transmission system assets. Within the framework of the service, the Company with its personnel resources plans, organises, documents, and controls the construction, reconstruction, and renovation works in the assets of the recipient of the service – JSC "Latvijas elektriskie tīkli". The service includes the provision of capital investment project management. The service was provided until the addition of JSC "Latvijas elektriskie tīkli" on 25 November 2020.

Based on the fact that the customer simultaneously receives and consumes the benefits provided by the Company's operations in the course of the Company's operations, the Company transfers control over the service over time and thus fulfils the performance obligation and recognises revenue over time.

The Company only recognises revenue from the performance of obligations over the term when control over the service is transferred to the customer, when (or as soon as) the customer decides to use the asset and benefits from it, and when the Company can reasonably measure its progress towards the full implementation of their obligations.

Revenue from the construction and renovation of transmission assets is recognised on the basis of mutually agreed monthly acceptance acts and invoices, which are invoiced monthly for the amount of work performed.

#### **f) Fee for connection to the electricity transmission system**

JSC "Augstsprieguma tīkls" ensures the necessary connection of the system participants to the transmission system or the increase of the permitted load of the existing connections in accordance with the system participants' connection regulations issued by the Public Utilities Commission.

Based on the fact that the Company's operations do not constitute an asset that could be used alternatively by the Company, and the Company has an enforceable right to payment on time, the Company transfers control over the service over time and therefore exercises performance and recognises revenue over time.

The Company only recognises revenue from the performance of obligations over the term when control over the service is transferred to the customer, when (or as soon as) the customer decides to use the asset and benefits from it, and when the Company can reasonably measure its progress towards the full implementation of their obligations.

Transmission system connection fees are recognised in the statement of financial position as deferred income and, using the straight-line method, are amortised to the profit and loss statement over the estimated period of the commercial relationship with the customer (lease period) - 20 years. Advance payments made for the provision of the service are reflected in the balance sheet as current liabilities and short-term receivables, they are not included in the profit or loss statement.

#### **g) Revenues from transmission of natural gas**

The natural gas transmission service shall be considered as a single performance obligation in accordance with IFRS 15. Trade in natural gas transmission capacity products is a regulated service provided by a subsidiary to transmission system users at approved tariffs. Short-term (quarterly, monthly, daily and current daily capacity) and long-term natural gas transmission capacity (annual capacity) products are offered. Revenues from transmission capacity trading products, which by the nature of the service means the provision of transmission infrastructure and does not change over time for each capacity unit according to the selected product, are recognised in the profit or loss statement for each reporting month in proportion to the user-reserved transmission capacity period.

#### **h) Revenues from the storage of natural gas**

The natural gas storage service shall be considered as a single performance obligation in accordance with IFRS. 15. The subsidiary provides the Inčukalns underground gas storage capacity trading services at approved tariffs to storage users who have

reserved natural gas storage capacity during the storage season. Revenues from the sale of storage capacity, which by the nature of the service means the provision of Inčukalns underground gas storage infrastructure and does not change during the storage season, are recognised for each reporting month according to the storage tariff and in proportion to the remaining months until the end of the storage season.

#### **i) Revenue from balancing (natural gas)**

The subsidiary shall maintain information regarding the amount of natural gas entered into the transmission system and withdrawn from the transmission system by the natural gas transmission system users and calculate the imbalance. The amount of daily imbalance is the difference between input and output. In cases where a negative imbalance occurs to the transmission system user, the charge for the amount of imbalance for each day is calculated by multiplying the calculated amount by the daily published balancing natural gas sales price (the obligation to perform balancing is equal for each unit of transported gas volume). Revenues from balancing shall be recognised for each reporting month when a negative imbalance occurs in the natural gas transmission system user, which has caused a natural gas shortage in the transmission system. In the financial statements, the income from balancing is presented in the other income section at net value (less income for periods when the balance is positive). If market participants cause differences and if the subsidiary does not have sufficient gas resources to ensure the proper functioning of the gas transmission system, the subsidiary shall purchase appropriate quantities of balancing gas.

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## **2.13. RECOGNITION OF COSTS**

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Costs are recognised on an accrual basis. Accounting costs include all foreseeable costs and contingent liabilities incurred in the current or prior years, even if they become known between the balance sheet date and the date of preparation of the financial statements, regardless of the date of receipt of the invoice, as the Company's economic transactions are accounted for and presented in the financial

statements on the basis of their economic content and nature, not merely their legal form.

Operating expenses and other expenses indicated in the profit or loss statement are disclosed in the annexes to the financial statements in more detailed terms.

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## **2.14. LONG-TERM AND SHORT-TERM LIABILITIES**

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The Company's trade payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate

method. Liabilities to suppliers and contractors are stated in the financial statements according to supporting documents and entries in the accounting



records in the amount of invoices received from suppliers of the Company, but not paid at the end of the reporting period.

Accrued expenses that have been incurred during the reporting year when the amount of such costs or the date of payment during the reporting period is clearly known, but the invoices containing which have not yet been received from the suppliers, are included in the item "Accrued liabilities".

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## 2.15. BORROWINGS AND LOANS

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**Borrowings** are divided into long-term and short-term borrowings.

Borrowings are initially recognised at fair value, net transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost. The difference between the proceeds and the redemption value of the loan, deducting the costs related to the receipt of the loans, is gradually included in the profit or loss statement, except for the capitalised portion.

Borrowings are classified as current liabilities unless there is an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

General and specific borrowing costs that relate directly to the acquisition or construction of

qualifying assets, i.e. assets that require a significant period of time before their expected use or sale, are added to the costs of creating or acquiring those assets until they are actually ready for their intended use.

### Loans

Loans are initially recognised at fair value. In subsequent periods, loans are stated at amortised cost. The difference between the proceeds and the redemption value of the loan is recognised in the Profit or Loss Statement over the period of the loan using the effective interest method. Loans are presented as short-term receivables or as long-term receivables if there is an undisputed right to defer the fulfilment of these obligations for at least 12 (twelve) months after the balance sheet date.

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## 2.16. RELATED PARTIES

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Company shareholder, members of the Board, members of the Supervisory Board, their close relatives and companies, in which they have significant influence or control, are defined as related parties.

As all the shares of JSC "Augstsprieguma tīkls" are 100% owned by the Republic of Latvia, state-controlled capital companies are also considered related parties.

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## 2.17. SEGMENT INFORMATION

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Reportable segments are operating segments or sets of segments that meet certain criteria. An operating segment is a component of the Group that is engaged in business activities from which it can earn revenues and cover expenses (including income and expenses related to transactions with other components of the Group), the results of which are regularly reviewed by the Company's chief operating decision-maker, to make decisions about the resources allocated to the segment, evaluate its performance and for which separate financial

information is available. The Group considers that it operates in three segments (Electricity Supply, Natural Gas Storage and Transmission), the Group operates geographically only in the territory of Latvia.

## 2.18. USE OF SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

In preparing consolidated financial statements in accordance with IFRS, the Company's management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities on the reporting date and the reported amounts of income and expenses in the current period. The following estimates of the Company's management have a significant impact on the results of the financial statements:

- *Expenditure related to public participation in the compensation mechanism for losses of electricity transit flows developed by ENTSO-E*

Based on statistical and analytical information as well as expert forecasts, the Company makes estimates and assumptions regarding expenses related to the Company's participation in the Inter Transmission System Operator Compensation Mechanism (ITC mechanism) developed by ENTSO-E. The ITC mechanism is a transit mechanism to cover the costs of transit losses of 35 transmission

system operators in Europe, with two funds: the Framework Fund and the united European Union TSOs transit flow volume fund (WWT – with and without transit), which varies according to the electricity market situation. The most important factor influencing the estimate are the electricity transit flows affecting the volume of the WWT Fund in all European electricity transmission networks, as well as the price of transit losses in the ITC Member States. The forecast is made in each Member State on the basis of loss measurements per month and the loss price.

The amount of accrued expenses in June 2021 is 704 748 EUR. Provisions are made on the basis of settlement statements for period January – April accepted by the Company (total amount 484 748 EUR), which are not invoiced on 30 June 2020. EUR 220 000 EUR have been estimated, taking into account the losses caused by transit flows. Below the assessment of the sensitivity of the revenue estimate at June 2021 is provided.

|   | Transit loss price |                   | WWT amount        |                   |
|---|--------------------|-------------------|-------------------|-------------------|
|   | A decrease of 20%  | A increase of 20% | A decrease of 20% | A increase of 20% |
| The provision of transit expenses changes | (19 306)           | 19 306            | (25 812)          | 25 812            |

- *Post-employment benefit liabilities*

Based on statistical and analytical information as well as estimates made by specialists, the Company makes estimates and assumptions about post-employment benefit obligations as described in Annex 2.8.

In the reporting year, the discount rate used to discount post-employment benefit obligations is fixed at 0.392% (in 2019 – 0,744%). The discount rate is determined in accordance with the requirements of International Financial Reporting Standards whereby the discount

rate should be determined by reference to the market rate of return on high-quality corporate bonds 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, no increase in employees' salaries is planned in 2021, 1.1% in 2022, 1.6% in 2023, 1.7% in 2024, thereafter – 2.0%.

### Sensitivity analysis of the total value of post-employment benefit as of 30 June 2021, 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%       |

○ *Book value of intangible assets and property, plants and equipment*

The Group's management evaluates the carrying amount of intangible assets and fixed assets and assesses whether there are any indications that the recoverable amount of assets is lower than the carrying amount. The Group's management calculates and recognises impairment losses of intangible assets and fixed assets based on estimates of their future use, disposal or sale. Given the projected business volumes and the potential market value of the assets, management believes that no significant adjustments to the value of intangible assets and fixed assets as of 30 June 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.

The Company tests property, plants and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. According to the valuation, if necessary, the value of assets is written down to their recoverable amount.

In assessing impairment, management uses various estimates of cash flows arising from the use, sale, maintenance and repair of property, plants and equipment, as well as increases in inflation and interest rates.

Estimates are based on forecasts of the general economic environment, consumption and electricity sales prices. Should the actual situation change in the future, an additional impairment loss would be recognised or the recognised impairment loss could be partially or fully reduced.

Impairment losses are recognised in the respective reporting period.

