

Akciju sabiedrība

**conexus**  
B A L T I C G R I D

# Unaudited financial statements for 2021

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

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# INFORMATION ON THE COMPANY

Company	Joint Stock Company (JSC) "Conexus Baltic Grid"
Registration number	40203041605
LEI code	485100YDVP9E8GT6PJ90
Date and place of registration	2 January 2017, Riga
Address	Stigu Street 14, Riga, LV-1021, Latvia www.conexus.lv
Major shareholders	JSC „Augstsprieguma tīkls” (68.46%) “MM Infrastructure Investments Europe Limited” (29.06 %)
Financial statements period	1 January 2021 – 31 December 2021

Joint stock company (JSC) 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 customers - users of the natural gas transmission and storage system – represent several countries of the Baltic Sea region – Finland, Estonia, Latvia, Lithuania and Poland; as well as other European countries – Norway, the Czech Republic and Switzerland. The users are both private local companies and state-owned and multinational companies representing various business sectors – natural gas wholesalers and retailers, energy producers, heating operators and manufacturing companies.

Conexus natural gas transmission and storage services are regulated by the Public Utilities Commission (hereinafter referred to as PUC, or as the Regulator).

Conexus offers its clients natural gas transmission and storage services, subject to the tariffs determined by the PUC.

Conexus takes care of the sustainability and safety of the infrastructure, high quality of services, which promotes market development and provides economic value to customers and society as a whole.

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



WHO DO WE WANT TO BE?

## Vision

To become the most reliable energy source in the region.

WHY DO WE EXIST?

## Mission

To promote sustainable energy market in the region, offering reliable operation of natural gas transmission and storage system.

WHAT IS IMPORTANT TO US?

## Values



Secure operation of the system



Professional and united team



Flexibility and openness through competent solutions



Sustainable development

# Goals of Conexus

Medium-term (2019-2023) key goals of Conexus are related to three areas: **Market development, provision of infrastructure and operational development.** The Company's strategic goals are set in accordance with Conexus values, vision and mission – **to promote sustainable energy market in the region, offering reliable operation of natural gas transmission and storage system.**

**1** Development of regional natural gas market to achieve sustainable operation of Inčukalns UGS in market conditions

**2** Provide safe, accessible and market-based infrastructure

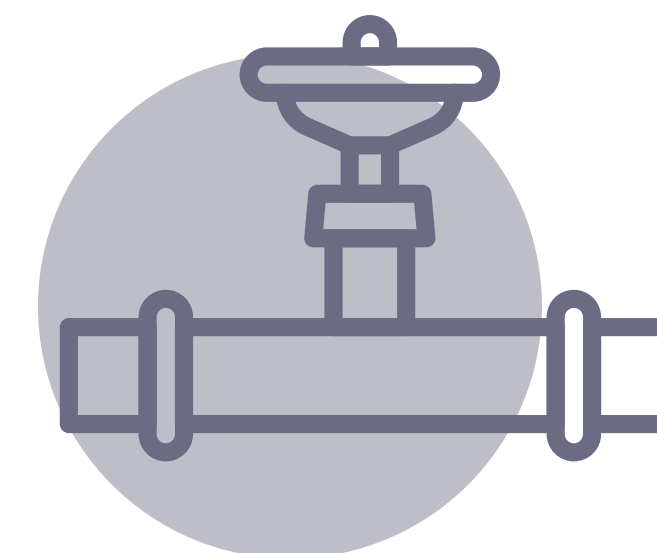
**3** Implement sustainable management of the working capacity of internal and external resources

In addition to its strategic goals, Conexus has identified three developmental motives that spread across all medium-term activities planned. These motives add to the strategic goals, facilitate their implementation and are determined as follow:



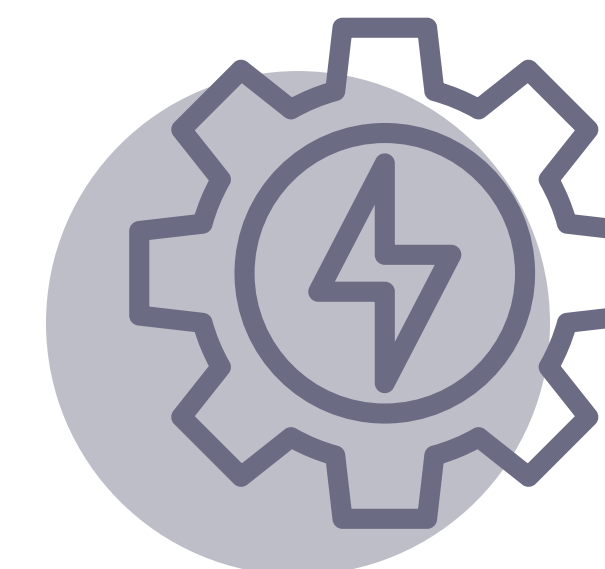
## DIGItisation

Conexus will focus on modernisation and development of technologies as well as centralized asset, personnel and financial management and implementation of effective resource management



## COOPERATION WITH OTHER REGIONAL TSOs

In the medium term, Conexus plans to facilitate cooperation with other TSOs in the region by coordinating operational cooperation and introducing a periodic benchmarking system with other regional TSOs



## CONEXUS – ENERGY PROVIDER

To become the most reliable energy source in the region and gradually introduce services not only for natural gas users, but also for electricity users.

# Shareholders

The main Conexus governance institution is shareholders' meeting, which appoints Conexus council.

Conexus is a closed-emission joint stock company with 100% registered shares. The total number of shares is 39 786 089, with a nominal value of EUR 1.00. The total number of shareholders exceeds 4,8 thousand. 97,52% of the total number of shares belong to two largest shareholders - JSC „Augstsprieguma tīkls” (68,46 %), MM Infrastructure Investments Europe Limited (29,06 %).

Shareholders' registry is maintained electronically by Nasdaq CSD SE, in accordance with the concluded contract.

## Shareholders as of 31 December 2021:





# The Council

Term of office from 12 May 2021 until 11 May 2024



(in Council from 3 January 2018)

**ILMĀRS ŠŅUCINS**  
Chairman of the Council



(in Council from 30 April 2020)

**TOMOHIDE GOTO**  
Vice-Chairman of the Council



(In Council from 12 May 2021)

**TAKUMI SASAKI**  
Member of the Council



(In Council from 12 May 2021)

**VIKTORS SENTUHOVSKIS**  
Member of the Council



(in Council from 30 April 2020)

**ILZE ALEKSANDROVIČA**  
Member of the Council



(in Council from 30 April 2020)

**ZANE ĀBOLIŅA**  
Member of the Council



(in Council from 30 April 2020)

**NORMUNDS ŠUKSTS**  
Member of the Council

Term of office from 30 April 2020 until 11 May 2021

**ILMĀRS ŠŅUCINS**  
Chairman of the Council

(in Council from 3 January 2018)

**TOMOHIDE GOTO**  
Vice-Chairman of the Council

(in Council from 30 April 2020)

**IPPEI KOJIMA**  
Member of the Council

(in Council from 30 April 2020)

**JUN MATSUMOTO**  
Member of the Council

(in Council from 30 April 2020)

**ILZE ALEKSANDROVIČA**  
Member of the Council

(in Council from 30 April 2020)

**ZANE ĀBOLIŅA**  
Member of the Council

(in Council from 30 April 2020)

**NORMUNDS ŠUKSTS**  
Member of the Council

(in Council from 30 April 2020)

# Board



## ULDIS BARISS

JOINT-STOCK COMPANY  
"CONEXUS BALTIC GRID"  
CHAIRMAN OF THE BOARD

[valde@conexus.lv](mailto:valde@conexus.lv)

**Term of office:**  
from 16 November 2020 until 15 November 2023



## GINTS FREIBERGS

JOINT-STOCK COMPANY  
"CONEXUS BALTIC GRID"  
MEMBER OF THE BOARD

[valde@conexus.lv](mailto:valde@conexus.lv)

**Term of office:**  
from 31 December 2017 until 31 December 2020  
from 1 January 2021 until 31 December 2023



## MĀRTIŅŠ GODE

JOINT-STOCK COMPANY  
"CONEXUS BALTIC GRID"  
MEMBER OF THE BOARD

[valde@conexus.lv](mailto:valde@conexus.lv)

