

Condensed interim unaudited financial statements

For the 3-month period from
01.01.2019 until 31.03.2019

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

RIGA 2019



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Company information



Company information

Joint stock company (AS) Conexus Baltic Grid (hereinafter referred to as the Company, or as Conexus) is a unified Latvian natural gas transmission and storage operator that manages one of the most modern natural gas storage facilities in Europe, the Inčukalns Underground Storage Facility (hereinafter referred to as the Inčukalns UGS, or as the storage facility), and the main natural gas transmission system, which directly connects Latvia's natural gas market with Lithuania, Estonia, and the north-west of Russia.

Conexus offers its clients natural gas transmission and storage services, subject to the rates determined by the Public Utilities Commission (hereinafter referred to as PUC, or as the Regulator).

Conexus is an independent and competitive company with a high quality of service that enables opportunities for growth for both its customers and employees.

We are a socially responsible company that enables the growth of its employees and contributes to the overall development of the industry by providing sustainable employment and added value, while taking care of the impact of our production processes on the environment.

Conexus vision, mission and values

VISION (Who we want to become?)	MISSION (Why we exist?)	VALUES (What is important to us?)
 <p>Become the most trusted energy source in the region.</p>	 <p>Promote a sustainable regional energy market by ensuring a reliable operation of natural gas transmission and storage system</p>	 <p>Secure system operation</p>  <p>Professional and united team</p>  <p>Flexibility and openness through competent solutions</p>  <p>Sustainable development</p>

Conexus objectives

✦ The key mid-term (2019—2023) objectives of Conexus are related to three areas: **market development, provision of infrastructure and operational development.** The strategic objectives have been set in line with the Conexus values, the company's vision and its mission: supporting sustainable operation of the energy market in the region, ensuring reliable operation of the natural gas transmission and storage system.



Alongside strategic objectives, Conexus has defined three development guidelines closely related to all the planned mid-term activities. These development guidelines complement the strategic objectives and contribute to their implementation:

DIGITALIZATION	CONEXUS – ENERGY COMPANY	TOGETHER WITH OTHER REGIONAL TSOs
Operations of Conexus will be focused on technological advancements, improvement, decentralised management of assets, staff and finances, as well as introduction of effective resource management model.	The vision of Conexus is to become the most reliable source of energy in the region, as a result of which Conexus is planning to introduce services not only to the natural gas users, but also to electricity users.	In the medium term, Conexus intends to promote cooperation with other transmission system operators in the region by coordinating routine cooperation and implementing a periodic comparative analysis system with other TSOs in the region.

Company	Joint Stock Company (AS) 'Conexus Baltic Grid'
Registration number	40203041605
Date and place of registration	2 January 2017, Riga
Address	Aristida Briāna iela 6 Rīga, LV – 1001 Latvija www.conexus.lv
Major shareholders	AS „Augstsprieguma tīkls” (34,36 %) PAS „Gazprom” (34,10 %) Marguerite Gas I S.à r.l. (29,06 %)
Financial statement period	1 January 2019 to 31 March 2019

Council

Term of office since 3 January 2018

Kaspars Āboliņš	Chairman of the Council
Viljams Pīrsons	Deputy Chairman of the Council
Ilze Bērziņa	Member of the Council
Sanita Greize	Member of the Council
Ilmārs Šņucins	Member of the Council
Gijoms Rivrons	Member of the Council
Martins Sičelkovs	Member of the Council (since 27 April 2018)