Revaluation of property, plants and equipment at a revalued amount is performed by external, certified appraisers in accordance with property valuation standards, based on the existing use of the property, plants and equipment that are considered to be the best and most efficient. As a result of revaluation, the fair value of each fixed asset is determined. The Group's management assesses annually whether the carrying amount of revalued property, plants and equipment differs materially from its fair value on the balance sheet date.

The Group's companies make estimates regarding the useful lives of emergency repair spare parts and, based on past experience, including an assessment of future events, this is determined based on the useful life of the original equipment.

○ *Deferred income tax*

Deferred tax liabilities are recognised in the consolidated financial statements for the retained earnings of subsidiaries, from which tax will be calculated at the time of distribution in the foreseeable future. Other deferred tax assets and liabilities are not recognised. In cases where the total result of the deferred tax calculation would be reflected in the balance sheet asset, it is recognised in the balance sheet when it is probable that the relevant enterprise will have sufficient taxable income to cover temporary differences.

Deferred income tax liabilities are recognised in the consolidated financial statements for the pre-tax profit of the subsidiaries to the extent that the parent company, as a shareholder, will decide on the distribution of these profits in dividends in the near future.

○ *Investment into a subsidiary*

An investment in a subsidiary is initially recognised in accordance with IFRS 3 Business Combinations. At the time of investment, the fair value of identifiable assets and liabilities is assessed. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at their fair values on the acquisition date, irrespective of the extent of any minority interest. Goodwill/gain on a bargain is measured as the excess of the total of acquisition value and value of the non-controlling interest part and the amount of the identified acquired assets and assumed liabilities.

○ *Lease Calculation and Asset Use Rights*

The Group's management applies certain assumptions when calculating the right to use the balance sheet of assets and leasing liabilities. Management believes that such assumptions are reasonably appropriate until 31 December 2020. The accounting policies relevant to IFRS 16 "Leases" are described in Note 21.

## 2.19. RECONCILIATION BETWEEN THE FINANCIAL STATEMENTS

|                                   | JSC "Augstsprieguma tīkls" |             |                    | Group                |             |                      |
|-----------------------------------|----------------------------|-------------|--------------------|----------------------|-------------|----------------------|
|                                   | 31.12.2020<br>EUR          | Adjustments | 31.12.2020<br>EUR  | 31.12.2020<br>EUR    | Adjustments | 31.12.2020<br>EUR    |
| <b>ASSETS</b>                     |                            |             |                    |                      |             |                      |
| <b>Non-current assets</b>         |                            |             |                    |                      |             |                      |
| Intangible investments            | 1 435 210                  | -           | 1 435 210          | 3 307 881            | -           | 3 307 881            |
| Fixed assets                      | 654 359 778                | -           | 654 359 778        | 1 067 674 394        | -           | 1 067 674 394        |
| Right-of-use assets               | 14 212 293                 | -           | 14 212 293         | 14 715 877           | -           | 14 715 877           |
| Non-current financial investments | 134 396 393                | -           | 134 396 393        | 1 210 860            | -           | 1 210 860            |
| <b>Total non-current assets</b>   | <b>804 403 674</b>         | <b>-</b>    | <b>804 403 674</b> | <b>1 086 909 012</b> | <b>-</b>    | <b>1 086 909 012</b> |
| <b>Current assets</b>             |                            |             |                    |                      |             |                      |
| Inventories                       | 514 087                    | -           | 514 087            | 3 535 090            | -           | 3 535 090            |
| Trade receivables                 | 1 673 797                  | -           | 1 673 797          | 8 528 491            | -           | 8 528 491            |
| Deposits                          | 25 000 000                 | -           | 25 000 000         | 25 000 000           | -           | 25 000 000           |
| Other current assets              | 31 647 751                 | -           | 31 647 751         | 31 740 753           | -           | 31 740 753           |
| Corporate income tax              | 11 512                     | -           | 11 512             | 11 512               | -           | 11 512               |
| Deferred expenses                 | 629 093                    | -           | 629 093            | 979 586              | -           | 979 586              |
| Accrued income                    | 9 422 703                  | -           | 9 422 703          | 9 422 703            | -           | 9 422 703            |
| Cash                              | 32 224 560                 | -           | 32 224 560         | 47 388 296           | -           | 47 388 296           |
| <b>Total current assets</b>       | <b>101 123 503</b>         | <b>-</b>    | <b>101 123 503</b> | <b>126 606 431</b>   | <b>-</b>    | <b>126 606 431</b>   |
| <b>TOTAL ASSETS</b>               | <b>905 527 177</b>         | <b>-</b>    | <b>905 527 177</b> | <b>1 213 515 443</b> | <b>-</b>    | <b>1 213 515 443</b> |

|  | JSC "Augstsprieguma tīkls" |                  |                    | Group                |                  |                      |
|--|----------------------------|------------------|--------------------|----------------------|------------------|----------------------|
|  | 31.12.2020<br>EUR          | Adjustments      | 31.12.2020<br>EUR  | 31.12.2020<br>EUR    | Adjustments      | 31.12.2020<br>EUR    |
| <b>EQUITY AND LIABILITIES</b>                            |                            |                  |                    |                      |                  |                      |
| Equity   |                            |                  |                    |                      |                  |                      |
| Share capital  | 363 896 079                | -                | 363 896 079        | 363 896 079          | -                | 363 896 079          |
| Reserves   | 4 172 258                  | -                | 4 172 258          | 6 304 575            | -                | 6 304 575            |
| Retained earnings  | 6 741 633                  | -                | 6 741 633          | 82 722 433           | -                | 82 722 433           |
| Profit for the reporting year                            | 9 999 392                  | -                | 9 999 392          | 64 051 311           | -                | 64 051 311           |
| Non-controlling interests                                | -                          | -                | -                  | 122 228 140          | -                | 122 228 140          |
| <b>Total equity</b>                                      | <b>384 809 362</b>         | <b>-</b>         | <b>384 809 362</b> | <b>639 202 537</b>   | <b>-</b>         | <b>639 202 537</b>   |
| <b>Non-current liabilities</b>                           |                            |                  |                    |                      |                  |                      |
| Employee benefit obligations                             | 2 636 255                  | -                | 2 636 255          | 3 664 749            | -                | 3 664 749            |
| Lease liabilities  | 13 761 561                 | -                | 13 761 561         | 14 215 413           | -                | 14 215 413           |
| Loans  | 86 672 207                 | -                | 86 672 207         | 86 672 207           | -                | 86 672 207           |
| Deferred revenue   | 279 847 333                | -                | 279 847 333        | 290 629 069          | -                | 290 629 069          |
| Advance payments received                                | 162 277                    | (162 277)        | -                  | 162 277              | (162 277)        | -                    |
| <b>Total non-current liabilities</b>                     | <b>383 079 633</b>         | <b>(162 277)</b> | <b>382 917 356</b> | <b>395 343 715</b>   | <b>(162 277)</b> | <b>395 181 438</b>   |
| <b>Current liabilities</b>                               |                            |                  |                    |                      |                  |                      |
| Loans  | 116 200 000                | -                | 116 200 000        | 138 075 000          | -                | 138 075 000          |
| Lease liabilities  | 657 434                    | -                | 657 434            | 717 652              | -                | 717 652              |
| Deferred revenue   | 5 973 540                  | 162 277          | 6 135 817          | 7 226 470            | 162 277          | 7 388 747            |
| Trade payables   | 4 908 151                  | 3 178 230        | 8 086 381          | 12 544 628           | 3 178 230        | 15 722 857           |
| Taxes and mandatory state social insurance contributions | 1 754 449                  | -                | 1 754 449          | 2 811 710            | -                | 2 811 710            |
| Deferred corporate income tax liabilities                | -                          | -                | -                  | 5 152 360            | -                | 5 152 360            |
| Advance payments received                                | 602 252                    | -                | 602 252            | 1 255 537            | -                | 1 255 537            |
| Other creditors  | 2 232 912                  | -                | 2 232 912          | 2 963 606            | -                | 2 963 606            |
| Accrued liabilities                                      | 5 309 444                  | (3 178 230)      | 2 131 214          | 8 222 228            | (3 178 230)      | 5 043 999            |
| <b>Total current liabilities</b>                         | <b>137 638 182</b>         | <b>162 277</b>   | <b>137 800 459</b> | <b>178 969 191</b>   | <b>162 277</b>   | <b>179 131 468</b>   |
| <b>TOTAL EQUITY AND LIABILITIES</b>                      | <b>905 527 177</b>         | <b>-</b>         | <b>905 527 177</b> | <b>1 213 515 443</b> | <b>-</b>         | <b>1 213 515 443</b> |

### 3. REVENUE

|  | JSC "Augstsprieguma tīkls" |                         | Group                   |                         |
|--|----------------------------|-------------------------|-------------------------|-------------------------|
|  | 6 months of 2021<br>EUR    | 6 months of 2020<br>EUR | 6 months of 2021<br>EUR | 6 months of 2020<br>EUR |
| Electricity transmission service                           | 38 166 068                 | 36 301 375              | 38 166 068              | 36 301 375              |
| Revenues from transmission of natural gas                  | -                          | -                       | 18 449 706              | -                       |
| Revenues from the storage of natural gas                   | -                          | -                       | 10 997 735              | -                       |
| Sale of balancing electricity                              | 7 838 075                  | 5 931 926               | 7 838 075               | 5 931 926               |
| Revenues from connection fees                              | 1 673 306                  | -                       | 1 673 306               | -                       |
| Cross-border electricity perimeter charges                 | 1 213 461                  | -                       | 1 213 461               | -                       |
| Revenue from reactive electricity                          | 276 452                    | 262 204                 | 276 452                 | 262 204                 |
| Sale of regulatory electricity                             | 79 133                     | 192 963                 | 79 133                  | 192 963                 |
| Liquidation of electrical capacity overload                | 60 385                     | 100 331                 | 60 385                  | 100 331                 |
| Reconstruction and renewal of transmission system assets** | -                          | 36 084 258              | -                       | 28 440 491              |
| Electricity transit service                                | -                          | 650 962                 | -                       | 650 962                 |
| Other services   | 1 598 469                  | 631 556                 | 1 598 469               | 966 665                 |
| <b>TOTAL REVENUE</b>                                       | <b>50 905 349</b>          | <b>80 155 575</b>       | <b>80 352 790</b>       | <b>72 846 917</b>       |

\* As of 21 July 2020, the Company owns 68.46 per-cent of the shares in AS Conexus Baltic Grid and has a decisive influence in the company. JSC "Conexus Baltic Grid" is the unified natural gas transmission and storage operator in Latvia. Conexus offers its customers natural gas transmission and storage services in accordance with the tariffs set by the Public Utilities Commission.