**Term of office:**  
from 31 December 2017 until 31 December 2020  
from 1 January 2021 until 31 December 2023



# MANAGEMENT REPORT

## Main activities

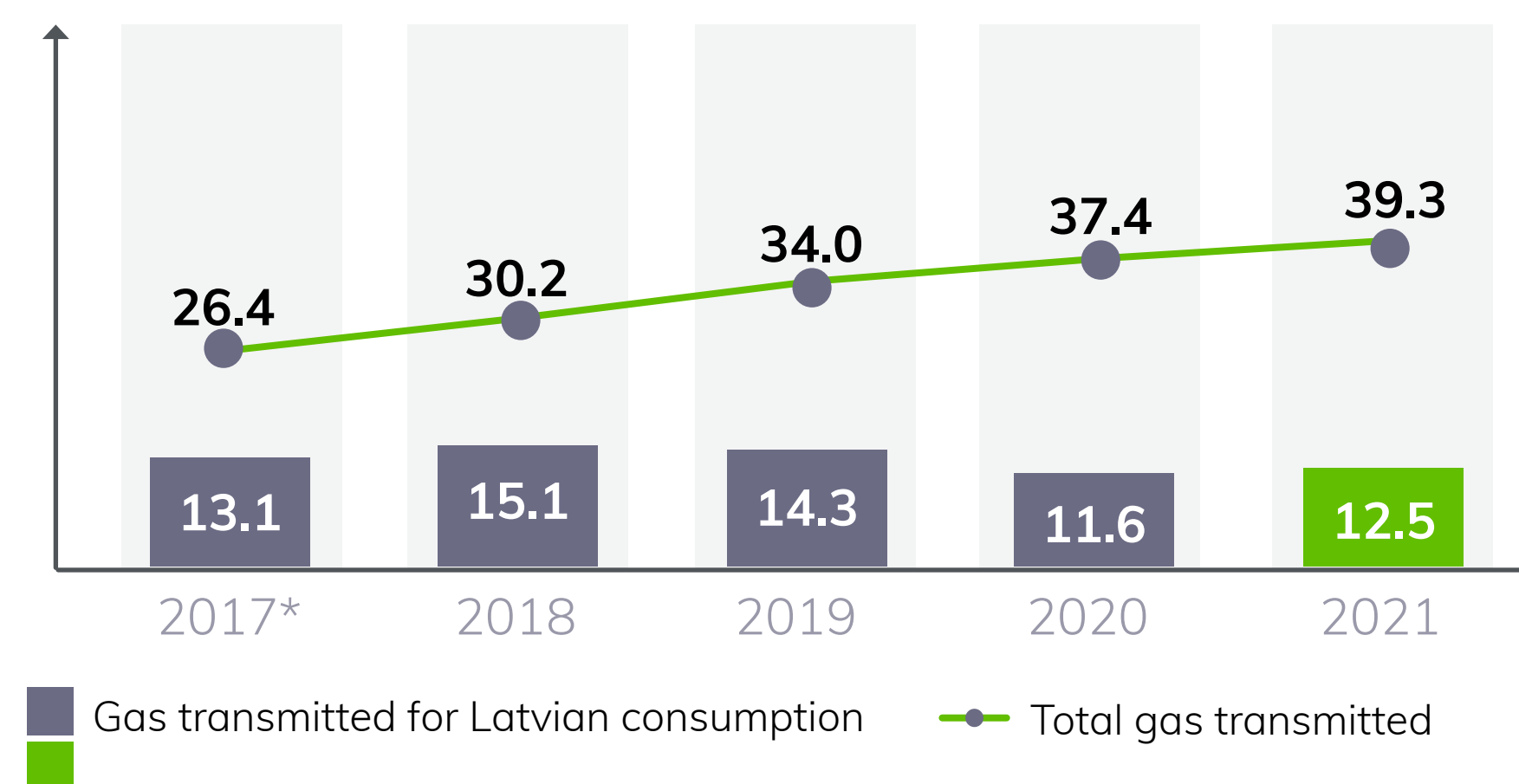
### Total volume of natural gas 5% higher than prior year

Conexus successfully adapted its activities to the emergency conditions created by Covid-19 pandemic, thanks to the digitalisation activities carried out in recent years. Despite the difficult conditions at global and national level, the Company was able to ensure safe operation of infrastructure and access to natural gas transmission and storage services. Thus, the emergency situation related to Covid-19 did not significantly affect the Company's operational and financial results.

In 2021, Conexus provided safe and uninterrupted natural gas supply for the consumption of Latvia, Lithuania, Estonia and Finland. Total volume of gas transmitted reached 39,3 TWh, which is 5% more than in prior year. Volume withdrawn from Inčukalns UGS reached 17,9 TWh, which is 55% more than the year before. However, natural gas transmitted from Lithuania has decreased by 78%, reaching only 1,7 TWh. Natural gas transmitted for consumption in Latvia reached 12,5 TWh, which is 8% more than the respective period the year before. This increase is attributed to this year's weather conditions, as winter in Latvia was colder than in previous years. During the reporting period, 13 TWh of natural gas were injected into Inčukalns UGS,

6% less than previous year. The natural gas transmitted for Lithuania's consumption during the reporting period increased 1.8 times, reaching 3 TWh. This increase happened in the first quarter of the year, when, in accordance with information of Klaipėda oil terminal tankers' schedule, at the end of January one gas delivery was cancelled and the required gas volume was provided using Inčukalns UGS.

Transmitted gas, TWh



\*04.01.2017-31.12.2017

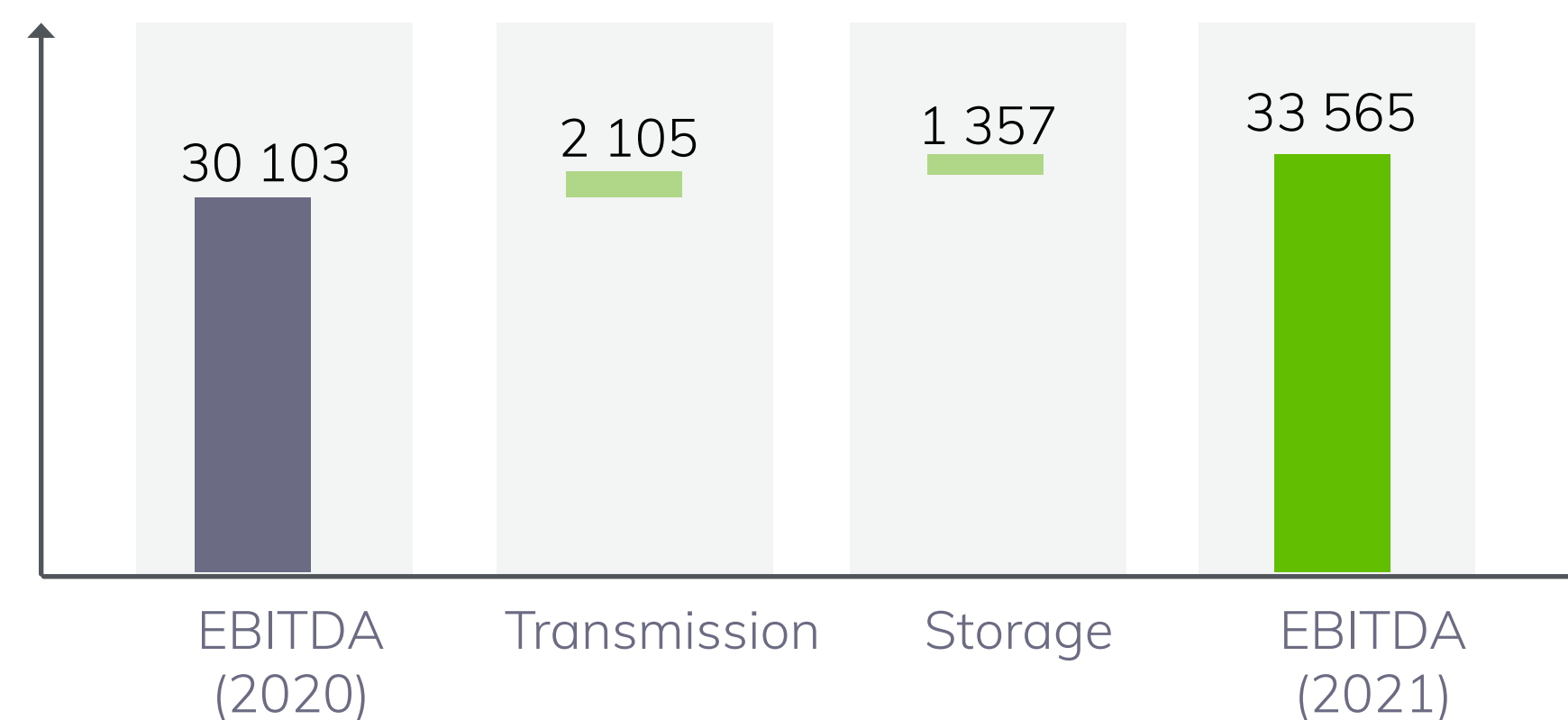
## Financial indicators are positively affected by the Inčukalns UGS capacity product reservations

The 2021/2022 Inčukalns UGS storage service capacity reservations reached 18.9 TWh, which is 12% less than in 2020/2021. However, the varied product types reserved by the market participants, as well as storage tariffs ensured increase of 10% to the capacity product revenue.

## Profit generated during the reporting year is on a similar level as prior year

The net turnover in the reporting period was 56 439 thousand EUR, which is 5% more than in prior year's respective period. The Company's EBITDA during the reporting period increased by 12% in comparison to 2020, reaching 33 565 thousand EUR. Both revenue and EBITDA were positively affected by revenue from storage services. Although Inčukalns UGS storage service reserved capacity has decreased from 21,5 TWh in 2020/2021 storage cycle to 18,9 TWh in 2021/2022 storage cycle, the variations of products reserved by market participants and different applicable tariffs ensured an increase of reporting period's revenue by 2 201 thousand EUR, in comparison to the previous year. EBITDA was positively affected by the auction expenses in relation to ensuring the natural gas supply, which were significantly lower (by 1 445 thousand EUR), in comparison to previous year.

EBITDA, '000 EUR



During the reporting period, the Company's net profit was 13 217 thousand EUR, which is 105 thousand EUR more than in prior year.

MAIN FINANCIAL INDICATORS	2021 or 31.12.2021	2020 or 31.12.2020	+/-	%
	EUR'000	EUR'000		
<b>Net turnover</b>	<b>56 439</b>	<b>53 867</b>	<b>2 572</b>	<b>5%</b>
EBITDA	33 565	30 103	3 462	12%
<b>Net profit</b>	<b>13 217</b>	<b>13 112</b>	<b>105</b>	<b>1%</b>
Segment assets	468 070	453 092	14 978	3%
Investments	27 352	22 118	5 234	24%



## Dividends

During 2021, the capital structure of the Company was optimised by increasing the share of borrowed capital, bringing it closer to energy sector's characteristic level. At the same time, high capital adequacy ratio was maintained, which allowed to pay out higher dividends to shareholders from previous years' retained earnings in amount of 85 142 thousand EUR (2,14 EUR per share).

## Financing and liquidity

The financial assets at the Company's disposal are sufficient to meet the Company's needs. During the reporting period Company has received long term loans from Nordic Investment Bank and AS "SEB banka", concluded overdraft agreements with JSC "Swedbank", AS "SEB banka" and OP Corporate Bank plc Latvia, as well as extended the repayment term of the loan from OP Corporate Bank plc Latvia. At the end of the reporting period, the total amount of the Company's

borrowings is 98 056 thousand EUR, including overdraft in amount of 24 950 thousand EUR. Out of overdraft facilities available to Conexus in total amount of 90 million EUR, 65 million EUR are unused at 2021 year end, which ensures a significant liquidity reserve. The agreement terms for the unused overdrafts reach beyond 1 year.

At the end of the reporting period the weighted average interest rate of long-term borrowings is 0.37% (2020: 0.6%).

All financial covenants set in the Company's loan agreement have been complied with during the reporting period.