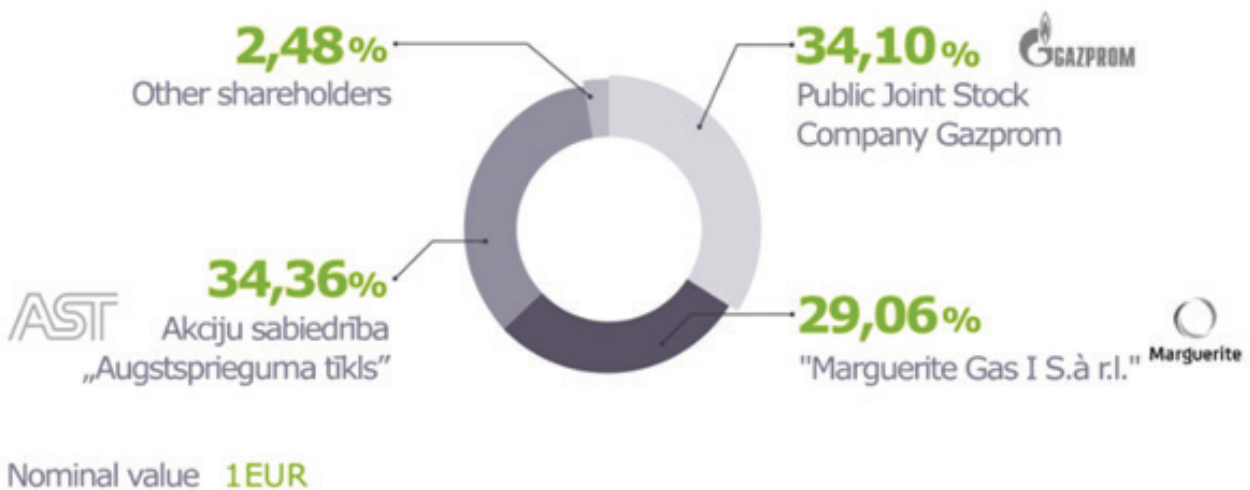
Board of Directors

Term of office since 31 December 2017

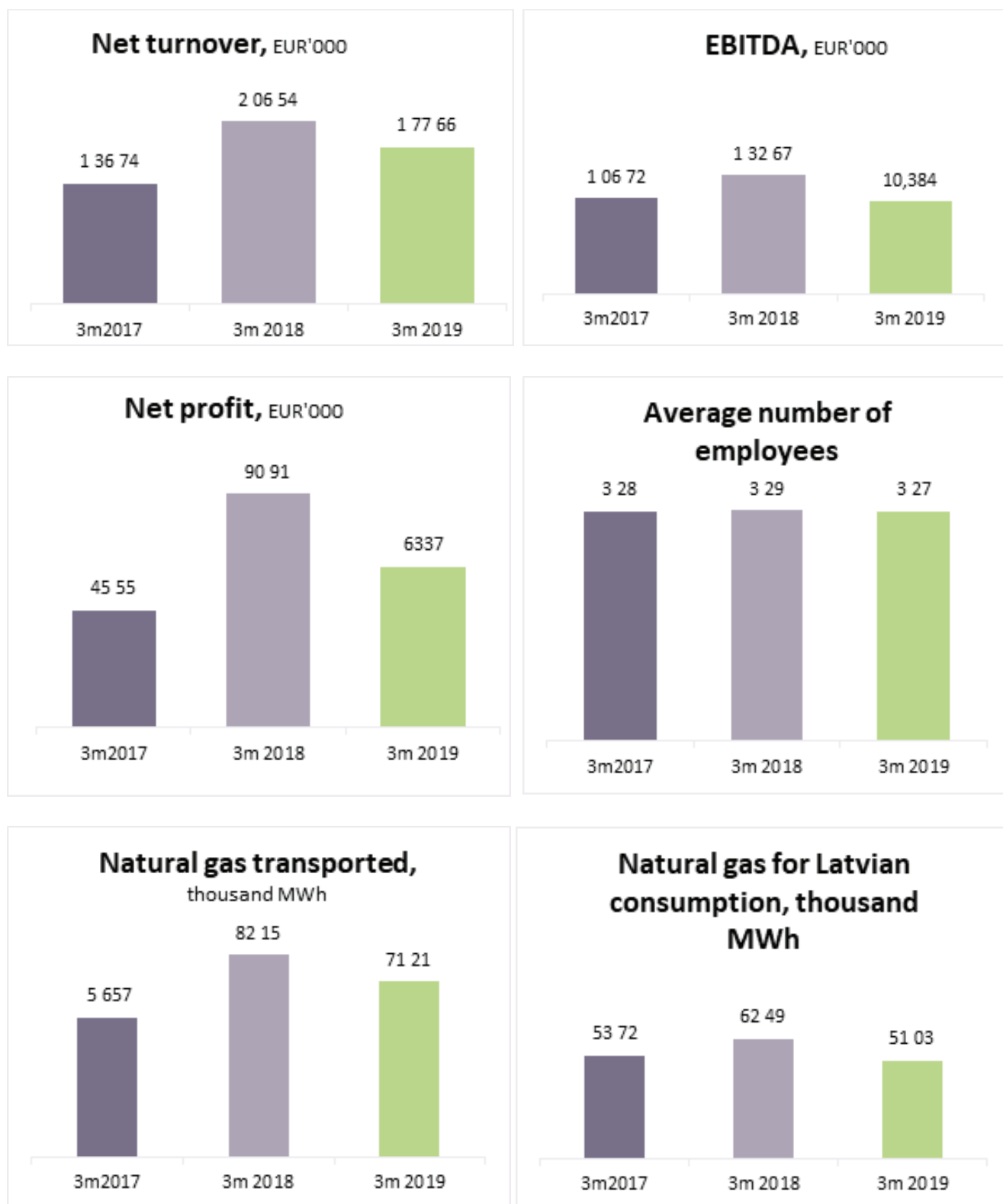
Zane Kotāne	Board Chairwoman
Gints Freibergs	Board Member
Mārtiņš Gode	Board Member

Shareholders

The Company is a private stock company whose shares are 100% bearer shares. The total number of shares is 39,786,089, with a par value of 1.00 EUR. The total number of shareholders exceeds 4.8 thousand. 97.52% of the total number of shares belongs to the three top shareholders.



Main operating indicators



Management report



Executive summary

- ◆ In Q1 2019, the Company provided a continuous supply of natural gas for the needs of Latvia, Lithuania, Estonia and Russia. During the reporting period, the actual atmospheric temperatures were significantly above average, which had a considerable effect on the demand for natural gas for heating purposes and reduced the amount of gas transported by 13.3%, compared to the same period in 2018, reaching 7.1 TWh;
- ◆ In Q1 2019, the net turnover of the Company was 17,766 thousand EUR, which is 14% less than the year before. The Company generated profits in the amount of 6,337 thousand EUR, with an EBITDA of 10,384 thousand EUR. The financial indicators of the Company were affected by the warm weather, which reduced demand for natural gas transmission services, and the amount of the storage facility's capacity reservations was relatively small, while the costs of auctions for the reporting period were considerably higher;
- ◆ European co-financing to fund 50% of the Company development project, which involves significant improvements in the technical infrastructure and equipment safety at Inčukalns UGS has been granted. The total project investments amount to 88 million EUR, to be invested in the storage facility until 2025;
- ◆ In 2019, the Company continues working on establishing a unified natural gas market for Estonia, Latvia and Finland:
 - An agreement regarding the implementation of the ITC (inter-transmission system compensation) mechanism by 1 January 2020 has been signed by Gasum Oy (Finland), AS Elering (Estonia) and Conexus;
 - A unified entry tariff for the external borders of Latvia, Estonia and Finland is set to take effect as of 1 January 2020, using the postage stamp principle;
 - Rules for the operation of the transmission system and balancing to be applied to the entry/exit system in the unified balancing area (which Latvia and Estonia are a part of) as of 2020.
- ◆ In accordance with Cabinet Regulations, the Company will fully provide the necessary capacity for withdrawing natural gas from the storage facility during the next season, organising an auction and fully or partially approving the offers received.

Conexus operating indicators		31.03.2019	31.03.2018	31.03.2017
Natural gas transported	thousand MWh	7 121	8 215	5 657
Active natural gas at Inčukalns UGS	thousand MWh	3 667	3 895	4 814
Natural gas for Latvian consumption	thousand MWh	5 103	6 249	5 372
Length of main pipelines	km	1 188	1 188	1 188
Number of employees	average	327	329	328

Main activities

Conexus ensures a continuous supply of natural gas

Because of the traditionally coldest winter period and in view of the partial fill level of Inčukalns UGS, the Company has intensified the control system that monitors the gas supply system of Inčukalns UGS and the entire Latvian gas supply system, following fluctuations in natural gas request in Latvia and in the Baltic region during the withdrawal season, with the aim to evaluate timely the ability of the gas supply system to provide the reservations and request of system users. The Company's experts analysed the dynamics of natural gas request considering the ambient temperature fluctuations, Inčukalns UGS removal capacities and requests of natural gas system users. In Q1 2019, the Company provided a continuous supply of natural gas for the needs of Latvia, Lithuania, Estonia and Russia, transporting 7.1 TWh of natural gas, demonstrating that it is a reliable partner and can meet top demand for gas delivery in the coldest period.

European co-financing to upgrade Inčukalns UGS has been granted

The European Commission has approved the 50% co-financing of the Company's development project, which involves significant improvements in the technical infrastructure and equipment safety at Inčukalns UGS. The total project investments amount to 88 million EUR, to be invested in the storage facility until 2025.