\*\* Pursuant to Decision No. 18 of the PUC Council of 30 January 2013 "On the Certification of the Electricity Transmission System Operator", from January 1 2015 AST took over the business lines of maintenance and development of transmission system assets from JSC "Latvijas elektriskie tīkli" and ensures active new construction, reconstruction and renovation. According to Section 21<sup>2</sup> of the Electricity Market Law, the transmission system asset owner JSC "Latvijas elektriskie tīkli" finances capital investments in the transmission system assets, which are decided by JSC "Augstsprieguma tīkls". Pursuant to the minutes of the sitting of the Cabinet of Ministers of the Republic of Latvia of 8 October 2019 (No. 46, § 38) and the protocol decision of the sitting of 17 December 2019 (No. 59, § 75), in accordance with the decision of the Register of Enterprises of the Republic of Latvia of 25 November 2020, JSC "Latvijas elektriskie tīkli" was excluded from the Register of Enterprises on 25 November 2020 and JSC "Augstsprieguma tīkls" was added.

### 4. OTHER INCOME

|   | JSC "Augstsprieguma tīkls" |                         | Group                   |                         |
|---|----------------------------|-------------------------|-------------------------|-------------------------|
|   | 6 months of 2021<br>EUR    | 6 months of 2020<br>EUR | 6 months of 2021<br>EUR | 6 months of 2020<br>EUR |
| EU financial support (investment)       | 1 602 857                  | 3 959                   | 1 771 612               | 3 959                   |
| Sale of current assets and fixed assets | 3 657                      | 123 357                 | 3 657                   | 123 357                 |
| EU financial support (training)         | 840                        | -                       | 840                     | -                       |
| Revenue from balancing, net             | -                          | -                       | (427 099)               | -                       |
| Other revenue                           | 48 040                     | 22 709                  | 751 268                 | 34 047                  |
| <b>TOTAL OTHER INCOME</b>               | <b>1 655 394</b>           | <b>150 025</b>          | <b>2 100 278</b>        | <b>161 363</b>          |

## 5. USED RAW MATERIALS AND MATERIALS, REPAIR COSTS

|  | JSC "Augstsprieguma tīkls" |                         | Group                   |                         |
|--|----------------------------|-------------------------|-------------------------|-------------------------|
|  | 6 months of 2021<br>EUR    | 6 months of 2020<br>EUR | 6 months of 2021<br>EUR | 6 months of 2020<br>EUR |
| Purchase of balancing electricity                                | 6 056 697                  | 4 366 415               | 6 056 697               | 4 366 415               |
| Transmission electricity losses and technological consumption    | 4 486 849                  | 2 717 282               | 4 486 849               | 2 717 282               |
| Purchase of regulatory electricity                               | 1 835 192                  | 1 549 953               | 1 835 192               | 1 549 953               |
| Natural gas transmission and storage system maintenance services | -                          | -                       | 1 851 063               | -                       |
| Electricity transit losses                                       | 1 719 575                  | 536 223                 | 1 719 575               | 536 223                 |
| Costs of materials used and repairs                              | 416 375                    | 379 035                 | 793 327                 | (7 218 301)             |
| Natural gas costs  | -                          | -                       | 505 300                 | -                       |
| Electricity for own consumption                                  | 145 824                    | 114 346                 | 145 824                 | 114 346                 |
| <b>TOTAL USED RAW MATERIALS AND MATERIALS, REPAIR COSTS</b>      | <b>14 660 512</b>          | <b>9 663 254</b>        | <b>17 393 827</b>       | <b>2 065 918</b>        |

## 6. PERSONNEL EXPENSES

|   | JSC "Augstsprieguma tīkls" |                         | Group                   |                         |
|---|----------------------------|-------------------------|-------------------------|-------------------------|
|   | 6 months of 2021<br>EUR    | 6 months of 2020<br>EUR | 6 months of 2021<br>EUR | 6 months of 2020<br>EUR |
| Remuneration for work   | 6 516 089                  | 6 338 194               | 10 960 706              | 6 349 482               |
| State social insurance contributions and benefits determined by the collective agreement  | 1 573 299                  | 1 604 579               | 2 630 846               | 1 607 299               |
| Contributions to the pension plan   | 309 529                    | 299 840                 | 565 385                 | 300 144                 |
| Other staff costs   | -                          | -                       | 4 794                   | -                       |
| <b>TOTAL PERSONNEL EXPENSES (INCLUDING REMUNERATION TO THE MANAGEMENT OF THE COMPANY)</b> | <b>8 398 917</b>           | <b>8 242 613</b>        | <b>14 161 731</b>       | <b>8 256 895</b>        |

including Remuneration to the company's management (board, council):

|  | JSC "Augstsprieguma tīkls" |                         | Group                   |                         |
|--|----------------------------|-------------------------|-------------------------|-------------------------|
|  | 6 months of 2021<br>EUR    | 6 months of 2020<br>EUR | 6 months of 2021<br>EUR | 6 months of 2020<br>EUR |
| Remuneration for work  | 274 136                    | 323 724                 | 590 799                 | 329 534                 |
| State social insurance contributions   | 64 615                     | 77 985                  | 139 370                 | 79 385                  |
| Contributions to the pension plan  | -                          | -                       | 24 020                  | -                       |
| <b>TOTAL STAFF COSTS (INCLUDING REMUNERATION TO THE MANAGEMENT OF THE COMPANY)</b> | <b>338 751</b>             | <b>401 709</b>          | <b>754 189</b>          | <b>401 709</b>          |

|  | JSC "Augstsprieguma tīkls" |                         | Group                   |                         |
|--|----------------------------|-------------------------|-------------------------|-------------------------|
|  | 6 months of 2021<br>EUR    | 6 months of 2020<br>EUR | 6 months of 2021<br>EUR | 6 months of 2020<br>EUR |
| Number of employees at the end of the reporting year | 532                        | 548                     | 887                     | 550                     |
| Average number of employees in the reporting year    | 539                        | 548                     | 875                     | 550                     |

## 7. OTHER OPERATING EXPENSES

|  | JSC "Augstsprieguma tīkls" |                         | Group                   |                         |
|--|----------------------------|-------------------------|-------------------------|-------------------------|
|  | 6 months of 2021<br>EUR    | 6 months of 2020<br>EUR | 6 months of 2021<br>EUR | 6 months of 2020<br>EUR |
| Electricity capacity reserve maintenance costs         | 2 034 680                  | 2 108 445               | 2 034 680               | 2 108 445               |
| Telecommunication provision services                   | 1 436 122                  | 1 457 668               | 1 436 122               | 1 457 668               |
| Transportation costs                                   | 273 930                    | 351 352                 | 388 189                 | 351 352                 |
| IT system maintenance costs                            | 534 021                    | 391 755                 | 859 145                 | 391 755                 |
| Premises and territory maintenance costs               | 504 448                    | 463 073                 | 504 448                 | 463 073                 |
| Local taxes and fees                                   | 102 107                    | 74 158                  | 761 802                 | 74 158                  |
| Nature and labour protection costs                     | 53 114                     | 48 492                  | 53 114                  | 48 492                  |
| Transmission asset reconstruction and renovation works | -                          | 36 057 747              | -                       | 36 057 747              |
| Liquidation of electrical capacity overload            | -                          | 27 731                  | -                       | 27 731                  |
| Various business costs                                 | 1 557 470                  | (247 226)               | 2 562 149               | (265 252)               |
| <b>TOTAL OTHER OPERATING EXPENSES</b>                  | <b>6 495 892</b>           | <b>40 733 195</b>       | <b>8 599 649</b>        | <b>40 715 169</b>       |

## 8. NET FINANCE INCOME/(COSTS)

|   | JSC "Augstsprieguma tīkls" |                         | Group                   |                         |
|---|----------------------------|-------------------------|-------------------------|-------------------------|
|   | 6 months of 2021<br>EUR    | 6 months of 2020<br>EUR | 6 months of 2021<br>EUR | 6 months of 2020<br>EUR |
| <b>a) Finance income</b>                  |                            |                         |                         |                         |
| Interest income from loans                | -                          | 35 987                  | -                       | 35 987                  |
| Interest income from placed term deposits | -                          | 18 200                  | -                       | 18 200                  |
| Other financial income                    | 2 290                      | -                       | 2 549                   | -                       |
| <b>Total finance income</b>               | <b>2 290</b>               | <b>54 187</b>           | <b>2 549</b>            | <b>54 187</b>           |
| <b>b) Finance costs</b>                   |                            |                         |                         |                         |
| Borrowing interest costs                  | (1 425 025)                | (248 664)               | (1 527 023)             | (433 898)               |
| Capitalized borrowing interest            | 201 945                    | -                       | 201 954                 | -                       |
| Interest expense on asset leases IFRS16   | (118 985)                  | -                       | (130 377)               | -                       |
| Other finance costs                       | (2 106)                    | (10 108)                | (3 106)                 | (10 108)                |
| <b>Total finance costs</b>                | <b>(1 344 162)</b>         | <b>(258 772)</b>        | <b>(1 458 552)</b>      | <b>(444 006)</b>        |