<b>CONEXUS FINANCIAL COVENANTS</b>	<b>31.12.2021</b>	<b>31.12.2020</b>
Shareholders' equity ratio (>50%)	71%	89%
Net debt to EBITDA ratio (<5)	2.97	0.76
Debt-Service Coverage Ratio (DSCR) (>1.2)	3.73	8.26



# Regulatory activities

## New storage service tariffs for the next five years

On 1 March 2021, PUC approved new storage service tariffs, which are effective from 1 May 2021 and are intended for a regulative period of 5 years (from 1 May 2021 until 30 April 2026). Such period allows to equalize the future revenue over the whole regulative period and provides stability and predictability for market participants. The PUC's decision determines several tariff periods, at the same time the Company was granted a permission by PUC council decision No "1/15 Natural gas storage system service tariff calculation methodology" dated 8 October 2020, to determine storage service tariffs for each tariff period independently, if in accordance with the Methodology the planned revenue required adjustments.

Approved tariffs for storage service products are published on the Company's website: <https://www.conexus.lv/uzglabasanas-pakalpojumu-tarifi-20212022>

Along with the approval of new storage tariffs for the next five years, an auction principle for capacity reservations has been introduced, which was a necessary solution to ensure transparency of capacity reservations for market participants. The auction mechanism is a widely used solution in Europe and has showed its efficiency, at the same time enabling the Company as the service provider to ensure transparent usage of the storage for market participants.

During the reporting period, several Inčukalns UGS capacity auctions were held, as a result, system users were granted 13,9 TWh – 11,6 TWh for one year bundled capacity product of 2021/2022 storage cycle, 2 TWh for two year bundled capacity product of 2021/2023 storage cycle and 0,26 TWh interruptible capacity product.

## The fee for the use of exit point for the supply of natural gas users in Latvia has decreased by 3,7%

The new tariff for the use of the exit point for Latvian natural gas users 1.9296946 EUR/MWh is in effect from 1 October 2021 until 30 September 2022, thus a slight price reduction for end-users is ensured in line with the increase in natural gas costs. The tariff level is closely linked to the auction expenses for ensuring the natural gas supply and is recalculated annually accordingly.



## Legal events

- ◆ On 18 September 2018 Conexus filed an application to the District administrative court against the decision No. 69 of the Regulator council “On JSC “Conexus Baltic Grid” natural gas transmission system tariffs” dated 18 June 2018, in relation to expenses not being included in the transmission system tariff project and issuance of a new administrative act, intending to include the excluded expenses in tariff project in the next period. With the decision of the District administrative dated on 7 April 2020 the application was rejected. Conexus submitted an appeal in cassation to the Department of Administrative Cases of the Senate on 7 May 2020 and the cassation proceedings have been initiated, but the date of the hearing is not known at this time;
- ◆ On 28 September 2020 Conexus filed an application to the Administrative District Court regarding cancellation of the PUC Council’s decision No 109 dated 20 August 2020 on the capital rate of return for the calculation of the tariff project for natural gas transmission system, natural gas distribution system and natural gas storage services. By the decision of the Regional Administrative Court of October 12, 2021, the proceedings on the merits have been re-initiated and the next court hearing is scheduled for the 23 March, 2022.

## Other activities

**In 2021, for the fourth year in the row, Conexus arranged several auctions for storage of active natural gas and availability thereof in Inčukalns UGS during the season 2021/2022, which is required to ensure the Latvian natural gas supply during an energy crisis or in case of national threats.**

These auctions are required to fulfil Regulation No. 312 “Procedures for the Supply of Energy Users and Sale of Heating Fuel During Declared Energy Crisis and in Case of Endangerment to the State” adopted by the Cabinet of Ministers on 19 April 2011. As a result of several auctions, total natural gas volume ensured by storage obligations reached 2 350 thousand MWh at the end of injection season. In accordance with the regulations, this volume has been agreed with both Ministry of Economics and PUC.

The volume of natural gas in Inčukalns UGS as at 31 December was 12,3 TWh. Supplies of natural gas from Inčukalns UGS to traders and users are not limited, therefore the natural gas balance is sufficient for withdrawal for Latvian consumption during the season.

## In 2021 active work continues on implementation of European common interest projects

Total investments into Inčukalns UGS enhancement project and Enhancement of Latvia-Lithuania Interconnection (ELLI) comprise 93,5 million EUR, and for their fulfilment a loan agreement with Nordic Investment Bank in amount of 30 million EUR was concluded on 26 February 2021, with repayment term until 4 March 2038.

As part of Inčukalns UGS enhancement project, during 2021 modernisation of existing gas compression unit 12x330 No.3 was successfully completed. In addition, technical measures were taken to enable the plant to be further used, for the first time in storage facility's history, for natural gas compression withdrawal from storage during spring months, when the available active natural gas balance in storage is low. Usage of compressor will significantly improve the continuity and security of natural gas supply in high demand conditions also at the end of withdrawal season.

During the reporting period, investments were made in amount of 27,4 million EUR, 55% of which were as part of European common interest projects.



## Transmission system operators sign memorandum of understanding on promoting the development of green gases

The gas transmission system operators Conexus (Latvia), Elering AS (Estonia), AB Amber Grid (Lithuania) and Gasgrid Finland Oy (Finland) have signed a Memorandum of Understanding (MoU) on promoting the development of green gases (also called renewable gases).

Green gases, for example, biomethane, synthetic methane or renewable hydrogen, are gases that are produced from renewable energy sources. Green gases contribute to diversification of renewable energies and higher flexibility of the European Union's (EU) energy system. Considering the goals of National Energy and Climate Plans, European Green Deal and by signing the MoU, transmission system operators of Latvia, Lithuania, Estonia and Finland identified potential areas of green gas research, development and cooperation to work towards decarbonisation and sustainability.

## The gas transmission system operators of Estonia, Finland, Latvia, and Lithuania started preparation of research and development study of technical capabilities for injection and transportation of hydrogen in gas grid

Conexus has begun a research of integration of hydrogen technology in the current gas infrastructure, as part of the European Green Course. By union of four national gas transmission system operators – JSC Conexus Baltic Grid, Elering AS (Estonia), AB Amber Grid (Lithuania) and Gasgrid Finland Oy (Finland), a Hydrogen Baltic Coordination group (H2BCG) has been set up, the first aim of which will be to carry out a joint study on the transport and input of hydrogen into the existing gas transmission system.

Operators from the four countries mentioned above have carried out a joint cross-border public procurement procedure for the preparation of a Project Plan that will provide a basis for the transmission system operators to carry out a procurement for a research and development project regarding hydrogen blending possibilities in the Estonian, Finnish, Latvian and Lithuanian gas transmission systems and the investigation of necessary investments according to different hydrogen blending volumes. On 13th of October the agreement to prepare a Project Plan was signed with the procurement winner GRTGaz's dedicated Research & Innovation Center for Energy (RICE).





## The first direct connection to the gas transmission system has been put into service

The connection was constructed in Priekuļi and its construction was carried out by the company of compressed natural gas - "GasOn" LTD, project investment reached around 1 million EUR. Thanks to the installation of a direct connection, the gas producer of compressed natural gas "GasOn" LTD will have the possibility to receive gas from transmission system, which provides several benefits in the production process – higher starting pressure and lower energy consumption. The result is lower costs and the overall solution is more environmentally friendly.

## Fulfilment of the storage at the beginning of withdrawal season reaches 80%

At the end of 2021/2022 natural gas injection season, in Inčukalna UGS stored 17,4 TWh of natural gas. Reaching 80% of maximum volume of stored active natural gas, despite unfavourable commercial conditions, the volume in storage is higher than in 2017-2018 storage cycles. During the last three years, average consumption in Latvia during heating season has been 8,7 TWh. This allows to conclude that the volume of injected natural gas significantly exceeds the heating season consumption in Latvia.

## Changes in the Council

On May 12, the shareholders' meeting elected the Company's Council with changes in its current composition. 7 members of the Council have been approved for a term of three years. Also, the shareholders' meeting approved new version of statutes, as well as board and council members' remuneration policy.



# Main financial indicators

		2017 or 31.12.2017	2018 or 31.12.2018	2019 or 31.12.2019	2020 or 31.12.2020	2021 or 31.12.2021	Δ	Δ %	
Operating indicators	Transmitted natural gas	TWh	26.4	30.2	34.0	37.4	39.3	1.9	5%
	Total amount of natural gas stored by system users in Inčukalns UGS, at the start of withdrawal season	TWh	15.0	13.2	17.7	21.5	17.4	(4.1)	-19%
	Natural gas for consumption in Latvia	TWh	13.1	15.1	14.3	11.6	12.5	1.0	8%
	Volume of natural gas withdrawn from Inčukalns UGS	TWh	10.0	12.6	10.5	11.6	17.9	6.4	55%
Financial indicators	Net turnover	`000 EUR	49 356	54 174	59 343	53 867	56 439	2 572	5%
	EBITDA	`000 EUR	24 963	28 995	34 216	30 103	33 565	3 462	12%
	Net profit	`000 EUR	17 021	13 306	17 945	13 112	13 217	105	1%
	Segment assets	`000 EUR	362 988	361 563	362 400	453 092	468 070	14 978	3%
	Investments	`000 EUR	15 364	14 837	13 944	22 118	27 352	5 234	24%
	Depreciation	`000 EUR	18 544	15 500	16 080	16 823	17 806	983	6%
Financial coefficients	EBITDA profitability	%	51%	54%	58%	56%	59%	4%	6%
	Net profitability	%	34%	25%	30%	24%	23%	-1%	-4%
	Return on Equity ratio (ROE)	%	5.9%	4.3%	5.8%	3.5%	3.6%	0.1%	3.3%
	Shareholders' equity ratio*	%	86%	86%	87%	89%	71%	-18%	-20%
	Net debt to EBITDA ratio**	coef.	0.58	0.93	0.59	0.76	2.97	2.21	290%
	Debt-service Coverage Ratio (DSCR)***	coef.	-	7.86	9.33	8.26	3.73	(4.53)	-55%
Average number of employees	number	356	350	343	341	352	11	3%	

Financial covenants:

\*\*Shareholders' equity ratio

> 50%

\*\*\*Net debt to EBITDA ratio

< 5

\*\*\*\*Debt-Service Coverage Ratio (DSCR)

> 1.2



# Results of segments' operations

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

## Transmission

Conexus is the only natural gas transmission and storage operator in Latvia, which ensures the maintenance and safe and continuous operation of the natural gas transmission system, and the interconnections with the transmission systems of other countries, enabling traders to use the natural gas transmission system for the trading of natural gas.