Over the six years, the resources will be channelled to three directions of storage modernization - modernization of surface infrastructure, modernization of gas bores, and modernization of the existing gas infrastructure. Furthermore, a new compressor will be bought: its installation will initiate one of Inčukalns UGS's biggest infrastructure development projects in recent years. Overall, its goal is to expand the storage capacity so that the Inčukalns underground gas storage facility can maintain its functionality after increasing the pressure in the Baltic natural gas transmission system. The main benefit from the

implementation of the project is the ability to reduce the natural gas withdrawal capacity dependence on the amount of gas reserves in the Inčukalns underground gas storage facility. Any additional funding necessary is expected to be gained via investment banks.

Establishing a unified natural gas market

In order to implement the 5 December 2014 agreement concluded between the Prime Ministers of the Baltic States and Finland with the aim of harmonising the implementation of network codes and establishing a unified regional natural gas market as of 2020, in order to reduce the administrative load for wholesale transactions, to ensure a larger and more liquid market, to prevent discrimination in terms of natural gas delivery routes, and to promote the transparency and predictability of tariffs; active work on the reorganisation of the Estonian, Latvian and Finnish natural gas market continues in 2019, establishing unified requirements to ensure the functioning of the regional natural gas market.

◆ Cost compensation mechanism agreement signed

On 14 February 2019, an Inter TSO Compensation (ITC) agreements was signed by the region's transmission system operators: Gasum Oy (Finland), AS Elering (Estonia) and Conexus; which enables the functioning of a single gas transmission tariff zone for Finland, Estonia and Latvia from the beginning of 2020.

The ITC agreement unifies the entry point tariffs on the external borders of the region and removes commercial interconnection points between countries, including the use of the Estonian-Finnish Balticconnector connection without additional charges, and the removal of the commercial entry/exit point at the connection with Inčukalns UGS, as well as stipulates the compensation for TSOs of eligible variable costs and sets principles of the entry revenue re-distribution among the operators. For Elering and "Conexus Baltic Grid" the ITC agreement becomes effective on the date of signing and it will beco-

me effective for Gasum once the changes required in national legislation enabling the Finnish TSO to enter into such agreement comes into force. The ITC compensation mechanism will become effective on 1 January 2020.

The agreement is expected to lead to higher market liquidity by making it easier for shippers and traders to sell gas across the whole market area.

◆ **Unified transmission system entry tariff in Estonia, Latvia and Finland**

Starting from 1 January 2020, the transmission operators of Estonia, Latvia and Finland will apply a unified entry tariff within the outer borders of the countries that signed the ITC agreement on 14 February 2019, namely at the Imatra, Narva, Vyarsk, Kornet (Izborks) and Kiemenai connection points with the transmission systems of other countries. In accordance with the position agreed between the operators and the regulators, the postage stamp principle will be used to enforce the entry tariff: this is a principle for determining the reference entry tariff, based on the entry tariff values of the transmission networks of other EU countries.

◆ **Development of regulations for transmission system operation and balancing to be applied to the unified input/output system**

The operators of the Latvian and Estonian transmission system, in cooperation with those of Lithuania and Finland, are developing rules for the operation of the transmission system and balancing to be applied to the input/output system starting from year 2020 in the unified balancing area (which Latvia and Estonia will be a part of). The transmission system operators want to receive feedback about the new regulations from all the stakeholders and market participants involved, which is why a public discussion of these regulations is organised. After the discussion ends, the transmission system operators will compile the opinions expressed and update the regulations, submitting them for approval to the regulatory institutions of the unified balancing area countries.

Compliance of the unified natural gas transmission and storage system operator with the independence requirements.

In accordance with Section 6 of the Public Utilities Commission decision No 1/4 'Regulations for the certification of the unified natural gas transmission and storage system operator and natural gas transmission system operator' of 16 February 2017, the unified natural gas transmission and storage system operator must submit a report regarding the compliance of the unified operator with the certification requirements in the previous calendar year to the Regulator by 1 April of each current year. The report must include the documents and information specified in Sections 2, 3, 4 and 5 of these certification regulations, which have changed since the previous report and are not available to the Regulator. The unified operator must specify in the report, what information and documents are not included, and when they will be submitted to the Regulator.

In order to ensure the fulfilment of the obligation set for the system operator in the aforementioned regulations, Conexus prepared a unified natural gas transmission and storage system operator report regarding its compliance with the certification requirements in 2018, and submitted the report to the Regulator on 1 April 2019. The statement was published on the website of Conexus.

The Company provides the necessary capacity for withdrawal of natural gas from the storage facility during the next season.

In accordance with Section 121 of Cabinet Regulation 312 'Procedure for energy user supply and sale of fuel in the event of an energy crisis or threat to the state' of 19 April 2011, the transmission system operator must ensure that during the period from the end of the natural gas injection season and 1 March of the following year, Inčukalna UGS contains an amount of active natural gas that is no less than 3,160 MWh (300 million m³).

In March 2019, in order to provide the necessary

daily capacity for removal from Inčukalns UGS for provision of the Latvian natural gas supply in the event of an energy crisis, the Company organised an auction: an open market-based procedure with the aim of selecting third parties (storage facility users), to enter into contractual agreements on ensuring the availability of natural gas in the transmission system interconnection with the storage, by injecting and storing natural gas in IUGS in the amount and within the time limits specified by the transmission system operator, in return for a fee.

On 9 April 2019, the Board of Directors of the Company assessed the offers received as part of the 'Auction for the storage and availability of active

natural gas at the storage facility in 2019/2020', and fully or partially approved the offers for a total amount of 2,845 thousand MWh, in order to ensure the availability of the natural gas amount set by the Cabinet of Ministers for the winter period.

There has been a significant rise in the interest of natural gas system users to participate in the auction to ensure round-the-clock supply of power by receiving natural gas from Inčukalns UGS. The offers submitted to the auction show that in the 2019/2020 season, the natural gas amount provision price will be lower than in 2018/2019, thus making less of an impact on the transmission system tariffs in the future.

Financial indicators

The business of the Company is organised in two segments: transmission and storage of natural gas. This division is based on the internal organisational structure of the Company, which serves as a basis for regular supervision of its business results, for making decisions on the assignment of resources to segments, and for assessing the Company's operating performance. The information in the operating segments matches the information used by the persons responsible for taking operational decisions.

The natural gas **transmission** segment involves the transportation of natural gas via high-pressure pipelines, to be delivered to Inčukalns UGS, other countries, and to the distribution system. The transmission system tariffs are approved by the Regulator.

The natural gas **storage** segment involves the storage of natural gas at Inčukalns UGS for the purposes of the heating season and the other needs of system users. The storage tariffs are also approved by the Regulator.