## 9. INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

### 9.1. INTANGIBLE ASSETS

|  | JSC "Augstsprieguma tīkls" |                           |  |                                   |                   |
|--|----------------------------|---------------------------|--|-----------------------------------|-------------------|
|  | Computer software          | Transmission usage rights | Costs of creating intangible investments | Advance payment for rights of use | Total             |
|  | EUR                        | EUR                       | EUR                                      | EUR                               | EUR               |
| <b>31 December, 2019</b>                     |                            |                           |  |                                   |                   |
| Initial value                                | 1 163 497                  | 11 493 000                | 382 708                                  | 38 028 090                        | 51 067 295        |
| Accumulated depreciation and impairment      | (640 782)                  | (13 095)                  | -  | -                                 | (653 877)         |
| <b>Residual value as of 31 December 2019</b> | <b>522 715</b>             | <b>11 479 905</b>         | <b>382 708</b>                           | <b>38 028 090</b>                 | <b>50 413 419</b> |
| <b>2020</b>                                  |                            |                           |  |                                   |                   |
| Purchased                                    | 90 139                     |                           | 246 521                                  |                                   | 336 660           |
| Depreciation                                 | (93 000)                   | (287 326)                 |  |                                   | (380 326)         |
| <b>Residual value as of 30 June 2020</b>     | <b>519 854</b>             | <b>11 192 579</b>         | <b>629 229</b>                           | <b>38 028 090</b>                 | <b>50 369 753</b> |
| Invested as a result of reorganisation       | -                          | 1 080                     | -  | -                                 | 1 080             |
| Purchased                                    | 208 387                    | -                         | 209 643                                  | -                                 | 418 030           |
| Regrouped                                    | 639 372                    | -                         | (639 372)                                | -                                 | -                 |
| Disposals                                    | -                          | (11 048 917)              | -  | (38 028 090)                      | (49 077 008)      |
| Depreciation                                 | (132 960)                  | (143 685)                 | -  | -                                 | (276 645)         |
| <b>Residual value as of 31 December 2020</b> | <b>1 234 653</b>           | <b>1 057</b>              | <b>199 500</b>                           | <b>-</b>                          | <b>1 435 210</b>  |
| Initial value                                | 2 108 318                  | 1 892                     | 199 500                                  | -                                 | 2 309 709         |
| Accumulated depreciation and impairment      | (873 665)                  | (835)                     | -  | -                                 | (874 500)         |
| <b>Residual value on 31 December 2020</b>    | <b>1 234 653</b>           | <b>1 057</b>              | <b>199 500</b>                           | <b>-</b>                          | <b>1 435 210</b>  |
| <b>2021</b>                                  |                            |                           |  |                                   |                   |
| Purchased                                    | 361 090                    | -                         | 143 502                                  | -                                 | 504 592           |
| Depreciation                                 | (153 657)                  | (47)                      | -  | -                                 | (153 704)         |
| <b>Residual value as of 30 June 2021</b>     | <b>1 442 086</b>           | <b>1 010</b>              | <b>343 002</b>                           | <b>-</b>                          | <b>1 786 098</b>  |
| <b>On 30 June 2021</b>                       |                            |                           |  |                                   |                   |
| Initial value                                | 2 465 328                  | 1 892                     | 343 002                                  | -                                 | 2 810 222         |
| Accumulated depreciation and impairment      | (1 023 242)                | (882)                     | -  | -                                 | (1 024 124)       |
| <b>Residual value as of 30 June 2021</b>     | <b>1 442 086</b>           | <b>1 010</b>              | <b>343 002</b>                           | <b>-</b>                          | <b>1 786 098</b>  |

|  | Group             |                           |  |                                   |                   |
|--|-------------------|---------------------------|--|-----------------------------------|-------------------|
|  | Computer software | Transmission usage rights | Costs of creating intangible investments | Advance payment for rights of use | Total             |
|  | EUR               | EUR                       | EUR                                      | EUR                               | EUR               |
| <b>31 December, 2019</b>   |                   |                           |  |                                   |                   |
| Initial value  | 1 163 497         | 11 493 000                | 382 708                                  | 38 028 090                        | 51 067 295        |
| Accumulated depreciation and impairment                              | (640 782)         | (13 095)                  | -  | -                                 | (653 877)         |
| <b>Residual value as of 30 June 2019</b>                             | <b>522 715</b>    | <b>11 479 905</b>         | <b>382 708</b>                           | <b>38 028 090</b>                 | <b>50 413 418</b> |
| <b>2020</b>  |                   |                           |  |                                   |                   |
| Disposals  |                   | (11 164 663)              |  | (38 028 090)                      | (49 192 753)      |
| Depreciation   |                   | (47)                      |  |                                   | (47)              |
| <b>Residual value as of 31 December 2020</b>                         | <b>522 715</b>    | <b>315 195</b>            | <b>382 708</b>                           | <b>-</b>                          | <b>1 220 618</b>  |
| Balances of JSC "Conexus Baltic Grid" on 31.07.2020 July             | 1 320 926         | -                         | 206 999                                  | -                                 | 1 527 923         |
| Balances of JSC "Latvijas elektriskie tīkli"                         | -                 | 1 080                     | -  | -                                 | 1 080             |
| Purchased  | 298 526           | -                         | 1 042 403                                | -                                 | 1 340 929         |
| Regrouped  | 1 372 573         | -                         | (1 426 240)                              | -                                 | (53 667)          |
| Disposals  | (281)             | 115 746                   | -  | -                                 | 115 465           |
| Depreciation   | (413 505)         | (430 964)                 | -  | -                                 | (844 469)         |
| <b>Residual value as of 31 December 2020</b>                         | <b>3 100 954</b>  | <b>1 057</b>              | <b>205 870</b>                           | <b>-</b>                          | <b>3 307 881</b>  |
| Initial value  | 2 108 318         | 1 892                     | 199 500                                  | -                                 | 2 309 710         |
| As a result of the control, JSC "Conexus Baltic Grid" on 31.12.2020. | 7 698 983         | -                         | 6 370                                    | -                                 | 7 705 353         |
| Accumulated depreciation and impairment                              | (873 665)         | (835)                     | -  | -                                 | (874 500)         |
| As a result of the control, JSC "Conexus Baltic Grid" on 31.12.2020  | (5 832 682)       | -                         | -  | -                                 | (5 832 682)       |
| <b>Residual value as of 31 December 2020</b>                         | <b>3 100 953</b>  | <b>1 057</b>              | <b>205 870</b>                           | <b>-</b>                          | <b>3 307 881</b>  |
| <b>2021</b>  |                   |                           |  |                                   |                   |
| Purchased  | 361 090           | -                         | 438 147                                  | -                                 | 799 237           |
| Regrouped  | 81 767            | -                         | (81 767)                                 | -                                 | -                 |
| Disposals  | (6 357)           |                           |  |                                   | (6 357)           |
| Depreciation   | (498 390)         | (47)                      |  |                                   | (498 437)         |
| <b>Residual value as of 30 June 2021</b>                             | <b>3 039 064</b>  | <b>1 010</b>              | <b>562 250</b>                           | <b>-</b>                          | <b>3 602 324</b>  |
| <b>30 June 2021</b>  |                   |                           |  |                                   |                   |
| Initial value  | 10 236 238        | 1 892                     | 562 250                                  | -                                 | 10 800 380        |
| Accumulated depreciation and impairment                              | (7 197 174)       | (882)                     | -  | -                                 | (7 198 056)       |
| <b>Residual value as of 30 June 2021</b>                             | <b>3 039 064</b>  | <b>1 010</b>              | <b>562 250</b>                           | <b>-</b>                          | <b>3 602 324</b>  |

## 9.2. PROPERTY, PLANT AND EQUIPMENT

|   | JSC "Augstsprieguma tīkls"                         |   |                           |   |                    |
|---|--|---|---------------------------|---|--------------------|
|   | Land, buildings and civil engineering works<br>EUR | Power transmission lines and technological equipment<br>EUR | Other fixed assets<br>EUR | Costs of unfinished construction objects<br>EUR | Total<br>EUR       |
| <b>31 December, 2019</b>                                    |  |   |                           |   |                    |
| Initial value   | -  | 6 815   | 9 933 969                 | 1 000 165                                       | 10 940 949         |
| Accumulated depreciation and impairment                     | -  | (6 815)   | (5 442 932)               | -   | (5 449 747)        |
| <b>Residual value as of 31 December 2019</b>                | <b>-</b>   | <b>-</b>  | <b>4 491 037</b>          | <b>1 000 165</b>                                | <b>5 491 202</b>   |
| <b>2020</b>   |  |   |                           |   |                    |
| Purchased   | -  | -   | 350 165                   | 333 388   | 683 553            |
| Depreciation  | -  | -   | (791 289)                 | -   | (791 289)          |
| <b>Residual value as of 30 June 2020</b>                    |  |   | <b>4 049 913</b>          | <b>1 333 553</b>                                | <b>5 383 466</b>   |
| Balances of JSC "Latvijas elektriskie tīkli" on 30.09.2020. | 39 058 031   | 495 601 436   | 1 723 011                 | 106 605 514                                     | 642 987 992        |
| Purchased   | 35 100   | -   | 1 285 814                 | 13 010 330                                      | 14 331 244         |
| Regrouped   | 1 467 941  | 27 540 385  | 538 839                   | (29 547 165)                                    | -                  |
| Sold  | -  | -   | -                         | (283 386)                                       | (283 386)          |
| Written off   | (60)   | (34 175)  | (1 973)                   | -   | (36 208)           |
| Depreciation  | (555 509)  | (6 280 342)   | (1 077 935)               | -   | (7 913 786)        |
| Adjustment  | -  | -   | -                         | (109 544)                                       | (109 544)          |
| <b>Residual value as of 31 December 2020</b>                | <b>40 005 503</b>                                  | <b>516 827 304</b>  | <b>6 517 669</b>          | <b>91 009 302</b>                               | <b>654 359 778</b> |
| <b>31 December 2020</b>                                     |  |   |                           |   |                    |
| Initial/revalued value                                      | 47 694 860   | 1 065 211 783   | 21 072 775                | 91 009 302                                      | 1 224 988 720      |
| Accumulated depreciation and impairment                     | (7 689 357)  | (548 384 479)   | (14 555 106)              | -   | (570 628 942)      |
| <b>Residual value as of 31 December 2020</b>                | <b>40 005 503</b>                                  | <b>516 827 304</b>  | <b>6 517 669</b>          | <b>91 009 302</b>                               | <b>654 359 778</b> |
| <b>2021</b>   |  |   |                           |   |                    |
| Purchased   | -  | -   | 3 359 143                 | 11 274 854                                      | 14 633 997         |
| Regrouped   | 926 744  | 82 602 748  | 1 692 615                 | (85 222 107)                                    | -                  |
| Sold  | -  | -   | (3 676)                   | (64 965)  | (68 641)           |
| Written off   | -  | (110 474)   | (1 094)                   | -   | (111 568)          |
| Depreciation  | (1 043 762)  | (13 039 076)  | (1 567 385)               | -   | (15 650 223)       |
| <b>Residual value as of 30 June 2021</b>                    | <b>39 888 485</b>                                  | <b>586 280 502</b>  | <b>9 997 272</b>          | <b>16 997 084</b>                               | <b>653 163 343</b> |
| Initial/revalued value                                      | 48 621 304   | 1 144 184 949   | 26 077 051                | 16 997 084                                      | 1 235 880 388      |
| Accumulated depreciation and impairment                     | (8 732 819)  | (557 904 447)   | (16 079 779)              | -   | (582 717 045)      |
| <b>Residual value as of 30 June 2021</b>                    | <b>39 888 485</b>                                  | <b>586 280 502</b>  | <b>9 997 272</b>          | <b>16 997 084</b>                               | <b>653 163 343</b> |

