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

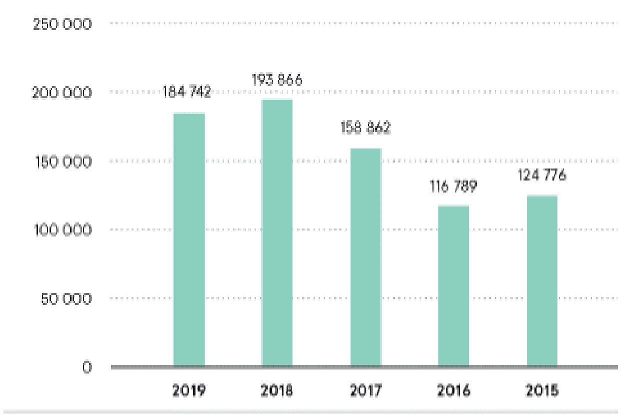
CONTENTS

INFORMATION ABOUT THE COMPANY

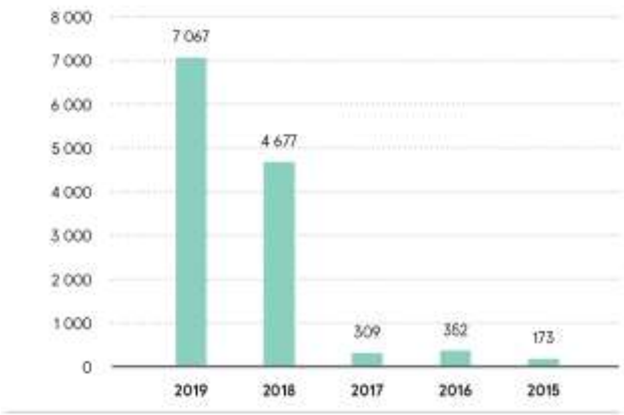
Name of the Company	JSC Augstsprieguma tīkls
Legal status of the company	Joint Stock Company
Registration number, place and date	000357556 Riga, 28 December 2001 Re-registration in the Commercial Register is performed On 13 November 2004 under unified registration number 40003575567
Principal activity	Electricity supply, NACE code 35.12
Address	Dārzciema iela 86 Riga, LV-1073, Latvia
Shareholder	From 2 January 2012: Ministry of Finance in the name of the Republic of Latvia (100%) Smilšu iela 1, Riga, LV-1050, Latvia
Names, surnames and positions held of the board members	Varis Broks - Chairman of the Management Board Arnis Staltmanis - Member of the Management Board Imants Zviedris - Member of the Management Board Gatis Junghāns - Member of the Management Board Mārcis Kauliņš - Member of the Management Board
Names, surnames and positions held of Supervisory Board members	Kaspars Āboliņš – Chairman of the Supervisory Board from 19.09.2019. Vilnis Krēsliņš - Chairman of the Supervisory Board until 22.03.2019. Olga Bogdanova – Deputy Chairman of the Supervisory Board from 19.09.2019. Jurijs Spiridonovs – Deputy Chairman of the Supervisory Board until 09.09.2019. Olga Bogdanova - Member of the Supervisory Board until 18.09.2019. Armands Eberhards – Member of the Supervisory Board from 02.01.2020. Madara Melne – Member of the Supervisory Board from 02.01.2020. Aigars Ģērmanis – Member of the Supervisory Board from 06.01.2020.
Reporting year	1 January 2019 – 31 December 2019
Previous accounting year	1 January 2018 – 31 December 2018
Name and address of the auditor and the responsible certified auditor	“Deloitte Audits Latvia” LTD Commercial Company of Certified Auditors Licence No. 43 Unified registration number: 40003606960 Grēdu iela 4a, Riga, LV-1019, Latvia Responsible certified auditor: Inguna Staša Certificate No. 145