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

- the diameter of international gas pipelines is 720 mm with the operating pressure between 28 and 40 bars;
- the diameter of regional gas pipelines is between 400 mm and 530 mm with the operating pressure up to 30 bars;

- a virtual exit point is provided for the supplies of natural gas to Latvian users, which compiles all technically feasible exits in the territory of Latvia. To transport the natural gas to the local distribution system in Latvia, 40 gas adjustment stations are used.

53% of Conexus assets are attributed to Transmission segment, and also in terms of revenue and EBITDA it is the largest.

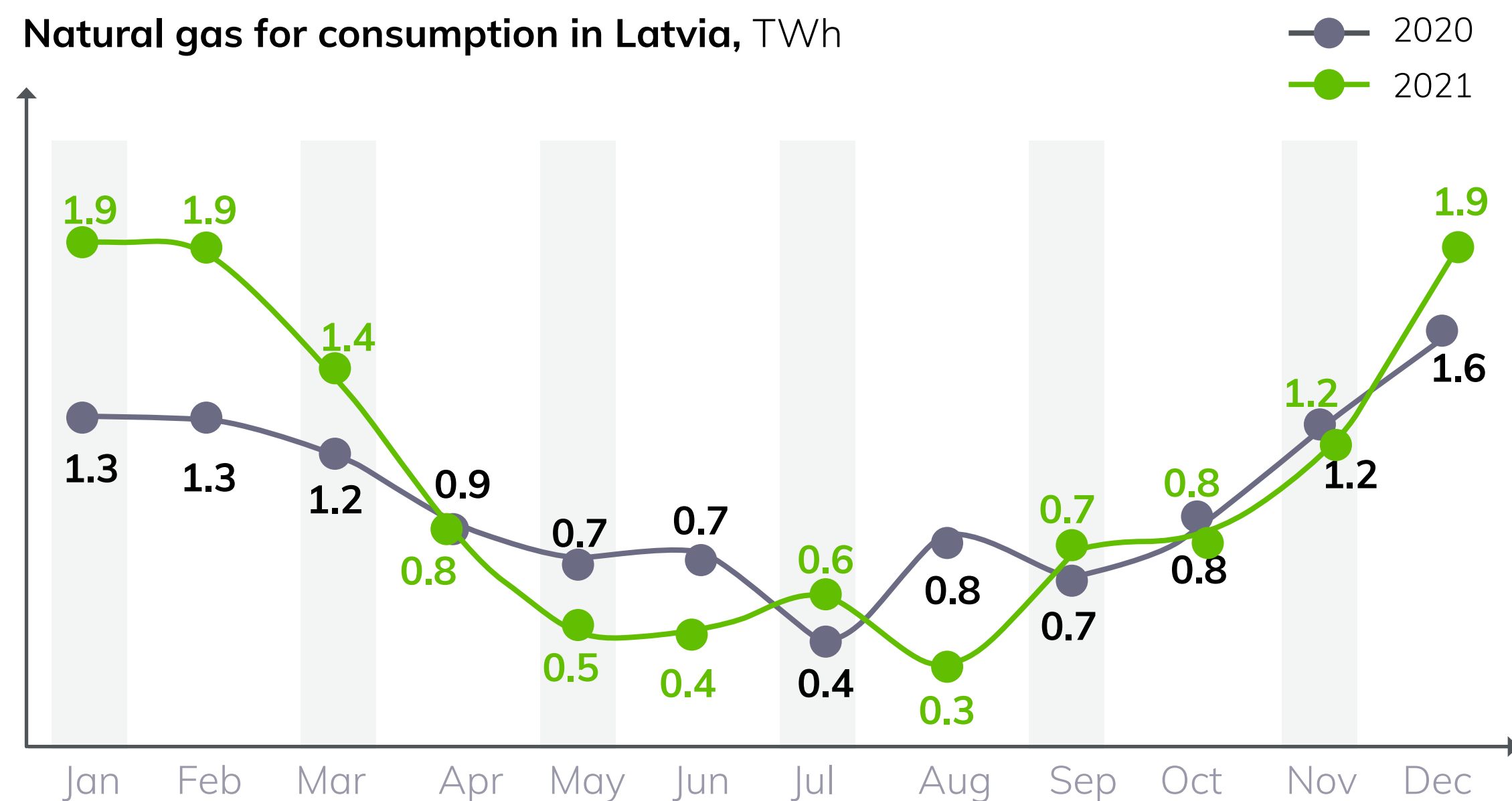
In 2021, Conexus provided safe and uninterrupted natural gas supply for the consumption of Latvia, Lithuania, Estonia and Finland. Total volume of gas transmitted reached 39,3 TWh, which is 5% more than in prior year. Volume withdrawn from Inčukalns UGS reached 17,9 TWh, which is 55% more than the year before. However, natural gas transmitted from Lithuania has decreased by 78%, reaching only 1,7 TWh. Natural gas transmitted for consumption in Latvia reached 12,5 TWh, which is 8% more than the respective period the year before. This increase is attributed to colder weather this year. During the reporting period, 13 TWh of natural gas were injected into Inčukalns UGS, 6% less than previous year. The natural gas transmitted for Lithuania's consumption during the reporting period increased 1,8 times, reaching 3 TWh. This increase happened in the first quarter of the year, when, in accordance with information of Klaipēda oil terminal tankers' schedule, at the end of January one gas delivery was cancelled and the required gas volume was provided using Inčukalns UGS.

In 2021, transmission revenue was positively affected by the actual air temperatures, which were lower than in 2020. As a result, the total demand for gas for heating purposes was higher than in the respective period of prior year, which ensured 806 thousand EUR higher revenue from the usage of exit point for consumption in Latvia.





## Natural gas for consumption in Latvia, TWh



Increase of volume of natural gas transmitted to Lithuania led to increase of transmission service revenue from Kiemenai (Lithuania) exit point. Revenue increased by 624 thousand EUR.

At the end of 2020/2021 Inčukalns UGS withdrawal season, system users had left 5 TWh of natural gas at the storage, therefore this year's regional entry capacity decreased by 19% in comparison to the previous period. As a result, Latvia's share of the regional entry capacity product reservation revenue (ITC revenue) decreased by 1 059 thousand EUR.

The auction expenses in relation to ensuring the natural gas supply in 2021 were 1 445 thousand EUR lower than the comparative period the year before. This was the main factor that led to transmission segment's EBITDA increase by 2,1 million EUR, in comparison to the respective period of 2020.

The revenue of the transmission segment during the reporting period was 32,4 million EUR

and EBITDA reached 18,8 million EUR, representing 56% of the Company's total EBITDA. Net profit of the transmission segment amounted to 6,9 million EUR (1% more than in prior year).

TRANSMISSION	2021 or 31.12.2021	2020 or 31.12.2020	+/-	%
	EUR'000	EUR'000		
<b>Net turnover</b>	<b>32 443</b>	<b>32 072</b>	<b>371</b>	<b>1%</b>
EBITDA	18 787	16 682	2 105	13%
<b>Segment Net Profit</b>	<b>6 869</b>	<b>6 829</b>	<b>40</b>	<b>1%</b>
Segment assets	250 660	242 138	8 522	4%
Depreciation and amortisation	10 321	9 758	563	6%
Investments	10 579	9 062	1 518	17%

The Company's activities are regulated, and the regulatory periods differ from the financial year. In accordance with Natural gas transmission system service tariff calculation methodology, during the tariff cycle, deviations of income and expenses may occur against allowed revenues, which will affect tariff values in subsequent tariff cycles.

In transmission segment, such deviations can occur due to actual natural gas consumption differing from that planned in tariff calculations, which leads to revenue adjustment. Actual transmission segment revenue, generated during gas year from 1 October 2020 until 30 September 2021, is 31,9 million EUR, which is 2,4 million EUR lower than planned as per approved tariff project. During the previous tariff period from 1 January 2020 until 30 September 2021, the ungained revenue was EUR 1,5 million EUR. Next transmission tariff period's allowed revenue will be increased by the ungained revenue amount.





The transmission segment's assets at the end of the reporting period amounted to 250 million EUR, which comprised 54% of the total assets of the Company. During the reporting period, capital investments were made in amount of 10,6 million EUR. Largest investments:

- Within the framework of the European project of common interest "Enhancement of Latvia -Lithuania Interconnection" (ELLI), the Company invested a total of 1,2 million EUR in several sub-projects during 2021. During the reporting period 3 activities out of 17 planned activities have been completed:
  - Complex diagnostics of transmission gas pipelines (TGP);
  - Reconstruction of TGP Riga-Inčukalns UGS branches at the connection valve to the gas regulation station "Riga-1";
  - Reconstruction of TGP Rīga-Paņeveža connection valve.
- Replacement works of 16 km branch of TGP Izborska-Inčukalns UGS were completed in amount of 4 million EUR, including performing reconstruction works underneath 5 main roads and elimination of 65 defects that were detected during diagnostics;
- TGP repairs and anti-corrosion isolation renewal works were performed in amount of 2 million EUR EUR.