|  | Group                                      |                      |                    |                       |  |                      |
|--|--|----------------------|--------------------|-----------------------|--|----------------------|
|  | Land, buildings and engineering structures | Production equipment | Other fixed assets | Emergency spare parts | Costs of unfinished construction objects | Total                |
|  | EUR  | EUR                  | EUR                | EUR                   | EUR                                      | EUR                  |
| <b>31 December, 2019</b>   |  |                      |                    |                       |  |                      |
| Initial value  | -  | 6 815                | 9 933 969          | -                     | 1 000 165                                | 10 940 949           |
| Accumulated depreciation and impairment                              | -  | (6 815)              | (5 442 932)        | -                     | -  | (5 449 747)          |
| <b>Residual value as of 31 December 2019</b>                         | <b>-</b>                                   | <b>-</b>             | <b>4 491 037</b>   | <b>-</b>              | <b>1 000 165</b>                         | <b>5 491 202</b>     |
| <b>2020</b>  |  |                      |                    |                       |  |                      |
| Balances of JSC Latvijas elektriskie tīkli on 31.05.2020.            | 41 393 506                                 | 504 246 362          | 197 790            | -                     | 80 976 728                               | 626 814 386          |
| Purchased  |  |                      | 350 165            |                       | 7 930 724                                | 8 280 889            |
| Depreciation   |  |                      | (3 176 845)        |                       |  | (3 176 845)          |
| <b>Residual value as of 30 June 2020</b>                             | <b>41 393 506</b>                          | <b>504 246 362</b>   | <b>1 862 147</b>   | <b>-</b>              | <b>89 907 617</b>                        | <b>637 409 632</b>   |
| Balances of JSC "Conexus Baltic Grid" on 31.07.2020                  | 318 876 576                                | 73 193 452           | 2 118 839          | 1 404 726             | 10 683 906                               | 406 277 499          |
| Purchased  | 35 100                                     | 226 151              | 6 628 871          | -                     | 44 333 395                               | 51 223 517           |
| Regrouped  | 8 692 116                                  | 20 635 288           | 538 839            | -                     | (40 771 326)                             | (10 905 083)         |
| Sold   | -  | -                    | -                  | -                     | (283 386)                                | (283 386)            |
| Written off  | (2 157 085)                                | (827 820)            | (133 178)          | -                     | -  | (3 118 083)          |
| Depreciation   | (3 481 458)                                | (7 505 451)          | (1 991 711)        | -                     | -  | (12 978 620)         |
| Adjustment   | -  | -                    | -                  | 158 462               | (109 544)                                | 48 918               |
| <b>Residual value as of 31 December 2020</b>                         | <b>363 358 755</b>                         | <b>589 967 982</b>   | <b>9 023 807</b>   | <b>1 563 188</b>      | <b>103 760 662</b>                       | <b>1 067 674 394</b> |
| <b>31 December 2020</b>  |  |                      |                    |                       |  |                      |
| Initial value  | 47 694 860                                 | 1 065 211 783        | 21 072 775         | -                     | 91 009 302                               | 1 224 988 720        |
| As a result of the control, JSC "Conexus Baltic Grid" on 31.07.2020. | 761 944 987                                | 130 919 337          | 7 367 348          | 1 404 727             | 4 657 656                                | 906 294 055          |
| Accumulated depreciation and impairment                              | (7 689 357)                                | (548 384 479)        | (14 555 106)       | -                     | -  | (570 628 942)        |
| As a result of the control, JSC "Conexus Baltic Grid" on 31.07.2020. | (438 591 735)                              | (57 778 659)         | (4 861 210)        | 158 461               | 8 093 704                                | (492 979 439)        |
| <b>Residual value as of 31 December 2020</b>                         | <b>363 358 755</b>                         | <b>589 967 982</b>   | <b>9 023 807</b>   | <b>1 563 188</b>      | <b>103 760 662</b>                       | <b>1 067 674 394</b> |
| <b>2021</b>  |  |                      |                    |                       |  |                      |
| Purchased  |  | 40 100               | 3 583 253          | -                     | 21 393 896                               | 25 017 249           |
| Regrouped  | 4 932 560                                  | 82 636 500           | 1 692 615          | -                     | (89 345 613)                             | (83 938)             |
| Sold   |  |                      | (3 676)            |                       | (64 965)                                 | (68 641)             |
| Written off  | (144 237)                                  | (140 558)            | (2 189)            | -                     | -  | (286 984)            |
| Depreciation   | (6 699 940)                                | (15 405 039)         | (1 937 462)        | -                     | -  | (24 042 441)         |
| <b>Residual value associate as of 30 June 2021</b>                   | <b>361 447 138</b>                         | <b>657 098 985</b>   | <b>12 356 348</b>  | <b>1 563 188</b>      | <b>35 743 980</b>                        | <b>1 068 209 639</b> |
| Initial value  | 814 166 172                                | 1 274 918 897        | 33 575 683         | 1 563 188             | 35 743 980                               | 2 159 967 920        |
| Accumulated depreciation and impairment                              | (452 719 034)                              | (617 819 912)        | (21 219 335)       | -                     | -  | (1 091 758 281)      |
| <b>Residual value as of 30 June 2021</b>                             | <b>361 447 138</b>                         | <b>657 098 985</b>   | <b>12 356 348</b>  | <b>1 563 188</b>      | <b>35 743 980</b>                        | <b>1 068 209 639</b> |

## 10. NON-CURRENT FINANCIAL INVESTMENTS

|  | 30.06.2021<br>EUR  | 31.12.2020<br>EUR  |
|--|--------------------|--------------------|
| Participation in the capital of subsidiaries, including: | 134 394 971        | 134 394 971        |
| <b>JSC "Conexus Baltic Grid"</b>                         | <b>134 394 971</b> | <b>134 394 971</b> |
| Ownership in the capital of other companies, including:  | 1 422              | 1 422              |
| <b>JSC "Pirmais slēgtais pensiju fonds"</b>              | <b>1 422</b>       | <b>1 422</b>       |
| <b>Residual value at the end of the reporting period</b> | <b>134 396 393</b> | <b>134 396 393</b> |

| Name of the Company                  | Location | Type of business activity                               | Shares (percentage) |
|--------------------------------------|----------|---|---------------------|
| JSC "Conexus Baltic Grid"            | Latvia   | Natural gas transmission and storage operator in Latvia | 68.46%              |
| JSC "Pirmais slēgtais pensiju fonds" | Latvia   | Management of pension plans                             | 1.9%                |

\* The parent company owns 1.9% of the capital of JSC "Pirmais slēgtais pensiju fonds". The Company is a nominal shareholder, as all the risks and rewards of the Fund are undertaken or acquired by the Company's employees, who are members of the pension plan

## 11. INVENTORIES

|  | JSC "Augstsprieguma tīkls" |                   | Group             |                   |
|--|----------------------------|-------------------|-------------------|-------------------|
|  | 30.06.2021<br>EUR          | 31.12.2020<br>EUR | 30.06.2021<br>EUR | 31.12.2020<br>EUR |
| Materials and spare parts              | 524 267                    | 514 087           | 2 192 458         | 2 137 535         |
| Natural gas                            | -                          | -                 | 1 354 547         | 1 477 709         |
| Provisions for slow-moving inventories | -                          | -                 | (73 094)          | (80 154)          |
| <b>TOTAL STOCK</b>                     | <b>524 267</b>             | <b>514 087</b>    | <b>3 473 911</b>  | <b>3 535 090</b>  |

## 12. TRADE RECEIVABLES

|   | JSC "Augstsprieguma tīkls" |                   | Group             |                   |
|---|----------------------------|-------------------|-------------------|-------------------|
|   | 30.06.2021<br>EUR          | 31.12.2020<br>EUR | 30.06.2021<br>EUR | 31.12.2020<br>EUR |
| <b>Trade receivables</b>                      |                            |                   |                   |                   |
| Electricity transmission system service debt  | 1 104 031                  | 1 210 290         | 1 104 031         | 1 210 290         |
| Other trade receivables                       | 48 376                     | 479 125           | 7 174 444         | 7 333 819         |
| <b>Total trade receivables</b>                | <b>1 152 407</b>           | <b>1 689 415</b>  | <b>8 278 475</b>  | <b>8 544 109</b>  |
| For other trade receivables                   | (11 244)                   | (15 617)          | (11 244)          | (15 617)          |
| <b>Total provisions for doubtful accounts</b> | <b>(11 244)</b>            | <b>(15 617)</b>   | <b>(11 244)</b>   | <b>(15 617)</b>   |
| <b>Net accounts receivable</b>                |                            |                   |                   |                   |
| Electricity transmission system service debt  | 1 104 031                  | 1 210 290         | 1 104 031         | 1 210 290         |
| Other trade receivables                       | 37 131                     | 463 508           | 7 163 200         | 7 318 201         |
| <b>NET TRADE RECEIVABLES</b>                  | <b>1 141 163</b>           | <b>1 673 798</b>  | <b>8 267 231</b>  | <b>8 528 491</b>  |

Impairment of trade receivables

|   | JSC "Augstsprieguma tīkls" |                   | Group             |                   |
|---|----------------------------|-------------------|-------------------|-------------------|
|   | 30.06.2021<br>EUR          | 31.12.2020<br>EUR | 30.06.2021<br>EUR | 31.12.2020<br>EUR |
| At the beginning of the reporting year    | 15 617                     | 31 154            | 15 617            | 31 154            |
| Included in the profit or loss statement  | (4 373)                    | (15 537)          | (4 373)           | (15 537)          |
| <b>At the end of the reporting period</b> | <b>11 244</b>              | <b>15 617</b>     | <b>11 244</b>     | <b>15 617</b>     |