MAIN OPERATIONAL INDICATORS

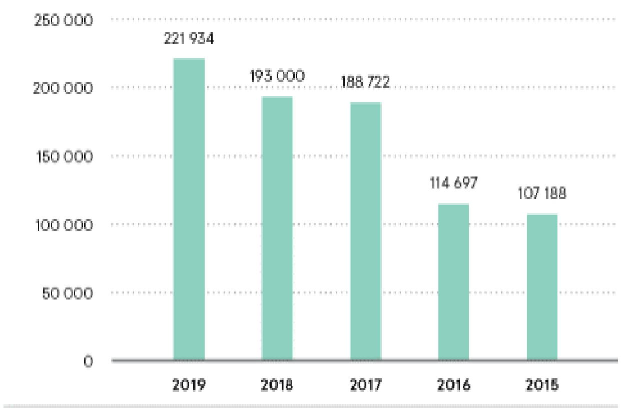
NET TURNOVER, THOUS. EUR



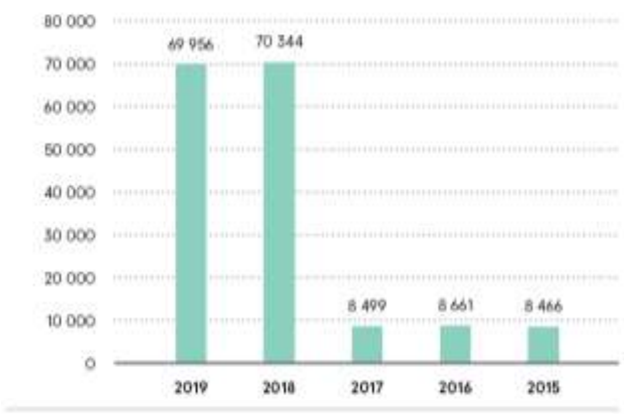
PROFIT, THOUS. EUR



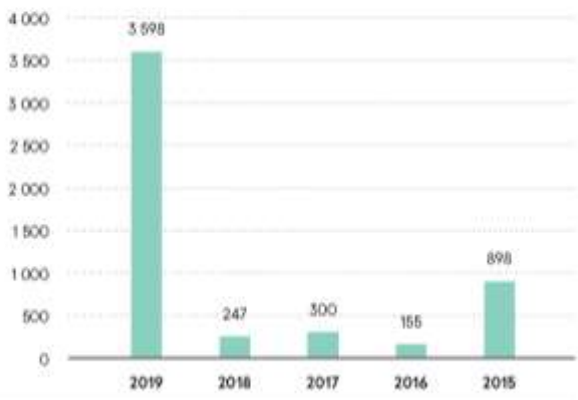
ASSETS, THOUS. EUR



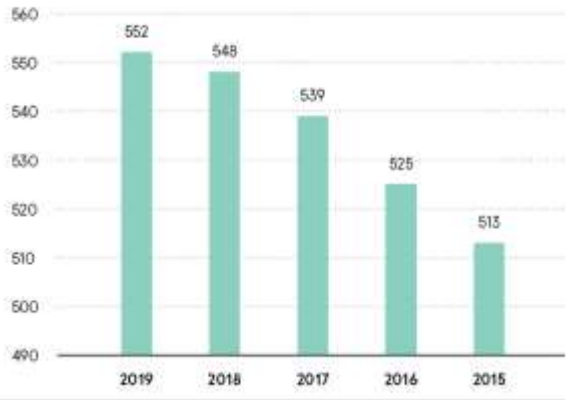
EQUITY, THOUS. EUR



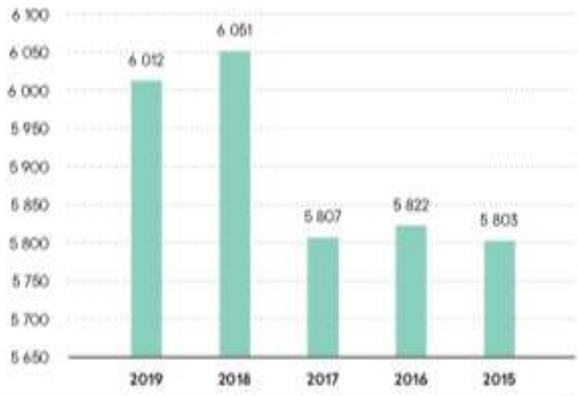
DIVIDENDS PAID FROM THE PROFIT OF THE PREVIOUS PERIOD, THOUS. EUR



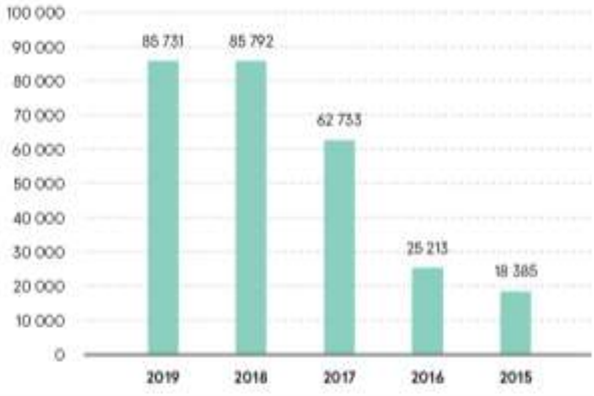
NUMBER OF EMPLOYEES



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.

MANAGEMENT REPORT

TYPE AND CHARACTERISTIC OF ACTIVITY

Joint-stock company “Augstsprieguma tīkls” (hereinafter – the Company) is the sole independent Transmission System Operator of the Republic of Latvia (hereinafter – TSO).

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.

OUR MISSION IS TO ENSURE CONTINUOUS, SECURE, AND SUSTAINABLY EFFICIENT ELECTRICITY TRANSMISSION THROUGHOUT LATVIA.

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).

THE COMPANY’S ACTIVITY AS AN ELECTRICITY TRANSMISSION SYSTEM OPERATOR IS CHARACTERISED BY THREE DIRECTIONS:

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

QUALITY MANAGEMENT SYSTEM AND VALUES

The 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.

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

CORPORATE AND SOCIAL RESPONSIBILITY

THE STRATEGIC DIRECTION OF THE 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.