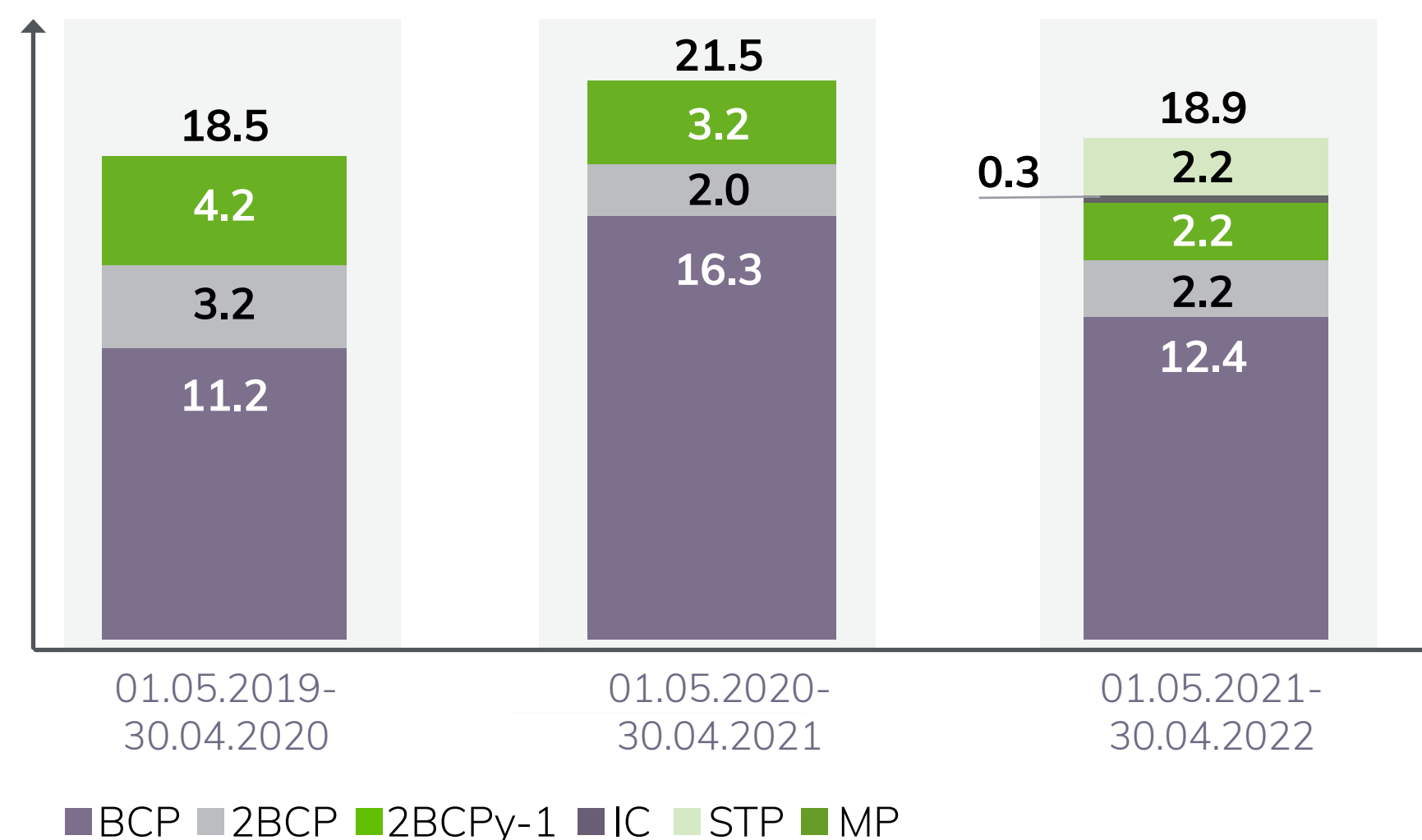
During 2021, a construction project "Reconstruction of 2,15 km branch of transmission gas pipeline Valdaja-Pleskava-Rīga" was devised. Project's implementation is planned in 2022.

## Storage

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

The 2021/2022 Inčukalns UGS capacity reservations reached 18,9 TWh, which is 12% less than previous year. However, the varied product types reserved by the market participants, as well as storage tariffs ensured increase of capacity product revenue by 2 201 thousand EUR, in comparison to the previous year. Most of this increase in revenue is due to the reserved capacity of the stock transfer product (STP) in amount of 2,2 TWh.

Storage reservations by products, TWh





As part of Inčukalns UGS modernisation project fulfilment, assets in amount of 0,4 million EUR were written off, which directly impacts storage segment's expenses and consequently reduced EBITDA and profit.

The storage segment revenue during the reporting period was 24 million EUR and EBITDA reached 14,8 million EUR. The storage segment profit reached 6,3 million EUR.

<b>STORAGE</b>	<b>2021 or 31.12.2021</b>	<b>2020 or 31.12.2020</b>	<b>+/-</b>	<b>%</b>
	EUR'000	EUR'000		
<b>Net turnover</b>	<b>23 996</b>	<b>21 795</b>	<b>2 201</b>	<b>10%</b>
EBITDA	14 778	13 421	1 357	10%
<b>Segment Net Profit</b>	<b>6 348</b>	<b>6 283</b>	<b>65</b>	<b>1%</b>
Segment assets	217 410	210 954	6 457	3%
Depreciation and amortisation	7 485	7 065	420	6%
Investments	16 772	13 056	3 716	28%

In accordance with Natural gas storage system service tariff calculation methodology, during the tariff cycle, deviations of income and expenses may occur against allowed revenues, which will affect tariff values in subsequent tariff cycles. In storage segment, such deviations are accrued in a regulatory account. During the storage tariff period from 1 May 2021 until 30 April 2022, storage service revenue was generated in amount of EUR 26 million, which is EUR 1,8 million more than allowed revenue for this period. These EUR 1,8 million are included in the regulatory account. Revenue included in the regulatory account will impact next tariff period's allowed revenue.

Storage segment's assets at the end of the reporting period amounted

to 217 million EUR, which comprised 46% of the total assets of the Company. During 2021, capital investments were made in amount of 16,8 million EUR, which was 3,7 million EUR more than in prior year. Largest investments - reconstruction of bores, gas compression unit of Compressor Unit 2 modernization and gas collection point 3, in total amount of 14 million EUR, were made within the framework of the European major project of common interest PCI 8.2.4. "Enhancement of Inčukalns UGS":

- As part of renovation of 36 wells, during 2021, 12 wells were accepted into use, comprising a total of 21 out of 36 wells completed to date. During 2021, reconstruction of wells was made in amount of EUR 8,4 million EUR. Total investments into well reconstruction since the beginning of the project reached 19,9 million EUR.
- Within the modernisation of existing gas compression units (GCU), modernisation of compressor workshop's No.2 compression unit No.3 was completed, investments during 2021 totalling 3,6 million EUR. Equipment purchases and modernisation works have been commenced on compressor workshop's No.2 compressor units No.2 and 4. Total investments since the beginning of the project comprise 6,5 million EUR.
- During 2021, contracts were concluded for purchase of necessary equipment for improvement of gas collection point's No.3 surface plants, in total amount on 9,5 million EUR. Delivery of equipment is planned in 2022. Total amount of all contracts concluded to date for development of the construction project, project supervision and equipment is 11,1 million EUR. Until now, works have been completed for total amount of 2,5 million EUR, including 1,9 million EUR during 2021. As part of the project, two construction permits were obtained for two stages of construction works.
- Construction planning documentation has been devised for installation of gas compression unit in the gas compressor workshop No.1, as a result of which, construction permit was obtained. At the same time, procurement is in process for purchase of gas compression unit complex. Total investments to date comprise 0,4 million EUR.



## Further development

- ◆ In 2022, active work will continue on the project “Enhancement of Inčukalns UGS”, during which by 2025 it is planned to significantly improve the technical infrastructure and equipment safety, for the purpose of the Inčukalns UGS retaining its functionality after increase of pressure within the Baltic transmission network;
- ◆ Work will continue on the increase of Latvia-Lithuania transmission gas pipe capacity with the aim of facilitate access to the Klaipėda liquid gas terminal, Latvia’s Inčukalns UGS and Poland-Lithuania’s gas interconnection, which is planned to be put into operation in 2022;
- ◆ To finance further transmission and Inčukalns UGS capital investments programme, Conexus plans to issue bonds in 2022. This will be a significant step for the Company which will allow to differentiate financing sources and to gain recognition in the capital markets.
- ◆ In accordance with the European green deal to Europe climate neutral by 2050, Conexus has joined the European Hydrogen Backbone initiative, which is comprised of European gas transmission system operators’ group that has developed proposals for development of hydrogen-related infrastructure, as well as participates in European gas infrastructure (GIE) gas storage research project “Demonstration of underground hydrogen storage roads and values corresponding to the future hydrogen energy market”.
- ◆ Finnish and Baltic gas transmission system operators continue regional market integration:

Natural gas market participants have expressed the need to extend the current Estonia-Finland-Latvia entry tariff area to include Lithuania in order to remove the current tariff barrier at the Lithuania-Latvia interconnector Kiemėnai. Further to the regional market integration initiated in 2019, the transmission system operators of Latvia, Lithuania, Estonia and Finland, Conexus, AB Amber Grid, Elering AS and Gasgrid Finland Oy, are working on a solution to include Lithuania in the zone without internal tariff barriers. This would create better conditions for market participants to operate across the region while providing more added value to end consumers of natural gas. The proposed tariff area model foresees harmonised, uniform tariff setting for external borders, allowing for discounts at entry points from alternative gas sources.

- ◆ During 2021, construction of Conexus new office building took place at Stigu street 14 in Riga, according to schedule. The building is scheduled to be put into operation in March 2022. The office building project was developed with the aim to reduce fragmentation of employees’ locations.



## Subsequent events

No significant subsequent events have occurred since the last day of the reporting period that would materially influence the Company's financial statements as at 31 December 2021.

### ABBREVIATIONS AND FORMULAS:

MWh	megawatt-hours
TWh	terawatt-hours
EUR/MWh/d/g	Euro for megawatt-hour per day/ per year
EBITDA	earnings before interest, taxation, depreciation & amortisation
Net debt	loans minus cash and cash equivalents
EBITDA profitability	EBITDA/income
Net profitability	net profit/income
Return on equity ratio (ROE)	net profit (over the reporting period)/equity average value
Shareholders' equity	equity/total assets
Net debt to EBITDA ratio	net debt/EBITDA (over 12 months period)
Debt-Service Coverage Ratio (DSCR)	EBITDA (over 12 months period)/ debt payments
BCP	1 year bundled capacity product
2BCP	2 year bundled capacity product
2BCPy-1	2 year bundled capacity product from previous storage cycle
IC	interruptible capacity
STP	stock transfer product
MP	market product (no longer offered)



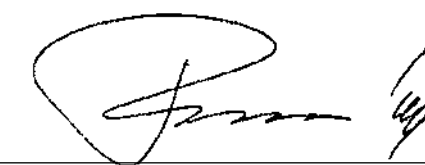
# STATEMENT OF THE BOARD'S RESPONSIBILITY

The Board of the Company is responsible for preparing its financial statements. The unaudited financial statements of the Company for 2021 were 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.