## 13. OTHER DEBTORS

|                             | JSC "Augstsprieguma tīkls" |                   | Group             |                   |
|-----------------------------|----------------------------|-------------------|-------------------|-------------------|
|                             | 30.06.2021<br>EUR          | 31.12.2020<br>EUR | 30.06.2021<br>EUR | 31.12.2020<br>EUR |
| Deposits                    | -                          | 25 000 000        | -                 | 25 000 000        |
| Overpaid taxes, including:  | 1 611 415                  | 11 512            | 1 611 415         | 11 512            |
| <i>Corporate income tax</i> | <i>1 611 415</i>           | <i>11 512</i>     | <i>1 611 415</i>  | <i>11 512</i>     |
| EU funding received         | 31 792 941                 | 31 570 973        | 31 792 941        | 31 570 973        |
| The rest of the receivables | 80 561                     | 76 778            | 151 710           | 169 780           |
| <b>TOTAL OTHER DEBTORS</b>  | <b>33 484 917</b>          | <b>56 659 263</b> | <b>33 556 066</b> | <b>56 752 265</b> |

## 14. ACCRUED INCOME

|   | JSC "Augstsprieguma tīkls" |                   | Group                 |                       |
|---|----------------------------|-------------------|-----------------------|-----------------------|
|   | 30.06.2021<br>EUR          | 31.12.2020<br>EUR | on 30.06.2021.<br>EUR | on 31.12.2020.<br>EUR |
| <b>Provisions for income from provided services</b>       |                            |                   |                       |                       |
| For transmission system service revenue                   | 6 273 063                  | 6 346 934         | 6 273 063             | 6 346 934             |
| For the sale of balancing electricity                     | 1 811 441                  | 1 365 183         | 1 811 441             | 1 365 183             |
| For mandatory purchase component revenue                  | 393 568                    | 627 107           | 393 568               | 627 107               |
| For building maintenance service revenue                  | 194 734                    | 39 779            | 194 734               | 39 779                |
| Cross-border electricity perimeter charges                | 124 830                    | 211 132           | 124 830               | 211 132               |
| For revenue from reactive electricity                     | 57 119                     | 50 247            | 57 119                | 50 247                |
| For revenue from the sale of regulatory electricity       | 35 010                     | 71 975            | 35 010                | 71 975                |
| Provisions for loss compensation in transformers          | -                          | 20 413            | -                     | 20 413                |
| Rental services of fixed assets and equipment             | 68 623                     | -                 | 68 623                | -                     |
| For balancing administration service revenue              | 3 557                      | 3 201             | 3 557                 | 3 201                 |
| Rental services   | 1 126                      | -                 | 1 126                 | -                     |
| For revenue from other services                           | 11 355                     | 392 374           | 11 355                | 392 374               |
| <b>Total provisions for income from provided services</b> | <b>8 974 426</b>           | <b>9 128 345</b>  | <b>8 974 426</b>      | <b>9 128 345</b>      |
| Electricity transit service revenue (ITC)                 | 68 336                     | 68 336            | 68 336                | 68 336                |
| Various accrued income                                    | 97 875                     | 226 022           | 97 875                | 226 022               |
| <b>TOTAL ACCRUED INCOME</b>                               | <b>9 140 637</b>           | <b>9 422 703</b>  | <b>9 140 637</b>      | <b>9 422 703</b>      |

## 15. CASH AND CASH EQUIVALENTS

|                  | JSC "Augstsprieguma tīkls" |                   | Group             |                   |
|------------------|----------------------------|-------------------|-------------------|-------------------|
|                  | 30.06.2021<br>EUR          | 31.12.2020<br>EUR | 30.06.2021<br>EUR | 31.12.2020<br>EUR |
| CASH IN THE BANK | 72 315 812                 | 32 224 560        | 74 721 071        | 47 388 296        |

## 16. EQUITY

As of 30 March 2021, the registered share capital of JSC "Augstsprieguma tīkls" is EUR 363 896 079 (31 December 2020 - EUR 363 896 079), consisting of 363 896 079 shares (as of 31 December 2020 - 363 896 079 shares).

The parent company has made payments to the state budget for the use of state capital from the previous year's net profit:

In 2017 – EUR 299 511;  
 In 2018 – EUR 247 395;  
 In 2019 – EUR 3 598 352;  
 In 2020 – EUR 1 735 958;  
 In 2021 – EUR 7 999 514.

The parent company's reserves consist of retained earnings from previous periods, which have been transferred to other reserves to ensure the Company's development by the owner's decision.

The Group's reserves consist of the revaluation reserve for fixed assets, the reserves specified in the Articles of Association of the subsidiary, the revaluation reserve for post-employment benefits, retained earnings, which have been transferred to other reserves for development by the owner's decision.

## 17. DEFERRED REVENUE

|   | JSC "Augstsprieguma tīkls" |                    | Group              |                    |
|---|----------------------------|--------------------|--------------------|--------------------|
|   | 30.06.2021<br>EUR          | 31.12.2020<br>EUR  | 30.06.2021<br>EUR  | 31.12.2020<br>EUR  |
| <b>a) Long-term deferred revenue</b>  |                            |                    |                    |                    |
| - from European Union funding   | 111 089 562                | 112 672 698        | 121 702 544        | 123 454 434        |
| - from congestion charge revenue  | 99 907 709                 | 95 608 651         | 99 907 709         | 95 608 651         |
| - from connection fees  | 39 863 222                 | 39 995 011         | 39 863 222         | 39 995 011         |
| - from the expected European Union funding  | 31 792 941                 | 31 570 973         | 31 792 941         | 31 570 973         |
| <b>TOTAL</b>  | <b>282 653 434</b>         | <b>279 847 333</b> | <b>293 266 416</b> | <b>290 629 069</b> |
| <b>b) Short-term deferred revenue</b>   |                            |                    |                    |                    |
| - from European Union funding (amortization)  | 2 301 113                  | 2 320 835          | 5 670 097          | 2 670 600          |
| - from connection fees  | 3 375 255                  | 3 379 561          | 3 375 255          | 3 379 561          |
| -from European Union funding  | 950 636                    | 162 277            | 950 636            | 162 277            |
| <i>Project "Implementation of Baltic Synchronisation Project Phase II</i>   | <i>777 947</i>             | <i>-</i>           | <i>777 947</i>     | <i>-</i>           |
| <i>Project "EU-SysFlex "Pan-European system with an efficient coordinated use of flexibilities for the integration of a large share of RES" (31.12.2020.)</i> | <i>37 812</i>              | <i>37 812</i>      | <i>37 812</i>      | <i>37 812</i>      |
| <i>Project "Study on Dynamic behaviour of synchronously interconnected Baltic States and Continental European electricity network" (31.12.2020.)</i>          | <i>26 250</i>              | <i>26 250</i>      | <i>26 250</i>      | <i>26 250</i>      |
| <i>Project "TSO-DSO-Consumer INTERFACE aRchitecture to provide innovative grid services for an efficient power system" (31.12.2020.)</i>                      | <i>98 215</i>              | <i>98 215</i>      | <i>98 215</i>      | <i>98 215</i>      |
| <i>Project "TSO-DSO-Consumer INTERFACE aRchitecture to provide innovative grid services for an efficient power system"</i>                                    | <i>10 413</i>              | <i>-</i>           | <i>10 413</i>      | <i>-</i>           |
| - from congestion charge revenue  | 437 357                    | 273 144            | 437 357            | 273 144            |
| - from IPGK reserved capacity charges   | -                          | -                  | 237 284            | 903 165            |
| <b>TOTAL</b>  | <b>7 064 361</b>           | <b>6 135 817</b>   | <b>10 670 629</b>  | <b>7 388 747</b>   |

Movement of deferred revenue (long-term and short-term part):

|   | JSC "Augstsprieguma tīkls" |                    | Group              |                    |
|---|----------------------------|--------------------|--------------------|--------------------|
|   | 30.06.2021<br>EUR          | 31.12.2020<br>EUR  | 30.06.2021<br>EUR  | 31.12.2020<br>EUR  |
| <b>At the beginning of the reporting period</b>                             | <b>285 983 150</b>         | <b>289 601 283</b> | <b>298 017 816</b> | <b>301 033 754</b> |
| Received deferred revenues from European Union financing (long - term)      | 221 968                    | 7 507 226          | 3 241 188          | 7 507 226          |
| Received deferred revenues from European Union financing (short - term)     | 788 359                    | 162 277            | 788 359            | 162 277            |
| Deferred revenue from congestion charges                                    | 4 745 584                  | -                  | 4 745 584          | -                  |
| Congestion management revenue received (short-term)                         | 164 214                    | -                  | 164 214            | -                  |
| Received deferred revenue from connection fees                              | 1 567 489                  | 40 667             | 1 567 489          | 40 667             |
| Long-term deferred revenue from usage rights is excluded                    | -                          | (11 043 332)       | -                  | (11 043 332)       |
| Revenue from congestion charges is included in the profit or loss statement | (446 525)                  | 1 141 328          | (446 525)          | 1 141 328          |
| Connection fees are included in the profit or loss statement                | (1 703 587)                | (844 618)          | (1 703 587)        | (844 618)          |
| Reserved capacity charges (IPGK)  | -                          | -                  | 318 791            | 903 165            |
| European Union funding is included in the profit or loss statement          | (1 602 857)                | (581 681)          | (2 756 284)        | (882 651)          |
| <b>At the end of the reporting period</b>                                   | <b>289 717 795</b>         | <b>285 983 150</b> | <b>303 937 045</b> | <b>298 017 816</b> |



## 18. ADVANCE PAYMENTS AND OTHER CREDITORS

|   | JSC "Augstsprieguma tīkls" |                   | Group             |                   |
|---|----------------------------|-------------------|-------------------|-------------------|
|   | 30.06.2021<br>EUR          | 31.12.2020<br>EUR | 30.06.2021<br>EUR | 31.12.2020<br>EUR |
| Advance payments received from customers    | 242                        | -                 | 838 571           | -                 |
| Settlements with employees                  | 607 661                    | 641 702           | 607 661           | 641 702           |
| Connection fee advances received *          | 299 954                    | 602 252           | 299 954           | 602 252           |
| Other creditors                             | 1 311 505                  | 1 591 210         | 2 434 032         | 2 975 189         |
| <b>ADVANCE PAYMENTS AND OTHER CREDITORS</b> | <b>2 219 362</b>           | <b>2 835 164</b>  | <b>4 180 218</b>  | <b>4 219 143</b>  |

\* JSC Augstsprieguma tīkls provides system participants with necessary connections to the transmission system or an increase of the permitted load of existing connections in accordance with the connection rules regarding the fee for system participants, issued by PUC, which is determined by the transmission system operator, according to the PUC calculation method for the calculation of the connection fee.