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

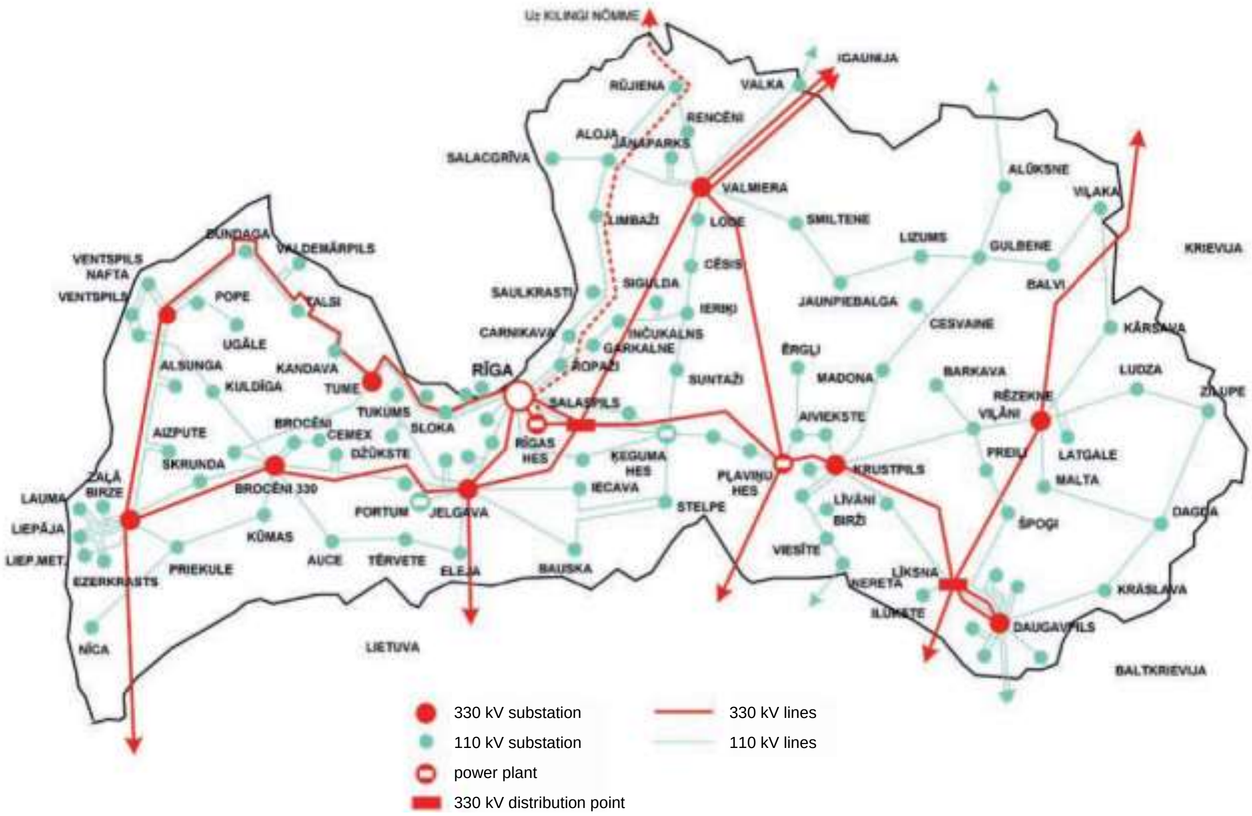
ELECTRICITY TRANSMISSION

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.

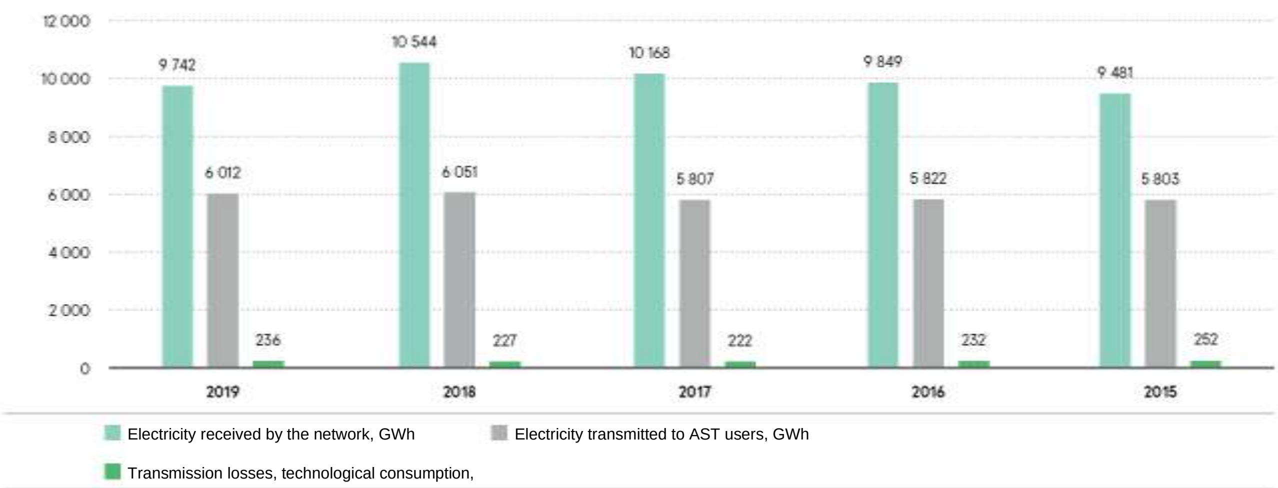
The activities of the electricity transmission system operator are regulated by the Public Utilities Commission (hereinafter - PUC) under the guidance of its Supervisory board.

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.
Total	**140**	**275**	**9,338.7**	**5,423.90**



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.