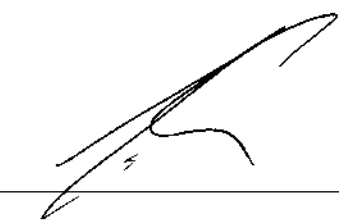
The financial statements are approved by the Company's Board on 23 February 2022 and signed by:



**ULDIS BARISS**  
Chairman of the Board



**GINTS FREIBERGS**  
Member of the Board



**MĀRTIŅŠ GODE**  
Member of the Board

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# FINANCIAL STATEMENTS

## INCOME STATEMENT

	Notes	2021	2020
		EUR	EUR
Revenue	2	56 439 108	53 867 296
Other income	3	1 110 469	1 255 559
Maintenance and operating costs	4	(8 098 711)	(9 649 943)
Personnel expenses	5	(12 183 958)	(12 067 353)
Other operating costs	6	(3 701 730)	(3 302 286)
<b>Earnings before interest, taxes, depreciation and amortisation</b>		<b>33 565 178</b>	<b>30 103 273</b>
Depreciation, amortisation, and PPE impairment	8,9,11	(17 805 749)	(16 822 935)
<b>Operating profit</b>		<b>15 759 429</b>	<b>13 280 338</b>
Finance costs, net	7	(286 057)	(168 532)
<b>Profit before tax</b>		<b>15 473 372</b>	<b>13 111 806</b>
Corporate income tax		(2 256 640)	-
<b>Profit for the year</b>		<b>13 216 732</b>	<b>13 111 806</b>

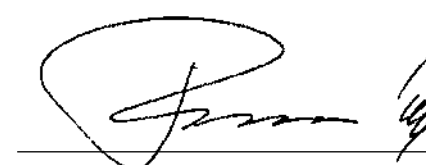
## STATEMENT OF COMPREHENSIVE INCOME

	Notes	2021	2020
		EUR	EUR
<b>Profit for the year</b>		<b>13 216 732</b>	<b>13 111 806</b>
<b>Other comprehensive income:</b>			
PPE revaluation		-	92 100 425
Revaluations of post - employment benefits as a result of changes in actuarial assumptions	18	(328 222)	26 238
<b>Total other comprehensive income</b>		<b>(328 222)</b>	<b>92 126 663</b>
<b>Total comprehensive income</b>		<b>12 888 510</b>	<b>105 238 469</b>

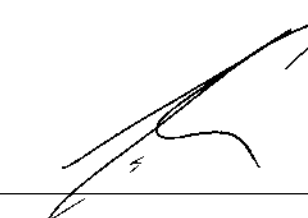
Notes on pages 30 to 57 form an integral part of these financial statements.



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## STATEMENT OF FINANCIAL POSITION

	Notes	31.12.2021	31.12.2020
ASSETS		EUR	EUR
<b>Long-term investments</b>			
Intangible assets	8	2 047 969	1 872 671
Property, plant and equipment	9	433 003 787	424 022 779
Long-term prepayments	10,15	1 108 651	1 209 438
Right-of-use assets	11	451 108	503 584
<b>Total long-term investments:</b>		<b>436 611 515</b>	<b>427 608 472</b>
<b>Current assets</b>			
Inventories	12	2 596 488	3 021 003
Advances for inventories		30 051	-
Receivables from contracts with customers	13	13 373 794	6 855 249
Other receivables	14	365 186	93 002
Prepayments	10,15	417 139	350 493
Cash and cash equivalents		14 676 110	15 163 736
<b>Total current assets:</b>		<b>31 458 768</b>	<b>25 483 483</b>
<b>TOTAL ASSETS:</b>		<b>468 070 283</b>	<b>453 091 955</b>

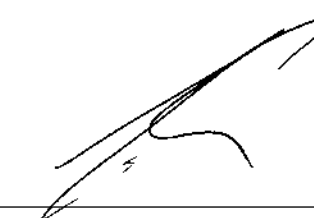
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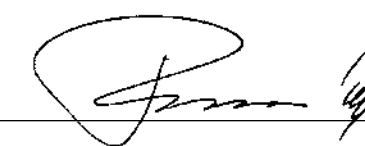
## STATEMENT OF FINANCIAL POSITION (continued)

	Notes	31.12.2021	31.12.2020
		EUR	EUR
<b>EQUITY AND LIABILITIES</b>			
<b>Equity:</b>			
Share capital		39 786 089	39 786 089
Own shares		(25 320)	(34 678)
Reserves	16	216 230 918	224 758 592
Retained earnings		76 412 620	140 138 666
	<i>Retained earnings brought forward</i>	63 195 888	127 026 860
	<i>Profit for the year</i>	13 216 732	13 111 806
<b>Total equity:</b>		<b>332 404 307</b>	<b>404 648 669</b>
<b>Non-current liabilities</b>			
Deferred income	17	18 156 045	10 781 736
Employee benefit obligations	18	1 374 135	1 028 494
Borrowings from credit institutions	19	60 282 986	-
Non-current lease liabilities	11	447 940	453 852
<b>Total non-current liabilities:</b>		<b>80 261 106</b>	<b>12 264 082</b>
<b>Current liabilities</b>			
Borrowings from credit institutions	19	37 772 866	21 875 000
Trade payables		7 290 495	7 637 032
Other liabilities	20	2 458 791	1 787 955
Accrued liabilities and provisions	21	6 129 608	2 912 784
Deferred income	17	776 902	1 252 930
Advances from customers		956 811	653 285
Current lease liabilities	11	19 397	60 218
<b>Total current liabilities:</b>		<b>55 404 870</b>	<b>36 179 204</b>
<b>TOTAL EQUITY AND LIABILITIES:</b>		<b>468 070 283</b>	<b>453 091 955</b>

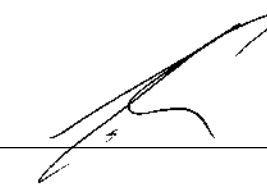
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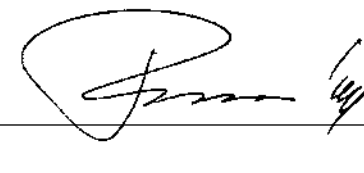
## STATEMENT OF CHANGES IN EQUITY

	Share capital	Own shares	Reserves	Retained earnings	Total
	EUR	EUR	EUR	EUR	EUR
Opening balance at 01.01.2020	39 786 089	(36 471)	140 629 827	135 341 259	315 720 704
Dividends	-	1 793	-	(16 312 297)	(16 310 504)
Reduction of revaluation reserve	-	-	(7 997 898)	7 997 898	-
<i>Other comprehensive income:</i>					
Increase of revaluation reserve	-	-	92 100 425	-	92 100 425
Revaluations of post-employment benefits as a result of changes in actuarial assumptions	-	-	26 238	-	26 238
<i>Total other comprehensive income</i>	-	-	92 126 663	-	92 126 663
Profit for the year	-	-	-	13 111 806	13 111 806
<i>Total</i>	-	1 793	84 128 765	4 797 407	88 927 965
<b>At 31 December 2020</b>	<b>39 786 089</b>	<b>(34 678)</b>	<b>224 758 592</b>	<b>140 138 666</b>	<b>404 648 669</b>
Opening balance at 1.1.2021	39 786 089	(34 678)	224 758 592	140 138 666	404 648 669
Dividends	-	9 358	-	(85 142 230)	(85 132 872)
Reduction of revaluation reserve	-	-	(8 199 452)	8 199 452	-
<i>Other comprehensive income:</i>					
Revaluations of post-employment benefits as a result of changes in actuarial assumptions	-	-	(328 222)	-	(328 222)
<i>Total other comprehensive income</i>	-	-	(328 222)	-	(328 222)
<i>Profit for the year</i>	-	-	-	13 216 732	13 216 732
<i>Total</i>	-	9 358	(8 527 674)	(63 726 046)	(72 244 362)
<b>At 31 December 2021</b>	<b>39 786 089</b>	<b>(25 320)</b>	<b>216 230 918</b>	<b>76 412 620</b>	<b>332 404 307</b>

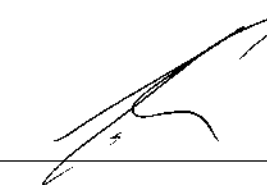
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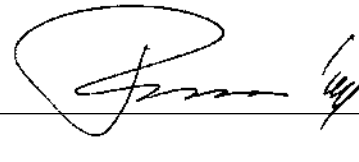
## STATEMENT OF CASH FLOWS

	Notes	2021	2020
<b>Cash flow from operating activity</b>		<b>EUR</b>	<b>EUR</b>
<b>Profit before corporate income tax</b>		<b>15 473 372</b>	<b>13 111 806</b>
Adjustments:			
- depreciation of property, plant and equipment	9	17 043 338	16 191 661
- depreciation of the right-of-use assets	11	93 452	86 547
- amortisation of intangible assets	8	668 959	544 726
- loss on disposal of PPEs		651 230	631 746
- changes in provisions	12, 18	349 710	(74 207)
- participation in a transnational cross-border project	10	100 786	100 786
- amortisation of the EU co-financing	3	(383 814)	(300 970)
- interest expense		284 845	169 875
Changes in the working capital:			
- (increase) of receivables		(6 857 375)	(588 571)
- (increase) / decrease in advance payments for inventories		(30 051)	32 882
- decrease of inventories		420 446	351 546
- increase of liabilities		2 331 664	5 272 964
Paid corporate income tax		(2 256 640)	-
<b>Net cash flow from operating activity</b>		<b>27 889 922</b>	<b>35 530 791</b>
<b>Cash flow from investing activity</b>			
Acquisition of property, plant and equipment	9	(26 777 566)	(21 095 066)
Acquisition of intangible assets	8	(850 614)	(771 934)
Proceeds from the sale of property, plant and equipment items		70 490	64 499
EU co-financing	17	7 817 508	-
<b>Cash flow from investing activity</b>		<b>(19 740 182)</b>	<b>(21 802 501)</b>
<b>Cash flow from financing activity</b>			
Interest paid	19	(224 627)	(144 939)
Borrowings received	19	84 949 950	-
Borrowings repaid	19	(8 769 097)	(3 500 000)
Lease payments	11	(110 560)	(111 718)
Dividends paid		(84 483 032)	(16 312 297)
<b>Net cash flow from financing activity</b>		<b>(8 637 366)</b>	<b>(20 068 954)</b>
<b>Net cash flow</b>		<b>(487 626)</b>	<b>(6 340 664)</b>
<b>Cash and cash equivalents at the beginning of the reporting period</b>		<b>15 163 736</b>	<b>21 504 400</b>
<b>Cash and cash equivalents at the end of the reporting period</b>		<b>14 676 110</b>	<b>15 163 736</b>

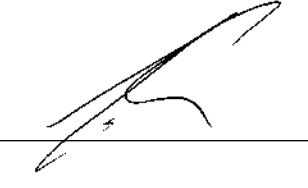
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# NOTES TO THE FINANCIAL STATEMENTS

## NOTES TO THE INCOME STATEMENT

### 1. SEGMENT INFORMATION

Conexus derives all of its revenue from regulated services applying the rates established by the regulatory authority.