## 19. ACCRUED LIABILITIES

|  | JSC "Augstsprieguma tīkls" |                   | Group             |                   |
|--|----------------------------|-------------------|-------------------|-------------------|
|  | 30.06.2021<br>EUR          | 31.12.2020<br>EUR | 30.06.2021<br>EUR | 31.12.2020<br>EUR |
| Accrued cost of unused holidays                      | 962 511                    | 745 304           | 1 478 932         | 1 261 725         |
| Accrued bonus costs for previous year's results      | 188 074                    | 333 008           | 1 383 086         | 2 072 258         |
| Accrued benefit costs and pension plan contributions | 15 895                     | 42 728            | 15 895            | 42 728            |
| Accrued interest liabilities                         | 119 415                    | 412 174           | 119 415           | 412 174           |
| Accrued liabilities to compensate the transit losses | 975 890                    | 598 000           | 975 890           | 598 000           |
| Accrued liabilities for annual audit                 | 4 975                      | -                 | 16 425            | 16 140            |
| Accrued liabilities for unreceived invoices          | -                          | -                 | 29 253            | 640 974           |
| Others   | 4 949                      | -                 | 184 949           | -                 |
| <b>ACCRUED LIABILITIES</b>                           | <b>2 271 709</b>           | <b>2 131 214</b>  | <b>4 203 845</b>  | <b>5 043 999</b>  |

## 20. LOANS

As a result of the reorganisation of the ownership rights of the transmission system assets and the successive investment of JSC "Latvijas elektriskie tīkli" in the share capital of JSC "Augstsprieguma tīkls" on 16 June 2020 and resulting from its addition on 25 January 2020, JSC "Augstsprieguma tīkls" took over the loans of JSC "Latvijas elektriskie tīkli" in 2020.

Until 11 June 2020, the shares of JSC "Latvijas elektriskie tīkli" were 100% owned by JSC "Latvenergo". To ensure the functions of the owner of the transmission system assets until the change of shareholder JSC "Latvijas elektriskie tīkli"

received and issued loans to the parent company JSC "Latvenergo" in accordance with the agreement "On the provision of mutual financial resources" concluded within the Latvenergo group.

After the investment of JSC "Latvijas elektriskie tīkli" shares in JSC "Augstsprieguma tīkls" on 16 June 2020, JSC "Augstsprieguma tīkls" ensures the attraction of the borrowed capital necessary for financing capital investments. On 18 June 2020, a loan agreement was concluded with JSC "SEB banka" for EUR 116 200 thousand with a maturity of 18 months (repayment date of the principal amount on 18 December 2021), a base interest rate

of 3 months EURIBOR and an added interest rate of 0.74%. The purpose of this loan is to partially refinance the liabilities of JSC "Latvijas elektriskie tīkli" to JSC "Latvenergo". The loan is unsecured. The most important covenants - equity ratio not less than 25%, restrictions on business activities and change of shareholder. During the term of the Agreement, the Company has fulfilled all covenants.

In 2021, it is planned to refinance the loan of JSC "Augstsprieguma tīkls" against JSC "SEB banka" by issuing bonds.

As of 30 June 2021, JSC "Augstsprieguma tīkls" has a loan from JSC "Latvenergo" in the amount of EUR 40 000 000 with a fixed borrowing rate of 1.6%, which corresponds to the weighted average interest rate at which JSC "Latvenergo" attracts borrowings in the external market. In accordance with the agreement of 18 June 2021 between the Company and JSC "Latvenergo" on early repayment of the loan, the loan was repaid in full in July 2021.

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, a base interest rate of 3 months EURIBOR and an added interest rate of 0.35%. During the reporting period, JSC "Augstsprieguma tīkls" did not receive any loans within the framework of the overdraft agreement.

The natural gas operator JSC Conexus Baltic Grid attracts external financing with its own resources. During the reporting period, JSC "Conexus Baltic Grid" received loans from the Nordic Investment Bank, JSC "SEB banka" and JSC "Swedbank", as well as extended the repayment term of the loan from the Latvian branch of OP Corporate Bank plc. At the end of the reporting period, the total amount of the Company's borrowings is EUR 84 003 thousand, including used overdrafts of EUR 4 486 thousand. At the end of the reporting period, the weighted average interest rate on long-term loans is 0.37 % (in 2020: 0.6 %).

Borrowings from credit institutions and related parties:

|  | JSC "Augstsprieguma tīkls" |                    | Group              |                    |
|--|----------------------------|--------------------|--------------------|--------------------|
|  | 30.06.2021<br>EUR          | 31.12.2020<br>EUR  | 30.06.2021<br>EUR  | 31.12.2020<br>EUR  |
| Long-term loans from related parties                                       | -                          | 86 672 207         | -                  | 86 672 207         |
| Long-term loans from credit institutions                                   | -                          | -                  | 66 694 444         | -                  |
| Short-term loans from credit institutions                                  | 116 200 000                | 116 200 000        | 133 508 561        | 138 075 000        |
| Short-term loans from related parties                                      | 40 000 000                 | -                  | 40 000 000         | -                  |
| <b>Loans</b>   | <b>156 200 000</b>         | <b>202 872 207</b> | <b>240 203 005</b> | <b>224 747 207</b> |
| Accrued liabilities for borrowing costs from related parties               | 119 415                    | 412 174            | 119 415            | 412 174            |
| <b>TOTAL loans</b>   | <b>156 319 415</b>         | <b>203 284 381</b> | <b>240 322 420</b> | <b>225 159 381</b> |
| <b>Changes in borrowings from credit institutions and related parties:</b> |                            |                    |                    |                    |
| <b>At the beginning of the reporting period</b>                            | <b>203 284 381</b>         | <b>-</b>           | <b>225 159 381</b> | <b>-</b>           |
| Loans received from related parties  | -                          | 86 672 207         | -                  | 86 672 207         |
| Loans received from credit institutions                                    | -                          | 116 200 000        | 64 485 644         | 138 075 000        |
| Loans repaid to related parties  | (46 672 207)               | -                  | (46 672 207)       | -                  |
| Repaid loans to credit institutions  | -                          | -                  | (2 357 639)        | -                  |
| Calculated borrowing rates for related parties                             | 990 308                    | 412 174            | 990 308            | 412 174            |
| Estimated borrowing rates for credit institutions                          | 434 717                    | 441 883            | 434 717            | 441 883            |
| Paid interest on loans to related parties                                  | (1 283 067)                | -                  | (1 283 067)        | -                  |
| Paid interest on loans to credit institutions                              | (434 717)                  | (441 883)          | (434 717)          | (441 883)          |
| <b>Changes in loans, net</b>   | <b>(46 964 966)</b>        | <b>203 284 381</b> | <b>15 163 039</b>  | <b>225 159 381</b> |
| <b>At the end of the reporting period, including:</b>                      | <b>156 319 415</b>         | <b>203 284 381</b> | <b>240 322 420</b> | <b>225 159 381</b> |
| Borrowings from a related company  | 40 000 000                 | 86 672 207         | 40 000 000         | 86 672 207         |
| Borrowings from a credit institution                                       | 116 200 000                | 116 200 000        | 200 203 005        | 138 075 000        |
| <b>TOTAL loans</b>   | <b>156 200 000</b>         | <b>202 872 207</b> | <b>240 203 005</b> | <b>242 747 207</b> |

## 21. LEASE OF ASSETS

|  | JSC "Augstsprieguma tīkls" |                   | Group             |                   |
|--|----------------------------|-------------------|-------------------|-------------------|
|  | 30.06.2021<br>EUR          | 30.06.2020<br>EUR | 30.06.2021<br>EUR | 30.06.2020<br>EUR |
| <b>Right-of-use assets</b>                               |                            |                   |                   |                   |
| Residual value at the beginning of the reporting period  | 14 212 293                 | 35 920 323        | 14 715 877        | 14 919 735        |
| Recognised changes in lease contracts                    | 1 203 159                  | 896 290           | 1 203 159         | 38 485            |
| Depreciation   | (340 757)                  | (18 408 306)      | (387 123)         | (372 964)         |
| <b>Residual value at the end of the reporting period</b> | <b>15 074 695</b>          | <b>18 408 307</b> | <b>15 531 913</b> | <b>14 585 256</b> |
| <b>Lease liabilities</b>                                 |                            |                   |                   |                   |
| Residual value at the beginning of the reporting period  | 14 418 995                 | 37 475 766        | 14 933 065        | 15 066 413        |
| Recognised changes in lease contracts                    | 1 203 159                  | (659 155)         | 1 203 159         | -                 |
| Decrease in lease liabilities                            | (411 789)                  | (18 449 616)      | (466 951)         | (438 147)         |
| Asset lease interest expense                             | 118 986                    | 73 030            | 130 378           | 114 397           |
| <b>Residual value at the end of the reporting period</b> | <b>15 329 351</b>          | <b>18 440 025</b> | <b>15 799 651</b> | <b>14 742 663</b> |
| <b>On June 30, 2021, including:</b>                      |                            |                   |                   |                   |
| Long term  | 14 595 086                 | -                 | 15 048 938        | 14 090 278        |
| Short term   | 734 265                    | 18 440 025        | 750 713           | 652 385           |

## 22. TAXES AND MANDATORY STATE SOCIAL INSURANCE CONTRIBUTIONS

|  | JSC "Augstsprieguma tīkls" |                   |                     | Group             |                   |                   |
|--|----------------------------|-------------------|---------------------|-------------------|-------------------|-------------------|
|  | 31.12.2020<br>EUR          | Calculated        | Paid                | 30.06.2021<br>EUR | 30.06.2021<br>EUR | 31.12.2020<br>EUR |
| Corporate income tax                           | -                          | 1 599 903         | -                   | 1 599 903         | 3 856 651         | 3 539             |
| Value added tax                                | 1 025 328                  | 13 155 187        | (13 343 489)        | 837 026           | 1 386 784         | 1 637 290         |
| Mandatory State social insurance contributions | 474 949                    | 2 296 255         | (2 232 183)         | 539 021           | 803 850           | 742 095           |
| Personal income tax                            | 253 700                    | 1 174 236         | (1 146 221)         | 281 715           | 751 895           | 385 067           |
| Entrepreneurship risk state fee                | 194                        | 1 150             | (1 154)             | 190               | 190               | 194               |
| Electricity tax                                | 278                        | 1 351             | (1 545)             | 84                | 84                | 278               |
| Natural resource tax                           | -                          | -                 | -                   | -                 | 121 496           | 43 237            |
| Real estate tax                                | -                          | -                 | -                   | -                 | 30 715            | 10                |
| <b>TOTAL TAXES</b>                             | <b>1 754 449</b>           | <b>18 228 083</b> | <b>(16 724 592)</b> | <b>3 257 939</b>  | <b>6 951 665</b>  | <b>2 811 710</b>  |

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## 23. FINANCIAL RISK MANAGEMENT

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Financial Risk Management of the Augstsprieguma tīkls group is implemented in accordance with the Financial Risk Management Policy and its subordinate Financial Risk Management Regulations.