In Q1 2019, the net turnover of the Company was 17,766 thousand EUR, which is 14% less than the year before. The Company generated profits in the amount of 6,337 thousand EUR, with an EBITDA of 10,384 thousand EUR. The financial indicators of the Company were affected by the warm weather, which reduced demand for natural gas transmission services, and the amount of the storage facility's capacity reservations was relatively small, while the costs of auctions for the reporting period were considerably higher.

Conexus financial indicators	31.03.2019	31.03.2018	+/-	%
	EUR'000	EUR'000		
Net sales	17 766	20 654	(2 888)	-14%
EBITDA	10 384	13 267	(2 883)	-22%
Net profit	6 337	9 091	(2 754)	-9%
Asset segments	342 561	344 859	(2 298)	-1%
Cash and its equivalents	17 874	22 747	(4 873)	-21%
Total assets	360 435	367 605	(7 170)	-2%
Regulated asset base	324 396	331 460	(7 064)	-2%
Net loans	10 126	8 754	1 372	16%
Investments	666	1 062	(396)	-37%

Financing and liquidity

The financial assets available to the Company are sufficient to cover its needs. As of 31 March 2019, the loan of the Company amounted to 28,000 thousand EUR, with a repayment period of 2.75 years,

and an annual interest of 0.6% (0.6% + 6M EURIBOR; in the event of a negative rate, EURIBOR=0). All the financial limitations specified in the current loan agreement of the Company were complied with in Q1 2019.

Conexus financial factors	31.03.2019	31.03.2018	31.03.2017
EBITDA profitability	58%	59%	77%
Net profitability	35%	41%	33%
Return on equity ratio (ROE)	2.00%	2.84%	1.63%
Sufficiency of equity (>50%)	88%	86%	77%
Burden of liabilities (net loans/EBITDA) (<2)	0.98	0.66	1.59

Abbreviations and formulas

- ◆ MWh = megawatt-hours
- ◆ TWh = terawatt-hours
- ◆ EBITDA = earnings before interest, taxation, depreciation & amortisation
- ◆ RAB = regulated asset base
- ◆ Net loans = loans minus cash and cash equivalents
- ◆ EBITDA profitability = EBITDA/income
- ◆ Net profitability = net profit/income
- ◆ Return on equity ratio (ROE) = net profit (over 12 months)/equity average value
- ◆ Sufficiency of equity = equity/total assets
- ◆ Burden of liabilities = net loans/EBITDA (over 12 months)

Transmission

The transmission segment gains income from trading capacity both for consumers in Latvia, and for international transmission of natural gas. The transmission segment income at the end of the reporting period was 11.3 million EUR with an EBITDA of 5.5 million EUR, accounting for 52.8% of the total EBITDA of the Company. The transmission segment profit amounted to 3 million EUR.

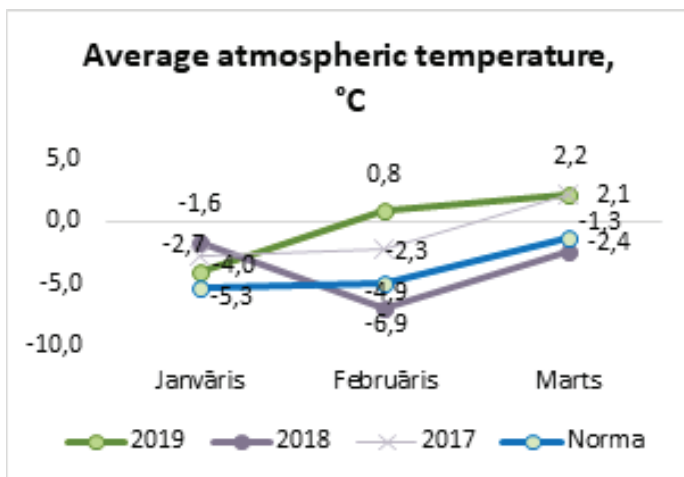
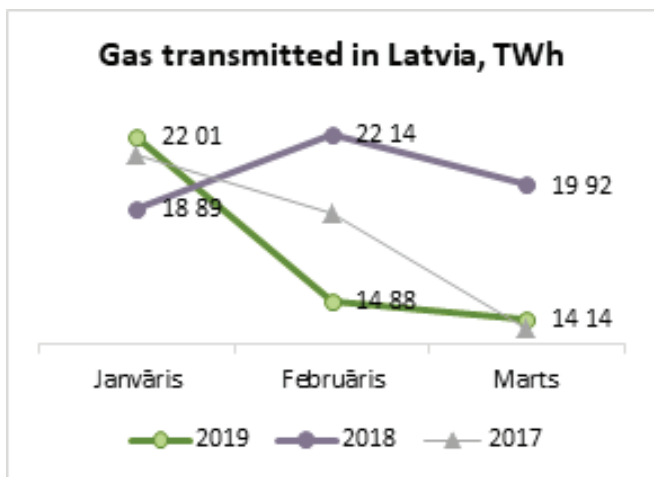
In Q1 2019, the transmission segment income was

affected by warm weather, which significantly reduced the demand for natural gas for heating purposes. The actual atmospheric temperatures in February and March 2019 were not only higher than those of the same months of 2018, but also significantly higher than the long-term average standard values based on the observation data from the Central Statistical Bureau database. Because of this, the need of consumers for gas heating was lower than in Q1 of the previous year.

Atmospheric temperature, °C	2019	2018	2017	Average
January	-4	-1.6	-2.7	-5.3
February	0.8	-6.9	-2.3	-4.9
March	+2.2	-2.4	2.1	-1.3
Average temperature	-0.3	-3.6	-1	-3.8

Due to the comparatively warm weather in the first three months of 2019, the amount of gas transmitted was 7.1 TWh, a 13.3% reduction compared to the previous year. During the reporting period, the amount

of gas transmitted for the needs of Latvian consumers decreased by 18.3%, reaching 71% of the total transmitted flow.



The company’s EBITDA was negatively affected by the costs of the auctions for Q1 2019 that took place in autumn 2018, with the costs being significantly (875 thousand EUR) greater than the comparative costs a year before. In view of the fact that, last year, the storage tariffs for 2019/2020 were approved in due time, the Company organised the next auction much sooner, as early as March 2019, which led to more interest from natural gas traders, and accordingly, to lower costs.

The transmission segment assets at the end of the reporting period amounted to 181 million EUR, accounting for 52.8% of the total assets of the Company. The reduction in investments is related to offsets in the project implementation schedules relative to the construction schedule across the quarter. Significant capital investments are to take place during the rest of the year, as planned.