The natural gas **transmission** segment provides transportation of natural gas through high-pressure pipelines for delivery to Inčukalns UGS, other countries, and the distribution network.

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

The transmission segment generates revenue from capacity trading for natural gas consumption in Latvia as well as international natural gas transportation. During the reporting period, the Transport segment's revenue amounted to EUR 32.4 million, whereas EBITDA reached EUR 18.8 million, which accounted for 56% of the Company's total EBITDA. The profit of the transmission segment reached EUR 6.9 million (1% more than a year earlier).

Transmission of gas	2021 / 31.12.2021	2020 / 31.12.2020
	EUR	EUR
<b>Net turnover</b>	<b>32 442 743</b>	<b>32 072 101</b>
EBITDA	18 787 080	16 682 150
<b>Net profit of the segment</b>	<b>6 868 748</b>	<b>6 828 995</b>
Segment assets	239 319 091	232 042 020
Depreciation and amortisation	10 320 671	9 758 271
Investments	10 579 496	9 061 630

The revenue of the storage segment in the reporting period was EUR 24 million, and EBITDA reached EUR 14.8 million. The profit of the storage segment reached EUR 6.3 million (1% more than a year earlier).

Storage of gas	2021 / 31.12.2021	2020 / 31.12.2020
	EUR	EUR
<b>Net turnover</b>	<b>23 996 365</b>	<b>21 795 195</b>
EBITDA	14 778 098	13 421 123
<b>Net profit of the segment</b>	<b>6 347 983</b>	<b>6 282 811</b>
Segment assets	214 075 082	205 886 199
Depreciation and amortisation	7 485 078	7 064 664
Investments	16 772 102	13 055 870

## 2. REVENUE

	2021	2020
	EUR	EUR
Revenue from transmission services	32 442 743	32 072 101
Revenue from storage services	23 996 365	21 795 195
	<b>56 439 108</b>	<b>53 867 296</b>

Conexus derived all of its revenue in the territory of Latvia.

## 3. OTHER INCOME

	2021	2020
	EUR	EUR
Balancing income, net	472 176	415 739
Revenue from EU co-financing	383 814	300 970
Other income	254 479	538 850
	<b>1 110 469</b>	<b>1 255 559</b>



## 4. MAINTENANCE AND SERVICES COSTS

	2021	2020
	EUR	EUR
Transmission and storage system maintenance services	5 172 301	6 997 487
Cost of materials	1 218 831	1 081 903
Cost of natural gas	769 029	686 993
Maintenance of IT infrastructure	724 922	656 975
Maintenance of vehicles and machinery	213 628	226 585
	<b>8 098 711</b>	<b>9 649 943</b>

## 5. PERSONNEL EXPENSES

	2021	2020
	EUR	EUR
Salaries	9 421 927	9 261 571
National social insurance mandatory contributions	2 227 069	2 285 894
Life, health, and pension insurance	520 719	505 388
Other personnel costs	14 243	14 500
	<b>12 183 958</b>	<b>12 067 353</b>
Including remuneration of the Management Board and Council:		
- Remuneration for work	557 486	672 908
- National social insurance mandatory contributions	136 099	149 544
- Life, health, and pension insurance	45 097	47 625
- Other personnel costs	-	3 000
	<b>738 682</b>	<b>873 077</b>
The average number of employees	<b>352</b>	<b>341</b>

## 6. OTHER OPERATING COSTS

	2021	2020
	EUR	EUR
Taxes and duties	1 334 936	1 346 092
Office and other administrative expenses	1 786 054	1 388 946
Net loss on disposal of PPE	580 740	567 248
	<b>3 701 730</b>	<b>3 302 286</b>

## 7. FINANCE COSTS

	2021	2020
	EUR	EUR
Interest paid	261 995	144 939
Asset lease interest expense	22 851	24 936
Other financial costs	1 211	(1 343)
	<b>286 057</b>	<b>168 532</b>

## NOTES TO THE BALANCE SHEET

### 8. INTANGIBLE ASSETS

<b>Intangible assets</b>	<b>31.12.2021</b>	<b>31.12.2020</b>
<b>Historical cost</b>	EUR	EUR
<b>At the beginning of the reporting period</b>	<b>7 705 353</b>	<b>6 988 487</b>
Acquisitions	850 614	771 934
Disposals	(298 905)	(55 068)
<b>At the end of the reporting period</b>	<b>8 257 062</b>	<b>7 705 353</b>
<b>Amortisation</b>		
<b>At the beginning of the reporting period</b>	<b>5 832 682</b>	<b>5 342 742</b>
Amortisation during the reporting period	668 959	544 726
Disposals	(292 548)	(54 786)
<b>At the end of the reporting period</b>	<b>6 209 093</b>	<b>5 832 682</b>
<b>Net book value at 31.12.2020</b>	<b>1 872 671</b>	<b>1 645 745</b>
<b>Net book value at 31.12.2021</b>	<b>2 047 969</b>	<b>1 872 671</b>

Intangible assets at 31.12.2021 include fully amortised intangible assets with a historical cost of EUR 5 101 149 (at 31.12.2020: EUR 4 419 426).

Intangible assets mainly consist of software for the business needs of the operating segment.



## 9. PROPERTY, PLANT AND EQUIPMENT (PPE)

	Land, buildings, structures	Plant and equipment	Other PPE	Emergency spare parts	Construction in progress	TOTAL
	EUR	EUR	EUR	EUR	EUR	EUR
<b>Historical or revalued cost</b>						
<b>31.12.2019</b>	<b>656 621 419</b>	<b>127 156 914</b>	<b>6 660 420</b>	<b>1 404 727</b>	<b>4 657 656</b>	<b>796 501 136</b>
Acquisitions	-	411 689	825 755	-	19 857 622	21 095 066
Revalued	108 395 378	2 721 464	69 399	-	-	111 186 241
Reclassified	9 939 154	1 824 764	-	-	(11 763 918)	-
Disposals	(2 302 838)	(1 195 494)	(188 226)	-	-	(3 686 558)
Adjustment	37	-	-	158 461	-	158 498
<b>31.12.2020</b>	<b>772 653 150</b>	<b>130 919 337</b>	<b>7 367 348</b>	<b>1 563 188</b>	<b>12 751 360</b>	<b>925 254 383</b>
<b>Accumulated depreciation</b>						
<b>31.12.2019</b>	<b>397 085 635</b>	<b>67 732 802</b>	<b>4 403 067</b>	-	-	<b>469 221 504</b>
Charge	10 999 985	4 603 971	587 705	-	-	<b>16 191 661</b>
Calculated accelerated depreciation	82 628	(309 297)	15 428	-	-	<b>(211 241)</b>
Revalued	32 214 500	(13 169 683)	40 999	-	-	<b>19 085 816</b>
On disposals	(1 791 013)	(1 079 134)	(185 989)	-	-	<b>(3 056 136)</b>
<b>31.12.2020</b>	<b>438 591 735</b>	<b>57 778 659</b>	<b>4 861 210</b>	-	-	<b>501 231 604</b>
<b>NBV at 31.12.2020</b>	<b>334 061 415</b>	<b>73 140 678</b>	<b>2 506 138</b>	<b>1 563 188</b>	<b>12 751 360</b>	<b>424 022 779</b>

## 9. PPE (continued)

	Land, buildings, structures	Plant and equipment	Other PPE	Emergency spare parts	Construction in progress	TOTAL
	EUR	EUR	EUR	EUR	EUR	EUR
<b>Historical or revalued cost</b>						
<b>31.12.2020</b>	<b>772 653 150</b>	<b>130 919 337</b>	<b>7 367 348</b>	<b>1 563 188</b>	<b>12 751 360</b>	<b>925 254 383</b>
Acquisitions	-	398 067	509 446	-	25 870 053	26 777 566
Revalued	-	-	-	-	-	-
Reclassified	13 289 019	2 888 976	-	-	(16 177 995)	-
Disposals	(1 633 464)	(1 211 254)	(465 286)	-	-	(3 310 004)
Adjustment*	(1 428 499)	116 327	1 312 172	(24 409)	(83 938)	(108 347)
<b>31.12.2021</b>	<b>782 880 206</b>	<b>133 111 453</b>	<b>8 723 680</b>	<b>1 538 779</b>	<b>22 359 480</b>	<b>948 613 598</b>
<b>Accumulated depreciation</b>						
<b>31.12.2020</b>	<b>438 591 735</b>	<b>57 778 659</b>	<b>4 861 210</b>	-	-	<b>501 231 604</b>
Calculated	11 405 968	4 881 231	756 139	-	-	<b>17 043 338</b>
Calculated accelerated depreciation	-	-	-	-	-	-
On disposals	(1 207 276)	(994 666)	(463 189)	-	-	(2 665 131)
Adjustment	(1 042 906)	(137 333)	1 180 239	-	-	-
<b>31.12.2021</b>	<b>447 747 521</b>	<b>61 527 891</b>	<b>6 334 399</b>	-	-	<b>515 609 811</b>
<b>NBV at 31.12.2021</b>	<b>335 132 685</b>	<b>71 583 562</b>	<b>2 389 281</b>	<b>1 538 779</b>	<b>22 359 480</b>	<b>433 003 787</b>

\*Emergency spare parts in the amount of EUR 24,409 were reclassified to the inventories of materials in warehouses. Owing to the decision not to continue the projects, the accrued costs of the uncompleted construction projects in the amount of EUR 83,938 were recognised in expenses for the reporting period.