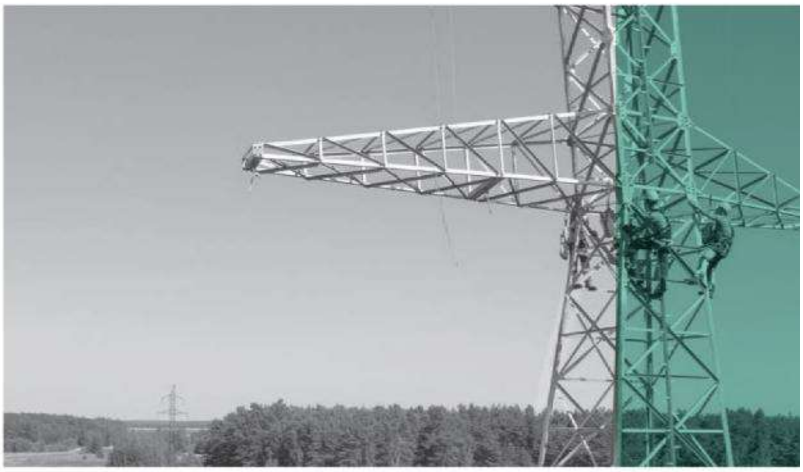
FINANCIAL PERFORMANCE AND FINANCIAL RISK MANAGEMENT

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
Financial indicators			
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
Financial ratios			
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%
Operational indicators			
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.

ELECTRICITY TRANSMISSION SYSTEM SERVICES TARIFF

The electricity transmission services tariffs are determined in accordance with the “Methodology for calculating tariffs for electricity transmission system services” approved by the PUC. In 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.

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

FURTHER DEVELOPMENT

THE COMPANY FOCUSES ON SUSTAINABLE GROWTH IN ORDER TO IMPROVE THE SERVICES PROVIDED TO THE LATVIAN AND BALTIC ELECTRICITY MARKET PARTICIPANTS.

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.

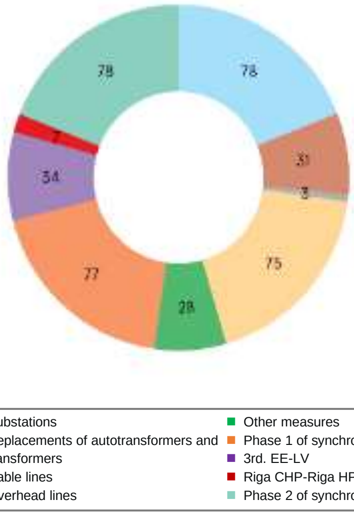
In order to minimise the impact of planned capital investments on the electricity transmission tariffs, the Company has successfully attracted EU co-financing for the projects included in the Development Plan, that have joint interests with Europe, including:

- 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.

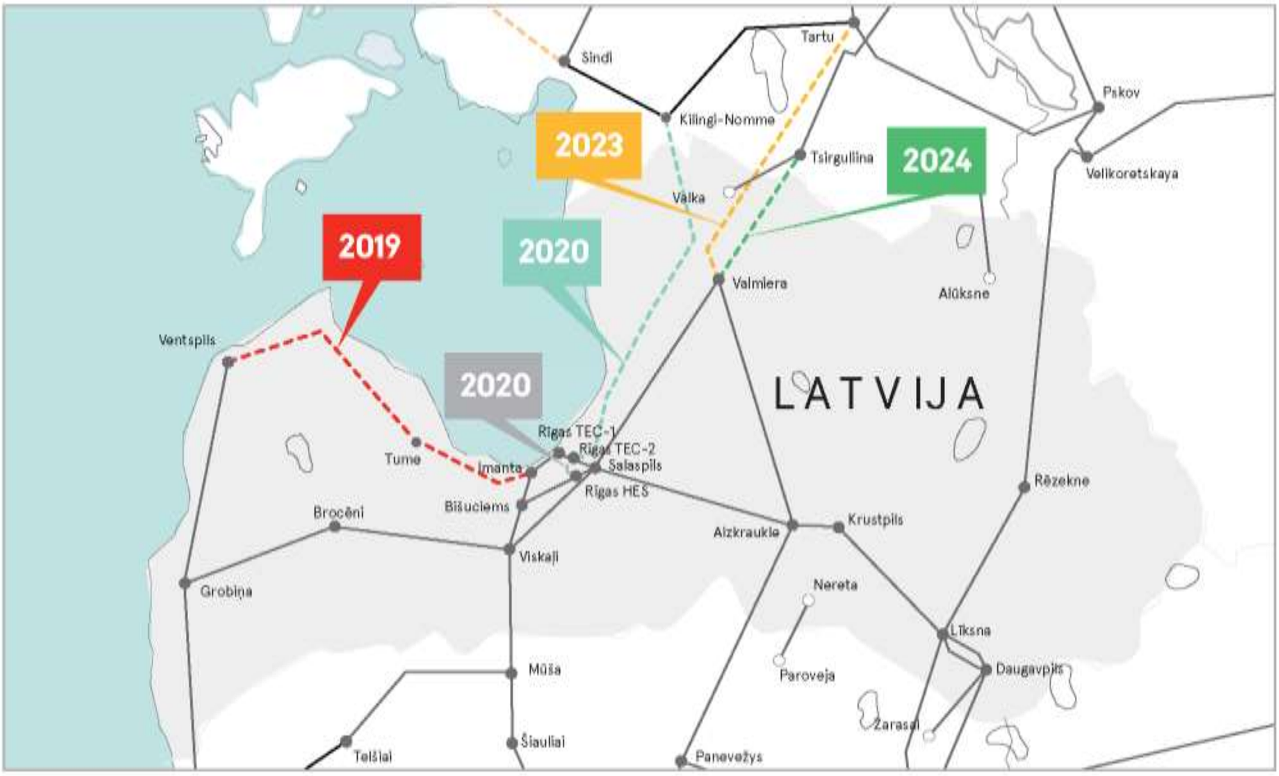
INVESTMENTS ENVISAGED IN THE DEVELOPMENT PLAN, MILLION EUR



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 “Tsirgulina (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.