Group companies, in which the participation of JSC "Augstsprieguma tīkls" is less than 100%, however, it has a direct decisive influence on the basis of participation within the meaning of the Group Law, develop and approve their Financial Risk Management Policies, if necessary, which are in line with the basic principles of the Group's policy.

The management of financial resources is focused on ensuring the financing of its business activities and financial stability by implementing conservative financial risk management. Within the framework of financial risk management, the Company uses financial risk controls and implements risk mitigation measures to reduce the risk on open positions.

The Company complies with prudential liquidity risk management, ensuring that appropriate financial resources are available to it for the settlement of liabilities within the set time periods.

### Liquidity risk

Liquidity risk is related to the Company's ability to meet its obligations within the set deadlines. In the case of unpredictable cash flow fluctuations caused by operational risk and hedging of short-term liquidity risk, the Company provides a reserve in the form of cash or subscribed and irrevocably available credit funds for the next 24 months.

The Company observes prudent liquidity risk management, ensuring constant monitoring of cash flow, forecasting short-term and long-term cash flow, ensuring the availability of sufficient financial resources to settle liabilities within the set deadlines.

As at 30 June 2021, the Company's current liabilities exceed current assets, as current liabilities include a loan agreement in the amount of EUR 116 200,000 with a maturity date of 18 December 2021 (see Annex 20). The Company intends to refinance this loan in 2021, thus it does not pose a risk of going concern.

In order to refinance the liabilities taken over as a result of the reorganisation, to ensure the availability of capital, the Company's management has approved the Fundraising Strategy for 2021–2025, a decision has been made and a procurement procedure for selecting the lead bank for the bond issue has been initiated. After refinancing, the Company's current assets will exceed current liabilities.

The Company's management believes that the Company will have sufficient financial resources to ensure its liquidity is not compromised.

### Interest rate risk

Interest rate risk arises primarily from borrowings with a fixed interest rate, with the risk that an increase in interest rates will result in a significant increase in finance costs. To limit the risk, the Company's Financial Risk Management Regulations stipulate that the share of fixed rate or rate with limited increase in the loan portfolio may not be less than 35%. 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. As of 30 June 2021, 26% of JSC "Augstsprieguma tīkls" loans have a fixed interest rate.

The Company regularly analyses interest rate positions. Different scenarios are modelled taking into account possible refinancing of loans, renewal of existing positions and hedging activities. Based on these scenarios, the effect of changes in interest rates on profit or loss items as well as cash flow is calculated.

Over the next twelve months, if interest rates on euro loans at floating base rates are 50 base points higher than interest rates on 30 June 2021, assuming that other variables remain constant, the Company's profit would be EUR 0.6 thousand lower. The Company's fixed interest rate borrowings do not give rise to fair value interest rate risk.

### Credit risk

Credit risk arises if the Company's partner is unable to meet its contractual obligations, as a result of which the Company incurs losses. Credit risk arises from the Company's cash, deposits in commercial banks, and overdue receivables within the terms specified in the agreement. Credit risk may be related to financial counterparty risk and counterparty risk.

In carrying out its economic activities, the Company cooperates with local and foreign financial institutions. Consequently, there is a risk of financial counterparties – in the case of insolvency or suspension of cooperation partners, the Company may suffer losses. In the case of attracted external financing, the risk exists until the loan is withdrawn and transferred to one of the Company's partner banks.

Credit risk arising from the Company's cash in current accounts is managed in accordance with the Company's Financial Risk Management Policy and Financial Risk Management Regulations, balancing the allocation of financial resources.

In accordance with the Financial Risk Management Policy, counterparties with a minimum credit rating of at least investment grade set by the international credit rating agency itself or the parent bank are accepted in cooperation with banks and financial institutions.

In carrying out economic activities, the Company cooperates with local and foreign merchants. As a result, there is a risk of business partners or debtor risk - in the case of insolvency or suspension of business partners, the Company may suffer losses. The Law on International and National Sanctions of the Republic of Latvia imposes a number of financial and civil law restrictions on entities included in the list of sanctions, including the freezing of funds. In view of the above, cooperation with an entity included on the list of sanctions poses a risk of default to the Company, as well as legal and reputational risks.

Although the Company has a significant concentration of receivables risk in relation to one counterparty or a group of similar counterparties, this risk is assessed as limited, taking into account the fact that the most important Cooperation counterparty is a state-owned company - JSC "Latvenergo", as well as its group companies.

Credit risk related to receivables is managed in accordance with the risk management measures

specified in the Financial Risk Management Regulations, on a monthly basis, but not less than once a quarter, by performing an analysis of receivables.

### **Business Risk Management**

The shareholder of the Company is the Ministry of Finance in the name of the Republic of Latvia (100%) The purpose of capital risk management is to ensure the sustainable operation and development of the Company, the financing necessary for the implementation of the development plan in transmission assets, and the fulfilment of the restrictive conditions specified in the loan agreements. The restrictive conditions set out in the loan agreements have not been violated. In order to ensure the fulfilment of the restrictive conditions specified in the loan agreements, a regular analysis of the equity ratio is performed. According to the Augstsprieguma tīkls group's Financial Risk Management Policy, equity must be maintained at a level of at least 35% (the restrictive condition specified in the loan agreements - at a level of at least 25%). As of 30 June 2021, the share of JSC "Augstsprieguma tīkls" equity in the balance sheet is 48%, of the Group - 51%.

### **Currency risk**

The Company's operations are focused on transactions, assets and liabilities in the Company's functional currency, which is the Euro. The Company's currency risk is assessed as insignificant, the Company has no balances in foreign currencies.

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## **24. TRANSACTIONS WITH RELATED PARTIES**

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Related parties are state-owned entities that are controlled, jointly controlled, or substantially influenced by the state. The Company does not have any material transactions and other transactions which, together, but not individually, are material to the Government of the Republic of Latvia, government agencies and similar institutions of

local, national or international standing within the scope of the Standard, except for JSC "Latvenergo" and its subsidiaries - the transmission assets owner JSC "Latvijas elektriskie tīkli", the power supply service provider JSC "Latvenergo", the distribution system operator JSC "Sadales tīkls", and the public electricity trader JSC "Energijas publiskais tirgotājs".

a) Revenue and expenses from transactions with related parties

|  | JSC "Augstsprieguma tīkls" |                         | Group                   |                         |
|--|----------------------------|-------------------------|-------------------------|-------------------------|
|  | 6 months of 2021<br>EUR    | 6 months of 2020<br>EUR | 6 months of 2021<br>EUR | 6 months of 2020<br>EUR |
| <b>State controlled companies</b>  |                            |                         |                         |                         |
| <b>Income</b>  |                            |                         |                         |                         |
| Revenue from the sale of electricity, electric capacity maintenance services | 2 106 793                  | 3 222 940               | 2 106 793               | 3 222 940               |
| Mandatory procurement component  | 1 557 513                  | 1 965 687               | 1 557 513               | 1 965 687               |
| Transport system service   | 37 570 739                 | 35 772 952              | 37 570 739              | 35 772 952              |
| Transmission asset reconstruction and renovation works                       | -                          | 36 083 893              | -                       | 36 083 893              |
| Revenue from other services  | 874 983                    | 437 041                 | 874 983                 | 437 041                 |
| <b>Total revenue from transactions with related companies</b>                | <b>42 110 028</b>          | <b>77 482 513</b>       | <b>42 110 028</b>       | <b>77 482 513</b>       |
| <b>Distributions</b>   |                            |                         |                         |                         |
| Electricity purchase   | 7 054 517                  | 4 898 141               | 7 054 517               | 4 898 141               |
| Mandatory procurement component  | 2 358 541                  | 2 889 308               | 2 358 541               | 2 889 308               |
| Lease of fixed assets and land   | 410 243                    | -                       | 410 243                 | -                       |
| Communication expenses   | 1 551 909                  | 1 577 157               | 1 551 909               | 1 577 157               |
| Long-term loan % payments  | 990 308                    | -                       | 990 308                 | -                       |
| Other costs  | 85 552                     | 2 142 862               | 85 552                  | 2 142 862               |
| <b>Total expenses of transactions with related companies</b>                 | <b>12 451 070</b>          | <b>11 507 468</b>       | <b>12 451 070</b>       | <b>11 507 468</b>       |

b) balances at the end of the year arising from related company transactions

|                                  | JSC "Augstsprieguma tīkls" |                         | Group                   |                         |
|----------------------------------|----------------------------|-------------------------|-------------------------|-------------------------|
|                                  | 6 months of 2021<br>EUR    | 6 months of 2020<br>EUR | 6 months of 2021<br>EUR | 6 months of 2020<br>EUR |
| <b>Accounts receivable:</b>      |                            |                         |                         |                         |
| State controlled companies       | 7 387 285                  | 153 612 766             | 7 387 285               | 153 612 766             |
| <b>Liabilities of creditors:</b> |                            |                         |                         |                         |
| state controlled companies       | 4 638 330                  | 10 568 695              | 4 638 330               | 10 568 695              |

## 25. EVENTS AFTER THE END OF THE REPORTING PERIOD

After the end of the reporting period there were no other material circumstances or events that could affect the future development of the Company.

**ISSUER**

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