Gas transmission	31.03.2019	31.03.2018	+/-	%
	EUR'000	EUR'000		
Net sales	11 316	12 781	(1 465)	-11%
EBITDA	5 491	7 025	(1 538)	-22%
Segment net profit	3 077	4 584	(1 511)	-33%
Segment assets	180 994	183 945	(2 951)	-2%
Depreciation and amortisation	2 388	2 412	(24)	-1%
Acquisition of fixed assets and intangible assets	330	504	(174)	-34%
Regulated asset base	173 772	180 864	(7 092)	-4%

Storage

The storage segment income during the reporting period includes the capacity reserved by the system users for the heating season in autumn 2018, reaching a total of 13.4 TWh. The storage income for the reporting period reached 6.5 million EUR, which is 18% less than the year before, when the total capacity reserved in the storage facility was 15.0 TWh. The storage segment income resulted in an EBITDA of 4.9 million EUR and a profit of 3.3 million EUR .

The assets of the segment at the end of the reporting period amounted to 161 million EUR, accounting for 47.2% of the total assets of the Company. The reduction in investments is related to offsets in the project implementation schedules relative to the construction schedule across the quarter. Significant capital investments are to take place during the rest of the year, as planned.

Gas storage	31.03.2019	31.03.2018	+/-	%
	EUR'000	EUR'000		
Net sales	6 450	7 873	(1 423)	-18%
EBITDA	4 893	6 242	(1 345)	-22%
Segment net profit	3 260	4 507	(1 243)	-28%
Segment assets	161 567	160 914	653	0%
Depreciation and amortisation	1 617	1 713	(96)	-6%
Acquisition of fixed assets and intangible assets	336	559	(223)	-40%
Regulated asset base	150 624	102 616	48 008	47%

Subsequent events

Natural gas system connection regulations approved

The Regulator's council approved the regulations for the natural gas industry, improving the legislation pertaining to the natural gas system connection procedure: 'Natural gas transmission system connection regulations for biomethane manufacturers, liquefied natural gas system operators and natural gas consumers'.

New transmission tariffs will take effect on 1 July

The Regulator's council has approved new natural gas transmission tariffs, to take effect as of 1 July. The new tariffs are expected to be in effect until the unified regional natural gas market starts functioning in Latvia, Estonia and Finland, i.e. 1 January 2020. Various cost positions were reduced in the new tariff cycle; however, despite these reductions, the overall costs have risen, compared to the current tariffs. This is related to the regulations approved by the Cabinet last year, whereby Conexus is required to provide

a certain amount of active natural gas in winter. To achieve this, Conexus organised a few auctions whose costs are included in the transmission tariffs. These costs account for 24% of all the transmission service costs.

The natural gas withdrawal season of Inčukalns Underground Gas Storage Facility ended

The natural gas withdrawal season of Inčukalns Underground Gas Storage Facility ended on 30 April. The operational information shows that 10.8 terawatt-hours (TWh) of active natural gas was withdrawn from the storage facility during the season. During the 2018/2019 season, 90% of the active natural gas amount stored for the 2017/2018 was accumulated, which was enough to meet the demand of gas consumers in Latvia and the nearby region. On 1 May, Inčukalns UGS will start the natural gas injection season. For the 2019/2020 storage cycle, customers are offered to purchase a market product, a grouped capacity product, a two-year grouped capacity product, and a virtual counterblow product.

Statement of the Board's responsibility

The Board of the Company is responsible for preparing its financial statement

The unaudited financial statement of the Company for the 3 months period ending on 31 March 2019,

was prepared in accordance with the International Financial Reporting Standards as adopted by the European Union, providing true and fair view of the financial position of the Company, its operational results and cash flow

Zane Kotāne
Board Chairwoman

Gints Freibergs
Board Member

Mārtiņš Gode
Board Member

Financial Statements



Profit and loss statement

	Note	01.01.2019 - 31.03.2019	01.01.2018- 31.03.2018 Adjusted
		EUR'000	EUR'000
Revenue	1	17 766	20 654
Other income	2	936	(213)
Materials and services	3	(4 963)	(4 171)
Personnel expenses	4	(2 442)	(2 159)
Depreciation, amortisation and impairment of property, plant and equipment	6, 7	(4 005)	(4 126)
Other operating expenses	5	(913)	(844)
Operating profit		6 379	9 141
Financial expenses, net		(42)	(50)
Profit before taxes		6 337	9 091
Corporate income tax			
Profit for the period		6 337	9 091

The accompanying notes on pages 20 to 30 form an integral part of these financial statements.

Zane Kotāne
Board Chairwoman

Gints Freibergs
Board Member

Mārtiņš Gode
Board Member

Balance sheet

Assets

	Note	31.03.2019	31.12.2018.
		EUR'000	EUR'000
Non-current assets			
Intangible assets	6	987	990
Property, plant and equipment	7	326 972	331 681
Non-current prepaid costs		1 310	1 411
Total non-current assets:		329 269	334 082
Current assets			
Inventories	8	5 433	2 182
Advances for inventories		1	1
Trade receivables		6 303	6 859
Other current assets	9	1 555	371
Cash and cash equivalents		17 874	18 068
Total current assets:		31 166	27 481
TOTAL ASSETS:		360 435	361 563

The accompanying notes on pages 20 to 30 form an integral part of these financial statements.

Zane Kotāne
Board Chairwoman

Gints Freibergs
Board Member

Mārtiņš Gode
Board Member

Balance sheet (continued)

Liabilities and shareholders' equity

	Note	31.03.2019	31.12.2018
		EUR'000	EUR'000
Shareholders' equity:			
Share capital		39 786	39 786
Treasury shares		(38)	(38)
Reserves	10	145 059	146 914
Retained earnings		131 297	123 104
Total shareholders' equity:		316 104	309 766
Non-current liabilities			
Deferred income	12	7 733	7 800
Employee benefit obligations		1 061	1 061
Borrowings	11	24 500	25 375
Other creditors		285	-
Total non-current liabilities:		33 579	34 236
Current liabilities			
Borrowings	11	3 500	3 500
Trade payables		1 958	3 666
Other liabilities	13	3 384	8 510
Provisions		1 421	1 421
Deferred income	12	302	302
Advances from customers		187	162
Total current liabilities:		10 752	17 561
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY:		360 435	361 563

The accompanying notes on pages 20 to 30 form an integral part of these financial statements.