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.

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

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.

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.

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.

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.

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 .

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.

TRANSMISSION AND STORAGE OF NATURAL GAS

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.

CIRCUMSTANCES AND 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.

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.

PROPOSED DISTRIBUTION OF THE PROFIT

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/
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Chairman 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

STATEMENT OF THE BOARD'S RESPONSIBILITY

STATEMENT
OF THE BOARD'S RESPONSIBILITY

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/
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Riga, 15 May, 2020

FINANCIAL STATEMENT

SEPARATE PROFIT OR LOSS STATEMENT FOR 2019

		2019 EUR	2018 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)
Profit before tax		**7 066 974**	**4 677 118**
Corporate income tax		-	-
Profit for the reporting year		**7 066 974**	**4 677 118**

Annexes from page 35 to 66 are an integral part of these financial statements.

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Head of the Finance and Accounting Department

Riga, 15 May, 2020

SEPARATE STATEMENT OF COMPREHENSIVE INCOME FOR 2019

	2019 EUR	2018 EUR
Profit for the reporting year	**7 066 974**	**4 677 118**
Other income: *Items that will not be reclassified to profit or loss:*		
Actuarial gains/losses	259 393	19 920
Other income for the reporting year	**259 393**	**19 920**
Total comprehensive income attributable to owners of the company	**7 326 367**	**4 697 038**

Annexes from page 35 to 66 are an integral part of these financial statements.

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Riga, 15 May, 2020

SEPARATE STATEMENT OF THE FINANCIAL POSITION ON 31 DECEMBER 2019

	Annex	31.12.2019 EUR	31.12.2018 EUR
ASSETS			
Long-term investments			
Intangible investments	9	50 413 419	4 650 393
Fixed assets	9	5 491 202	4 318 933
Right to use assets	2.5	35 920 323	-
Other long-term financial investments	10	1 902 887	1 902 888
Investments in associated companies	10	57 394 971	57 394 971
Total long-term investments		**151 122 802**	**68 267 185**
Current assets			
Stock	**11**	**480 112**	**491 767**
Accounts receivable			
Net Trade receivables	12	7 966 220	1 601 681
Deposits	14	20,000,000	50 000 000
Other debtors	14	22 722	54 646
Corporate income tax	14	11 512	11 512
Deferred expenses		337 584	341 905
Accrued revenue	15	13 777 092	15 593 970
Total accounts receivable		**42 115 130**	**67 603 714**
Cash	**16**	**28 216 327**	**56 636 900**
Total current assets		**70 811 569**	**124 732 381**
SUM TOTAL OF ASSETS		**221 934 371**	**192 999 566**

Annexes from page 35 to 66 are an integral part of these financial statements.

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Riga, 15 May, 2020

SEPARATE STATEMENT OF THE FINANCIAL POSITION ON 31 DECEMBER 2019 (CONTINUED)

	Annex	31.12.2019 EUR	31.12.2018 EUR
LIABILITIES			
Equity			
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
Total equity		**69 955 711**	**70 343 659**
Long-term creditors			
Employee benefit obligations		2 966 213	2 918 284
Deferred revenue		89 963 992	87 090 454
Total long-term creditors	**18**	**92 930 205**	**90 008 738**
Short-term accounts payable			
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
Total short-term accounts payable		**59 048 455**	**32 647 169**
SUM TOTAL OF LIABILITIES		**221 934 371**	**192 999 566**

Annexes from page 35 to 66 are an integral part of these financial statements.

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Riga, 15 May, 2020

SEPARATE STATEMENT OF CHANGES IN EQUITY FOR 2019

	Annex	Share capital EUR	Accumulated profit EUR	Reserves EUR	Total EUR
BALANCE ON 31 DECEMBER 2017	**17**	**5 744 342**	**309 244**	**2 445 459**	**8 499 045**
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
BALANCE ON 31 DECEMBER 2018	**17**	**63 139 313**	**4 677 118**	**2 527 228**	**70 343 659**
Paid in dividends for 2018		-	(3 598 352)	-	(3 598 352)
Share capital increase		1 078 766	(1 078 766)	-	-
Retained earnings (accumulated losses) 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
BALANCE ON 31 DECEMBER 2019	**17**	**64 218 079**	**2 951 011**	**2 786 621**	**69 955 711**

Annexes from page 35 to 66 are an integral part of these financial statements.

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Riga, 15 May, 2020

SEPARATE CASH FLOW STATEMENT FOR 2019

	Annex	31.12.2019 EUR	31.12.2018 EUR
I CASH FLOW FROM OPERATING ACTIVITIES			
Profit before taxes		7 066 974	4 677 118
Adjustments			
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	-
Profit before corrections of the influence of changes in the balances of the current assets and short-term creditors		**39 696 809**	**1 983 658**
Adjustments			
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)
Gross cash flow of the principal activity		**21 143 771**	**7 819 054**
Losses from exchange rate fluctuations		(1 336)	(2 053)
Corporate income tax***		(719 670)	(600 633)
NET CASH FLOW FROM OPERATING ACTIVITIES		**20 422 765**	**7 216 368**

* includes impact of the lease term changes EUR 2 496 700
** includes impact of the lease term changes EUR 605
*** includes set-off of the corporate income tax

Annexes from page 35 to 66 are an integral part of these financial statements.