Zane Kotāne
Board Chairwoman

Gints Freibergs
Board Member

Mārtiņš Gode
Board Member

Statement of changes in equity

	Share capital	Treasury shares	Reserves	Retained earnings	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
As at 1 January, 2018	39 786	(39)	153 004	117 666	310 417
Dividends	-	-	-	(13 926)	(13 926)
Transfer of revaluation reserve	-	-	(6 058)	6 058	-
Acquisition of treasury shares	-	1	-	-	1
<i>Other comprehensive income:</i>					
Other comprehensive income	-	-	(32)	-	(32)
Profit for the period				13 306	13 306
<i>Total other comprehensive income</i>			(32)	13 306	13 274
31 December, 2018	39 786	(38)	146 914	123 104	309 766
Reduction of the revaluation reserve	-	-	(1 855)	1 855	-
Correction	-	-	-	1	1
Profit for the period	-	-	-	6 337	6 337
Total	-	-	(1 855)	8 193	6 338
31 March, 2019	39 786	(38)	145 059	131 297	316 104

The accompanying notes on pages 20 to 30 form an integral part of these financial statements.

Zane Kotāne
Board Chairwoman

Gints Freibergs
Board Member

Mārtiņš Gode
Board Member

Statement of cash flows

	Note	01.01.2019 – 31.03.2019	01.01.2018 – 31.03.2018
Cash flows from operating activities		EUR'000	EUR'000
Profit before corporate income tax		6 337	9 091
<i>Adjustments:</i>			
- depreciation of property, plant and equipment		3 919	4 031
- amortisation of intangible assets		86	95
- loss on disposal of plant, property and equipment		-	54
- participation in the transnational cross-border project		101	-
- amortisation of EU grants		(67)	(67)
- interest expenses		42	47
<i>Change in operating assets and liabilities net of effects of reorganisation:</i>			
- increase in debtors		(628)	(3 064)
- increase in advances for inventories		1	7
- increase in inventories		(1 578)	96
- increase in creditors		(6 786)	(3 532)
Corporate income tax paid		(36)	-
Net cash inflow from operating activities		1 391	6 758
Cash flow from investing activities			
Payments for property, plant and equipment		(583)	(979)
Payments for intangible assets		(83)	(7)
Proceeds from sale of property, plant and equipment		-	11
Net cash outflow from investing activities		(666)	(975)
Cash flow from financing activities			
Interest paid		(42)	(47)
Repayment of borrowings		(875)	(875)
Dividendes paid		(2)	-
Net cash inflow from financing activities		(919)	(922)
Net cash flow		(194)	4 861
Cash and cash equivalents at the beginning of the reporting period		18 068	17 886
Cash and cash equivalents at the end of the reporting period		17 874	22 747

The accompanying notes on pages 20 to 30 form an integral part of these financial statements.

Zane Kotāne
Board Chairwoman

Gints Freibergs
Board Member

Mārtiņš Gode
Board Member

Notes to the financial statements

Notes to the statement of profit or loss

1. Revenue

	01.01.2019 - 31.03.2019	01.01.2018 - 31.03.2018 Adjusted
	EUR'000	EUR'000
Revenue from transmission services	11 316	12 781
Revenue from storage services	6 450	7 873
	17 766	20 654

2. Other income

	01.01.2019 - 31.03.2019	01.01.2018 - 31.03.2018 Adjusted
	EUR'000	EUR'000
Income from EU grants	67	67
Other income	869	(280)
	936	(213)

3. Materials and services

	01.01.2019 - 31.03.2019	01.01.2018 - 31.03.2018 Adjusted
	EUR'000	EUR'000
Natural gas	208	173
Materials	222	153
Maintenance of transmission and storage infrastructure	4 379	3 627
Maintenance of transport and machinery	40	83
Maintenance of IT infrastructure	114	135
	4 963	4 171

4. Personnel expenses

	01.01.2019 - 31.03.2019	01.01.2018 - 31.03.2018
	EUR'000	EUR'000
Salary	1 861	1 652
State social insurance contributions	465	392
Life, health and pension insurance	113	108
Other personnel costs	3	7
	2 442	2 159

5. Other operating expenses

	01.01.2019 - 31.03.2019	01.01.2018 - 31.03.2018 Adjusted
	EUR'000	EUR'000
Premises and territory maintenance and other services	303	331
Taxes and duties	271	268
Office and other administrative costs	339	192
Net loss on disposal of property, plant and equipment	-	53
	913	844

Notes to the balance sheet

6. Intangible assets

Cost	31.03.2019	31.12.2018
	EUR'000	EUR'000
Cost		
Beginning of period	5 959	5 712
Additions	83	364
Transferred	-	4
Disposals	-	(121)
End of period	6 042	5 959
Amortisation		
Beginning of period	4 969	4 674
Amortisation charge	86	382
Disposals	-	(87)
End of period	5055	4 969
Net book value as at the end of the period	987	990

7. Property, plant and equipment

	Land and buildings	Machinery and equipment	Other fixed assets	Spare parts emergency reserve	Assets under construction	TOTAL
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Cost or revalued amount						
31.12.2017	639 387	109 939	5 522	1 608	19 289	775 745
Additions	-	195	265	-	13 085	13 545
Reclassified	12 668	11 335	534	-	(24 537)	-
Disposals	(1 416)	(767)	(90)	-	-	(2 273)
Transferred	-	-	-	(173)	(4)	(177)
31.12.2018	650 639	120 702	6 231	1 435	7 833	786 840
Depreciation						
31.12.2017	377 393	60 827	3 642	-	-	441 862
Depreciation charge	10 856	3 767	495	-	-	15 118
Disposals	(1 120)	(613)	(88)	-	-	(1 821)
31.12.2018	387 129	63 981	4 049	-	-	455 159
Net book value as at 31.12.2018	263 510	56 721	2 182	1 435	7 833	331 681

Property, plant and equipment (continued)

	Land and buildings	Machinery and equipment	Other fixed assets	Spare parts emergency reserve	Assets under construction	TOTAL
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Cost						
31.12.2018	650 639	120 702	6 231	1 435	7 833	786 840
Additions	-	7	35	-	541	583
Reclassified	(1 845)	(29)	-	-	(6)	(1 880)
Disposals	-	-	(42)	-	-	(42)
Transferred	-	-	-	-	-	-
31.03.2019	648 794	120 680	6 224	1 435	8 368	785 501
Depreciation						
31.12.2018	387 129	63 981	4 049	-	-	455 159
Depreciation charge	2 799	996	124	-	-	3 919
Revalued	-	-	-	-	-	-
Disposals	-	-	(42)	-	-	(42)
Reclassified	(484)	(23)	-	-	-	(507)
31.03.2019	389 444	64 954	4 131	-	-	458 529
Net book value as at 31.03.2019	259 350	55 726	2 093	1 435	8 368	326 972

8. Inventories

	31.03.2019	31.12.2018
	EUR'000	EUR'000
Non-current assets held for sale	1 673	-
Materials and spare parts	1 655	1 699
Natural gas	2 174	552
Provisions for impairment of slow-moving inventories	(69)	(69)
	5 433	2 182