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Head of the Finance and Accounting Department

Riga, 15 May, 2020

SEPARATE CASH FLOW STATEMENT FOR 2019 (CONTINUED)

	Annexes	31.12.2019 EUR	31.12.2018 EUR
II CASH FLOW FROM INVESTMENT ACTIVITY			
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
NET CASH FLOW FROM INVESTMENT ACTIVITIES		**(13 800 699)**	**41 145 023**
III CASH FLOW FROM FINANCING ACTIVITY			
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)
NET CASH FLOW FROM FINANCING ACTIVITY		**(35 042 639)**	**162 339**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(28 420 573)**	**48 523 730**
Cash and equivalents at the beginning of the reporting year		56 636 900	8 113 170
Cash and equivalents at the end of the reporting year		**28 216 327**	**56 636 900**

Annexes from page 35 to 66 are an integral part of these financial statements.

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Riga, 15 May, 2020

ANNEXES OF SEPARATE FINANCIAL STATEMENTS

1. GENERAL INFORMATION ABOUT THE COMPANY

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 Dārzciema iela 86, Riga, 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.

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.

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.

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.

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:

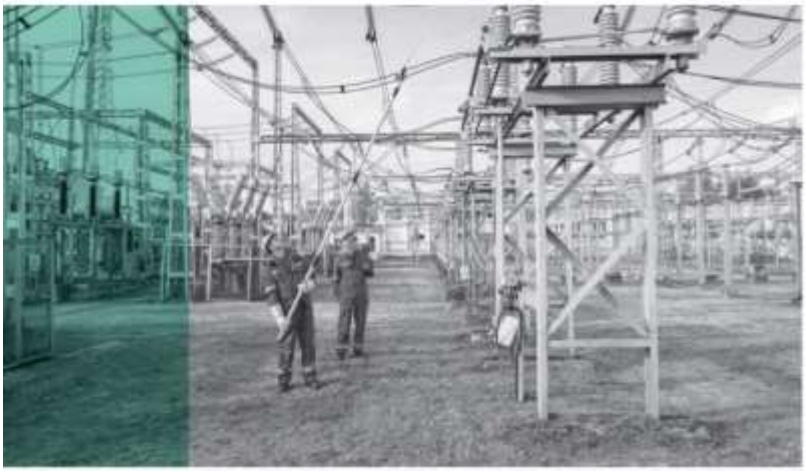
- IFRS 16 "Leases", adopted in the EU on 31 October 2017 (effective for reporting periods beginning on 1 January 2019 or later)

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.



(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

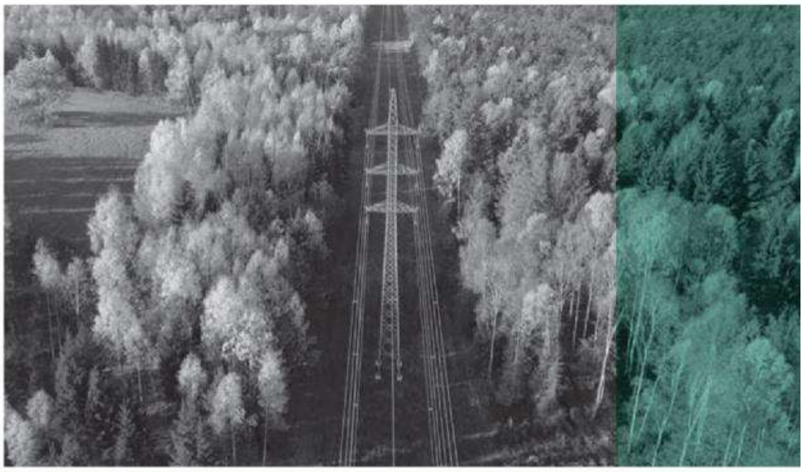
At the date of approval of the financial statements the following new standards, amendments to existing standards, and guidance on the interpretation issued by the IASB but not yet effective exist:

- 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 joints 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

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 13¹, Section 6 of the Electricity Market Law, and receives a fee for cross-section restricted capacity auction in accordance with the mutual compensation mechanism and concluded contracts of the transmission system operators. 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

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:**

	31.12.2019 EUR
Right-of-use assets	
Residual value at the beginning of the reporting period	-
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)
Residual value at the end of the reporting period	**35 920 323**

The Company as a lessee recognised **lease liabilities** in its financial statements:

	31.12.2019 EUR
Lease liabilities	
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)
Initial recognition value on 01.01.2019.,	**219 001 266**
Recognised changes in lease contracts	(145 629 214)
Decrease in lease liabilities	(37 578 581)
Recognised interest liabilities	1 682 295
Residual value at the end of the reporting period, including:	**37 475 766**
Long-term lease liabilities	-
Short-term lease liabilities	37 475 766

2.6. STOCK

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

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

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

2.7. DEFERRED REVENUE

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

Deferred 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

(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

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

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

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[1], Section 6 of the Electricity Market Law, and receives a fee for cross-section restricted capacity auction in accordance with the mutual compensation mechanism and concluded contracts of the transmission system operators.

According to Article 16 of Regulation (EC) No. 714/2009 of the European Parliament and of the Council “On conditions for access to the network for cross-border exchanges in electricity and repealing Regulation (EC) No. 1228/2003” (hereinafter 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.

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 21.² Section 2 of the Electricity Market Law, the transmission system asset owner JSC "Latvijas elektriskie tīkli" finances capital investments in the transmission system assets. Within the framework of the service, the Company with its personnel resources plans, organises, documents, and controls the construction, reconstruction, and renovation works in the assets of the recipient of the service – JSC "Latvijas elektriskie tīkli". The service includes the provision of capital investment project management.

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.

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.

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

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

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

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 7%	(246 937) -8%
Monthly salary increase (+/- 1%)	561 778 19%	(405 027) -14%
Employee turnover rate (+/- 1%)	315 940 11%	(263 033) -9%

3. REVENUE

	2019 EUR	2018 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
TOTAL INCOME	**184 742 077**	**193 866 482**

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 21.² of the Electricity Market Law, the transmission system asset owner JSC "Latvijas elektriskie tīkli" finances capital investments in the transmission system assets, which are decided by JSC "Augstsprieguma tīkls".

** 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 EUR	2018 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
TOTAL OTHER INCOME FROM BUSINESS ACTIVITIES	**251 390**	**120 002**

5. RAW MATERIALS CONSUMED, REPAIR COSTS

	2019 EUR	2018 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
USED RAW MATERIALS, TOTAL REPAIR COSTS	**28 640 577**	**29 866 634**

6. PERSONAL COSTS

	2019 EUR	2018 EUR
Remuneration for work	12 066 959	11 642 664
Mandatory State social security contributions and Benefits determined by the collective agreement	3 551 356	3 432 619
Contributions to the pension plan	612 156	591 589
TOTAL STAFF COSTS (INCLUDING REMUNERATION TO THE MANAGEMENT OF THE COMPANY)	**16 230 471**	**15 666 872**

including remuneration to the management of the Company

	2019 EUR	2018 EUR
Remuneration for work	638 124	574 902
Mandatory State social security contributions and Benefits determined by the collective agreement	156 083	137 551
TOTAL REMUNERATION TO THE MANAGEMENT OF THE COMPANY	**794 207**	**712 453**

Number of employees

	2019 EUR	2018 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 EUR	2018 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
TOTAL OTHER COSTS OF BUSINESS ACTIVITY	**99 607 516**	**146 810 928**

8. NET FINANCIAL INCOME/(COSTS)

	2019 EUR	2018 EUR
a) Financial income		
Interest income from credit institutions	44 224	19 620
Total financial income	**44 224**	**19 620**
b) Financial costs		
Interest costs	-	(418 501)
Interest expense for right-of-use assets	(1 682 295)	-
Fluctuations in currency exchange rates	(1 336)	(2 053)
Total financial expenses	**(1 683 631)**	**(420 554)**
NET FINANCIAL INCOME/(COSTS)	**(1 639 407)**	**(400 934)**

9. INTANGIBLE INVESTMENTS, FIXED ASSETS

9.1. INTANGIBLE ASSETS

	Computer programmes EUR	Right-of-use transmission assets* EUR	Advance payment for right-of-use assets EUR	Total EUR
2018				
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)
RESIDUAL VALUE ON 31.12.2018.	**532 012**	**-**	**4 118 381**	**4 650 393**
as of 31 December 2018				
Initial value	829 266	-	4 118 381	4 947 647
Creation of intangible investments	153 175	-	-	153 175
Accumulated amortisation	(450 429)	-	-	(450 429)
RESIDUAL VALUE ON 31.12.2018.	**532 012**	**-**	**4 118 381**	**4 650 393**
2019				
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)
RESIDUAL VALUE ON 31.12.2019.	**905 424**	**11 479 905**	**38 028 090**	**50 413 419**
31 December 2019				
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)
RESIDUAL VALUE ON 31.12.2019.	**905 424**	**11 479 905**	**38 028 090**	**50 413 419**

* 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 and equipment EUR	Other fixed assets and inventory EUR	Total EUR
2018			
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)
RESIDUAL VALUE ON 31.12.2018.	**676**	**4 318 257**	**4 318 933**
31 December 2018			
Initial value	12 505	8 449 207	8 461 712
Accrued depreciation	(11 829)	(4 130 950)	(4 142 779)
RESIDUAL VALUE ON 31.12.2018.	**676**	**4 318 257**	**4 318 933**
2019			
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)
RESIDUAL VALUE ON 31.12.2019.	**-**	**5 491 202**	**5 491 202**
31 December 2019			
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)
RESIDUAL VALUE ON 31.12.2019.	.	**5 491 202**	**5 491 202**

10. OTHER LONG-TERM FINANCIAL INVESTMENTS

	31.12.2019 EUR	31.12.2018 EUR
Ownership in the capital of associated companies, including:		
JSC “Conexus Baltic Grid”	57 394 971	57 394 971
Ownership in the capital of other companies, including:		
JSC “Nord Pool Holding”	1 901 465	1 901 465
JSC “Pirmais slēgtais pensiju fonds”	1 422	1 422
TOTAL	**59 297 858**	**59 297 858**

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 EUR	31.12.2018 EUR
STOCK		
Materials and spare parts	480 112	491 767
TOTAL INVENTORIES	**480 112**	**491 767**

12. NET TRADE RECEIVABLES

	31.12.2019 EUR	31.12.2018 EUR
Accounts receivable		
Electricity transmission system service debt	747 506	1 567 253
Other trade receivables	7 249 868	52 236
Total debtors	**7 997 374**	**1 619 489**
For electricity transmission system service debt	(24 234)	(2 053)
For other trade receivables	(6 920)	(15 755)
Total provisions for doubtful and non-recoverable debts	**(31 154)**	**(17 808)**
Net accounts receivable		
Electricity transmission system service debt	723 272	1 565 200
Other trade receivables	7 242 948	36 481
NET TRADE RECEIVABLES	**7 966 220**	**1 601 681**