9. Other current assets

	31.03.2019	31.12.2018
	EUR'000	EUR'000
Prepaid expenses related to the participation in the transnational cross-border project	101	101
Prepaid expenses	946	199
Other debtors	508	71
	1 555	371

10. Reserves

	31.03.2019	31.12.2018
	EUR'000	EUR'000
Property, plant and equipment revaluation reserve	120 054	121 909
Post-employment benefit revaluation reserve	358	358
Reorganisation reserve	24 647	24 647
	145 059	146 914

11. Borrowings

	31.03.2019	31.12.2018
	EUR'000	EUR'000
Borrowings from credit institutions – non-current part	24 500	25 375
Borrowings from credit institutions – current part	3 500	3 500
	28 000	28 875

12. Deffered income

	31.03.2019	31.12.2018
	EUR'000	EUR'000
Non-current part	7 733	7 800
Current part	302	302
	8 035	8 102

Movement of deferred income	01.01.2019 – 31.03.2019	01.01.2018 – 31.12.2018
	EUR'000	EUR'000
Beginning of period	8 102	8 395
EU funds received	-	125
Amortised in profit or loss	(67)	(418)
End of period	8 035	8 102

13. Other liabilities

	31.03.2019	31.12.2018
	EUR'000	EUR'000
Accrued bonuses	1 540	1 338
Real estate tax	717	-
Accrued vacation costs	437	437
Salaries	306	301
Social insurance contributions	186	203
Personal income tax	91	103
Dividends	72	74
Other non-current liabilities	29	41
Natural resource tax	5	27
Corporate income tax from theoretically distributed profit	1	36
Accrued costs for non-received invoices	-	5 194
Value added tax	-	756
	3 384	8 510

Financial risk management

The principles and guidelines for general management of financial risks are set out in the Company's financial risk management policy. Conexus is exposed to the following financial risks: capital risk, interest rate risk, currency risk, credit risk and liquidity risk. The financial assets of JSC "Conexus Baltic Grid" include trade and other receivables, cash and cash equivalents.

Liquidity risk

Liquidity risk is associated with ability of the Company to settle its obligations within agreed terms. JSC "Conexus Baltic Grid" follows prudent liquidity risk management when estimated annual, quarterly and monthly cash flows to ensure appropriate amount of funds necessary for operating activities. The liquidity reserves of the Company are made of the Company's own cash and cash equivalents and credit lines provided by credit institutions.

Interest rate risk

The interest rate risk arises from the use of borrowed cash resources to ensure liquidity. JSC "Conexus Baltic Grid" uses general borrowing to finance its operations. The Company's financial risk management policy stipulates that the interest rate of the largest portion of the borrowing is variable.

Credit risk

JSC "Conexus Baltic Grid" is exposed to credit risk, i.e., in case the counterparty fails to fulfil its contractual obligations, losses will incur. Credit risk is derived from cash and cash equivalents and from overdue accounts receivable.

To restrict credit risk, JSC "Conexus Baltic Grid" uses security deposits. Credit risk is related to the largest customers of JSC "Conexus Baltic Grid".

Capital Risk management

The Company's objectives when managing capital risk are to safeguard the Company's ability to continue as a going concern, maintain an optimal structure to reduce the cost of capital. The Company performs management of the capital, based on proportion of borrowed capital against total capital.

Currency risk

The Conexus policy is focused on operating transactions, assets or liabilities in the functional currency of the Company, which is the euro. Foreign currency risk is considered to be low. The Company does not hold any balances in foreign currencies.

Accounting Policies

Basis of preparation

Conexus financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union. These financial statements cover the period 1 January 2018 to 31 March 2019.

Financial statements are prepared on a going concern assumption. Assets and liabilities in the financial statements are measured on the historical cost basis, property, plant and equipment are measured at fair value. The cash flow statement has been prepared in accordance with the indirect method. Financial indicators in the financial statement of JSC "Conexus Baltic Grid" are reported in thousands of the euro, unless otherwise stated.

In preparing financial statements of JSC "Conexus Baltic Grid" in accordance with IFRS, balances of financial statements items are measured possibly accurately, based on management information on current events and activities, in line with the assumptions and estimates.

The basic accounting and accounting valuation principles set out in this section have been applied consistently throughout the reporting period.

Intangible assets

Intangible assets of JSC “Conexus Baltic Grid” mainly consist of software licenses and patents.

Amortisation of intangible assets is calculated on a straight-line basis over its estimated useful life. The average useful life of intangible assets is 5 years.

Property, plant and equipment

Property, plant and equipment are tangible assets held for using in more than one period in supply of goods and in providing services or for operating purposes. Company’s main fixed asset groups are buildings and structures, transmission gas pipelines and associated machinery and equipment, as well as structures, equipment and machinery of Inčukalns underground gas storage facility.

The Company’s buildings and structures, transmission gas pipelines and associated machinery and equipment, as well as structures, equipment and machinery of Inčukalns underground gas storage facility are stated at revalued amount. Revaluation shall be made with sufficient regularity to ensure the carrying amount does not materially differ from that which would be determined using fair value at the end of the reporting period. All other property are stated at historical cost.

An asset is recognized when there is a high probability that future economic benefits associated with this asset will be received and the cost of an asset can be measured reliably. In the financial statements, property, plant and equipment are stated net of accumulated depreciation and write-offs of impairment.

Assets in the process of construction, assembly or installation, are classified under Assets under construction. Subsequent costs are included in the asset’s carrying amount based on asset recognition criteria. Current repair and maintenance costs are charged to the profit or loss statement as incurred.

Revaluation gain is included in Reserves under equity. Revaluation surplus of written-off PPEs is transferred to the retained earnings under equity. During the useful life of the revalued within each reporting period, part of the revaluation reserve calcu-

lated as the difference between depreciation of the carrying amount of the revalued asset and depreciation of the from the initial cost value are recognised as accumulated profits under equity.

From the date when the asset is ready for its intended use, it is depreciated and its value is gradually written off. No depreciation is calculated on land, prepayments for fixed assets, assets under construction, emergency reserve of spare parts as well as cushion gas and line fill.

Property, plant and equipment are subject to depreciation on a straight-line basis over the following useful lives:

Type of fixed assets	Estimated useful life in years
Buildings	20-100
Engineering structures	20-60
Equipment and machinery	5-30
Other fixed assets	3-10

In the event that the book value of an asset is higher than its recoverable amount, the value of the respective PPE is immediate written down to its recoverable amount.

Gains or losses on disposals are determined by calculating the carrying amount of PPE and proceeds from the sale of PPE. On disposal of revalued asset, the amount included in the revaluation reserve is transferred to retained earnings under equity.