13. IMPAIRMENT OF DEBTORS

	31.12.2019 EUR	31.12.2018 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
At the end of the reporting year	**31 154**	**17 808**

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 EUR	31.12.2018 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
TOTAL OTHER DEBTORS	**20 034 234**	**50 066 158**

15. ACCRUED INCOME

	31.12.2019 EUR	31.12.2018 EUR
Provisions for revenue from provided services		
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
Total provisions for revenue from provided services	**11 452 797**	**13 692 810**
Electricity transit service revenue (ITC)	858 728	1 873 974
Other accrued revenue	1 465 567	27 186
TOTAL ACCRUED REVENUE	**13 777 092**	**15 593 970**

16. CASH AND CASH EQUIVALENTS

	31.12.2019 EUR	31.12.2018 EUR
CASH IN THE BANK	**28 216 327**	**56 636 900**

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 EUR	31.12.2018 EUR
Provisions for post-employment benefit liabilities:		
At the beginning of the reporting year	**2 918 284**	**2 598 729**
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
At the end of the reporting year	**2 966 213**	**2 918 284**
Deferred revenue		
Long-term share of congestion management revenue received*	89 963 992	87 090 454
TOTAL LONG-TERM CREDITORS	**92 930 205**	**90 008 738**

* 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 EUR	31.12.2018 EUR
Congestion charge income	4 776 510	5 041 798
EU financing received	169 877	921 041
TOTAL deferred income	**4 946 387**	**5 962 839**

20. ADVANCE PAYMENTS AND OTHER CREDITORS

	31.12.2019 EUR	31.12.2018 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
ADVANCE PAYMENTS AND OTHER CREDITORS	**3 300 893**	**5 003 204**

** 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 EUR	31.12.2018 EUR
Accrued liabilities for expenses for services received		
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
Total accrued liabilities for expenses for services received	**5 294 979**	**6 263 866**
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
ACCRUED LIABILITIES	**6 362 288**	**7 204 288**

22. TAXES AND MANDATORY STATE SOCIAL INSURANCE CONTRIBUTIONS

	31.12.2018 EUR	Calculated EUR	Paid/ (repaid) EUR	31.12.2019 EUR
Corporate income tax	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)
TOTAL TAXES	**(895 685)**	**(1 694 862)**	**1 738 058**	**(852 489)**
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** EUR	**1st pillar** EUR	**2nd pillar** EUR	**3rd pillar** EUR
31.12.2018				
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 EUR	1st pillar EUR	2nd pillar EUR	3rd pillar EUR
31.12.2019				
Cash and cash equivalents	28 216 327	-	28 216 327	-
Trade receivables	7 966 220	-	-	7 966 220
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** EUR	**31.12.2018** EUR
Cash, including:			
Cash in current accounts, company cards	Aa2	28 216 327	56 636 900
Total cash		**28 216 327**	**56 636 900**
Cash with accounts receivables *, including:			
With short-term accounts receivables:			
Deposits with a maturity of between three months and twelve months, including:	Baa1	20,000,000	50 000 000
Total deposits with maturity over three months		**20,000,000**	**50 000 000**

(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:

	31.12.2019 EUR	31.12.2018 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
Total	**36 213 701**	**58 256 389**

In addition, the following information regarding credit risk shall be disclosed:

	31.12.2019 EUR	31.12.2018 EUR
Debts that are not overdue	7 169 245	70 970
Overdue debts		
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
TOTAL	**7 997 374**	**1 619 489**

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.

26. CAPITAL INVESTMENT LIABILITIES

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 21^2 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 'Riga TPP-2 – Riga 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 “Enerģijas publiskais tirgotājs”.

a) Revenue and expenses from transactions with related parties

	31.12.2019 EUR	**31.12.2018** EUR
		State controlled companies*
Income		
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
Total revenue from transactions with related companies	**169 274 859**	**168 176 607**
Distributions		
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
Total expenses of transactions with related companies	**67 133 516**	**68 619 261**

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

	31.12.2019 EUR	**31.12.2018** EUR
Accounts receivable:		
state controlled companies	17 748 534	12 058 549
Liabilities of creditors:		
state controlled companies	5 370 327	11 844 734

28. REMUNERATION TO CERTIFIED AUDITORS COMMERCIAL COMPANY

	2019 EUR	2018 EUR
Audit service	22 510	7 110
Consulting service	35 000	-
TOTAL REMUNERATION TO CERTIFIED AUDITORS COMMERCIAL COMPANY	**57 510**	**7 110**

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.

INDEPENDENT AUDITOR'S REPORT

Deloitte Audits Latvia
Grēdu Street 4a
Riga
LV-1019
Latvia
Tel. +371 67 07 4100
Fax: +371 67 07 4103
Latvia@deloittece.com
www2.deloitte.com/lv/en.html

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.

Deloitte.

Deloitte Audits Latvia
Grēdu Street 4a
Riga
LV-1019
Latvia
Tel. +371 67 07 4100
Fax: +371 67 07 4103
Latvia@deloittece.com
www2.deloitte.com/lv/en.html

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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Grēdu Street 4a
Riga
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Latvia
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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.

Deloitte Audits Latvia SIA
Licence No. 43

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

Riga, Latvia
15 May 2020