Leases

The management of JSC “Conexus Baltic Grid” has elected to adopt new standard IFRS 16 from 01.01.2019.

Under IFRS 16, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For such contracts, the new model requires a lessee to recognise a right-of-use asset and a lease liability. The right-of-use asset is depreciated and the liability accrues interest. This will result in a front-loaded pattern of expense for most leases, even when the lessee pays constant annual rentals.

The new Standard introduces a number of limited scope exceptions for lessees which include:

- ◆ leases with a lease term of 12 months or less and containing no purchase options, and
- ◆ leases where the underlying asset has a low value ('small-ticket' leases).

The standard IFRS 16, when initially applied, is likely to result in the Company having to recognise in its balance sheet assets and liabilities relating to operating leases for which the Company acts as a lessee.

Non-current prepaid costs

Classified as non-current prepaid expenses are balances of payment made by JSC "Conexus Baltic Grid", which, by economic substance, relate to future periods more than one year after the balance sheet date.

Non-current prepaid expenses are subjected to amortisation and they are gradually recognized in the profit or loss based on their economic substance.

Inventories

Inventories are stated at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to complete the stock and the sale.

The cost of natural gas, materials and spare parts is determined using the weighted average method. Inventories expenses are recognised in profit or loss when they have been consumed. Provisions are made for impairment of obsolete, slow-moving or damaged inventories.

Cash and cash equivalents

Cash and cash equivalents comprise balances of current accounts and demand deposits at banks.

Dividends

Dividends are recognized as a liability in the period in which the dividends are approved by the Company's shareholders.

Provisions

Provisions for obligations are recognised when due to past events the Company has a present legal or constructive obligation and it is probable that an outflow of resources will be required to settle the obligation. Provisions are recognised if the amount can be reliably estimated.

Provisions are measured at the present value according to the management best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The required provisions are periodically reviewed, but not less than once a year.

Currency unit and revaluation of foreign currency

The items in the financial statements are expressed in thousands of the euro, which is the functional currency of the economic activity environment of JSC "Conexus Baltic Grid" and official currency in the Republic of Latvia.

All transactions in foreign currencies are translated into euro at the exchange rate of the European Central Bank on the day of the relevant transactions. Gains or losses from the revaluation of foreign currencies are recognized in the profit and loss statement of the respective period.

Employee benefits

JSC "Conexus Baltic Grid" recognises provisions for employee benefits where contractually obliged or where there is a past practice that has created a constructive obligation.

The Company pays social security insurance contributions for state pension fund in compliance with the Latvian legislation. The Company also pays contributions to an external fixed-contribution private pension plan.

Under the Collective Agreement, the Company provides certain benefits upon termination of employment and over the rest of life to employees whose employment conditions meet certain criteria. The amount of benefit liability is calculated based on the current salary level and the number of employees who are entitled or may become entitled to receive those payments, as well as based on actuarial assumptions. The benefit obligation is calculated once per year.

Taxes

The Enterprise Income tax rate is and the taxable base includes:

- ◆ distributed profit (dividends calculated, payments equivalent to dividends, conditional dividends) and
- ◆ conditionally distributed profit (non-operating expenses).

Subsidies

Subsidies received to cover capital investments are initially recognised in deferred income which is gradually recognised as revenue over the useful life of the fixed assets received or acquired using subsidies. Subsidies received to cover expenses are recognised in the same period when the related expenses have arisen, if all the conditions of receiving the subsidies are met.

Revenue

IFRS 15 was adopted by the Company in 2018, Revenue should be recognised when (or as) a Company transfers control of goods or services to a customer at the amount to which the Company expects to be entitled. Depending on whether certain criteria are met, revenue is recognised:

- ◆ over time, in a manner that depicts the Company's performance; or
- ◆ at a point in time, when control of the goods or services is transferred to the customer.

The internal revenue recognition policies for the different types of contracts with customers have been analysed, identifying the performance obligations, the determination of the calendar of satisfaction of these obligations, transaction price and allocation thereof, in order to identify possible differences with respect to the revenue recognition model under the new standard. No significant differences between them have been detected.

The current practices applied by Conexus imply that there are no contract costs to be capitalized. Revenues derived from contracts with customers must be recognised based on compliance with performance obligations with customers. Revenue reflects the transfer of goods or services to customers at an amount that reflects the consideration to which Co-

nexus expects to be entitled in exchange for such goods or services.

Revenue from transmission services

The transmission service is considered to be one performance obligation under IFRS 15. Transmission capacity product sales are regulated services provided by JSC "Conexus Baltic Grid" to the transmission system users at approved dates. Short-term (quarterly, monthly, daily and current day's capacity) and long-term transmission capacity (annual capacity) products are offered. Revenue from transmission capacity trade products, which, in its essence mean the provision of the transmission infrastructure and according to the chosen product, does not change over time for each capacity unit, is recognised in the profit or loss account for each reporting month in proportion to the period of the transmission capacity product reserved by the user.

Net Income from balancing

JSC "Conexus Baltic Grid" maintains information on the quantity of natural gas entered in the transmission system and exited from it by the transmission system users and calculates the imbalance. The amount of daily imbalance is the difference between the entry and exit. In the event of a negative imbalance for the user of the transmission system, the amount of imbalance charge is calculated for each such day, by multiplying the calculated quantity with the sale price of natural gas, published in specified order, for the daily balancing purposes. Revenues from the provision of balancing services are recognized for each reporting month when the transmission system user experiences an imbalance that has caused a deficit of natural gas in the transmission system.

Where market participants cause imbalance and where Conexus does not have sufficient gas resources available to ensure a proper operation of the gas transmission system, Conexus shall buy respective quantities of balancing gas.

Net income from balancing is disclosed under Other income at net value (less expenses for periods when balance is positive).

Revenue from storage

The storage service is considered to be one performance obligation under IFRS 15. JSC Conexus Baltic Grid provides Inčukalns underground gas storage capacity services at approved storage tariffs to the users of the storage who have reserved natural gas storage capacity during the storage season. Revenue from the sale of storage capacity which according to the nature of the service means ensuring the infrastructure of IUGS and does not change during the storage season, is recognised for each reporting month according to the storage tariffs and in proportion to the remaining months the end of storage season.

Significant estimates and judgements

The financial statements are prepared in accordance with IFRS, using significant management estimates and judgements. It should be noted that actual results may differ from the estimates and assumptions for the outcome of future events.

Financial statements requiring significant estimates or judgements: estimation of the frequency of revaluation of property, plant and equipment, determining the replacement value of property, plant and equipment subject to revaluation and estimation of the remaining useful life of property, plant and equipment.

Financial statements were prepared by:

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Head of Financial Reporting