At 31.12.2021, PPE included fully depreciated tangible assets with an original value of EUR 7,921,303 (31.12.2020: 4 898 677 EUR). The cadastral value of the real estate is EUR 62 921 535.

The revaluation of PPE was carried out in 2020. The following groups of PPE are carried at revalued amounts: buildings and structures, plant and machinery. Land plots, emergency spare parts, buffer gas in the Inčukalns UGS and technological natural gas in the gas pipelines of the transmission system are not revalued. The accounting policies require that PPE be revalued on a regular basis to ensure that the carrying amount of those assets does not differ materially from that which would be determined using fair value at the end of the reporting period.

The revaluation of fixed assets was performed by independent certified appraisers of the company SIA Grant Thornton Baltic. The cost method was used for revaluation based on the average construction and acquisition costs in Latvia.

As a result of the revaluation, the carrying amount of the revalued assets as of 1 January 2020 was increased by EUR 92 311 666. The revaluation reserve was increased by EUR 92 100 425, the positive effect of EUR 211 241 was included in the 2020 income statement.

In the course of the revaluation, the useful lives of the PPE were estimated and, based on experience and industry practice, were extended to the following categories of PPE: gas pipelines, wells, gas regulation equipment, and specialised technological equipment.

The following table summarises the carrying amounts for the revalued asset categories, assuming that the assets would be carried at cost.

<b>Historical cost</b>	<b>31.12.2021</b>	<b>31.12.2020</b>
	<b>EUR</b>	<b>EUR</b>
Buildings and structures	160 106 656	152 720 246
Plant and machinery	55 076 716	54 719 982

## 10. CO-FINANCED PROJECTS

According to the PUC Decision No. 97 (minutes No. 16, p. 4) On Distribution of Investment Costs for the Project of Common Interest “Increase of Capacity of Klaipėda-Kiemėnai Pipeline in Lithuania” in 2017, a payment in the amount of EUR 1 713 370 was made to AB Amber Grid. Next period expenses are charged to profit and loss account over the recognition period until 2033.

	31.12.2021	31.12.2020
	EUR	EUR
<b>Opening balance</b>	1 310 224	1 411 010
Included in the expenses for the reporting year	(100 786)	(100 786)
<b>Carried forward to future periods</b>	<b>1 209 438</b>	<b>1 310 224</b>
Including short-term portion (see Note 15)	100 786	100 786
Long-term portion	1 108 651	1 209 438

The list of projects of common interest included in Annex to Regulation (EU) No. 347/2013 of the European Parliament and of the Council of 17 April 2013 includes the Gas Interconnection Poland-Lithuania project (No. 8.5).

Decision No. 1/2014 of the Agency for Cooperation of Energy Regulators of 11 August 2014 (hereinafter “the ACER Decision”) on the investment application, including in the terms of cross-border cost sharing in the GIPL project of common interest (No. 8.5), the Member States with a significant overall positive impact are required to pay the full amount to the operator of the transmission system of that Member State, which is negatively affected by the implementation of the project. The compensation payment of EUR 29.4 million is to be paid immediately after the start of the GIPL project.

On 11 May 2018, Conexus signed an inter-operator agreement on covering the costs of the GIPL project (hereinafter “the Agreement”) with GAZ System, AB Amber Grid and Elering AS. Under the Agreement, Conexus is required to provide financial security (guarantee) to meet its obligations.

Currently, Conexus has received a bank guarantee in the amount of EUR 16 170 000 for the period until 16 May 2022, in accordance with the terms of the Agreement, in favour of GAZ-SYSTEM S.A.

## 11. LEASE

	31.12.2021	31.12.2020
	EUR	EUR
<b>Right-of-use assets</b>		
<b>NBV at the beginning of the reporting period</b>	<b>503 584</b>	<b>532 734</b>
Recognised changes in the lease agreements	40 976	57 397
Depreciation recognised in the income statement	(93 452)	(86 547)
<b>NBV at the end of the reporting period</b>	<b>451 108</b>	<b>503 584</b>

### Lease liabilities

<b>NBV at the beginning of the reporting period</b>	<b>514 070</b>	<b>543 455</b>
Recognised changes in the lease agreements	40 976	57 397
Recognised reduction of the lease liability	(110 560)	(111 718)
Recognised lease interest expense	22 851	24 936
<b>NBV at the end of the reporting period</b>	<b>467 337</b>	<b>514 070</b>
Including: long-term lease liabilities	447 940	453 852
Short-term lease liabilities	19 397	60 218



## 12. INVENTORIES

	31.12.2021	31.12.2020
	EUR	EUR
Natural gas	983 496	1 477 709
Materials and spare parts	1 697 215	1 623 448
Provisions for slow-moving inventories	(84 223)	(80 154)
	<b>2 596 488</b>	<b>3 021 003</b>
<b>Write-downs of inventories to net realisable value</b>		
	EUR	EUR
<b>Write-downs at the beginning of the period</b>	<b>(80 154)</b>	<b>(68 339)</b>
Write-downs during the reporting period	(4 069)	(11 815)
<b>Write-downs at the end of the period</b>	<b>(84 223)</b>	<b>(80 154)</b>

## 13. RECEIVABLES FROM CONTRACTS WITH CUSTOMERS

	31.12.2021	31.12.2020
	EUR	EUR
Payments for transportation of natural gas	10 533 010	4 625 819
Payments for storage of natural gas	2 486 539	2 009 978
Payments for balancing activities	353 942	218 523
Payments for contractual fines and late payment fines	303	929
	<b>13 373 794</b>	<b>6 855 249</b>
<b>including Accrued income</b>		
For transportation of natural gas	367 883	2 335 550
For storage of natural gas	-	1 571 515
For balancing activities	-	111 273
	<b>367 883</b>	<b>4 018 338</b>

Accrued income is the clearly known settlement amounts with buyers and customers for the transportation, storage and balancing of natural gas in the reporting year, for which, in accordance with the terms of the contract, the due date for submission of the verification document (invoice) has not yet passed. There has been a change in the reporting year, i.e., invoices for services are issued on the last date of the respective period.

### Receivables from contracts with customers according to the expected credit loss (ECL) assessment model:

Outstanding in days after IFRS 9	ECL rate	Receivable	Impairment	ECL rate	Receivable	Impairment
		31.12.2021			31.12.2020	
not yet due	0.000%	13 373 366	-	0.000%	7 484 262	-
overdue for 1-10 days	0.343%	428	-	0.000%	-	-
overdue for 11-20 days	0.051%	-	-	0.170%	200	-
overdue for 21-30 days	0.014%	-	-	0.010%	-	-
overdue >31 days	0.042%	-	-	0.090%	1 636	-
Solvent debtors	100%	-	-	100%	-	-
<b>Total</b>		<b>13 373 794</b>	<b>-</b>		<b>7 486 098</b>	<b>-</b>

Expected credit losses on contracts with customers are insignificant (0.113% on average per year), therefore it was decided not to recognise provisions for doubtful debts.

The rules approved by PUC set strict criteria for securing obligations. One of the types of security deposit is security deposits - their amount at the end of the year amounts to EUR 956 811.

## 14. OTHER RECEIVABLES

	31.12.2021	31.12.2020
	EUR	EUR
Other receivables	354 653	75 445
Advances for services	5 259	16 708
Advances on the account deposited with the SRS	5 274	849
	<b>365 186</b>	<b>93 002</b>

## 15. PREPAYMENTS

	31.12.2021	31.12.2020
	EUR	EUR
<b>Long-term portion</b>		
Expenditure related to participation in a transnational cross-border project	1 108 651	1 209 438
<b>Total long-term portion</b>	<b>1 108 651</b>	<b>1 209 438</b>
<b>Short-term portion</b>		
Expenditure related to participation in a transnational cross-border project	100 786	100 786
IT expenses	180 005	162 095
Insurance payments	53 786	66 537
Road transport expenses	10 280	11 408
Other prepayments	72 282	9 667
<b>Total short-term portion</b>	<b>417 139</b>	<b>350 493</b>
<b>Total prepayments</b>	<b>1 525 790</b>	<b>1 559 931</b>

## 16. RESERVES

	31.12.2021	31.12.2020
	EUR	EUR
PPE revaluation reserve	191 583 804	199 783 256
Revaluation reserve for post-employment benefits	(146)	328 076
Reorganisation reserve	24 647 260	24 647 260
	<b>216 230 918</b>	<b>224 758 592</b>

	PPE revaluation reserve	Post-employment benefits revaluation reserve
<b>Revaluation reserve for post-employment benefits</b>		
<b>NBV at 31.12.2019</b>	<b>115 680 729</b>	<b>301 838</b>
Revaluations of actuarial assumptions	-	26 238
Increase of revaluation reserve	92 100 425	-
Disposed revalued PPE	(347 390)	-
Depreciation of the revalued portion of property, plant and equipment for the reporting period is transferred to retained earnings	(7 650 508)	-
<b>NBV 31.12.2020</b>	<b>199 783 256</b>	<b>328 076</b>
Revaluations of actuarial assumptions	-	(328 222)
Increase of revaluation reserve	-	-
Disposed revalued PPE	-	-
Depreciation of the revalued portion of property, plant and equipment for the reporting period is transferred to retained earnings	(8 199 452)	-
<b>NBV at 31.12.2021</b>	<b>191 583 804</b>	<b>(146)</b>



## 17. DEFERRED INCOME

	31.12.2021	31.12.2020
	EUR	EUR
Non-current portion	18 156 045	10 781 736
Current portion (other projects)	4 654	-
Current portion (EU co-financing)	534 964	349 765
Current portion (contractual obligations)	237 284	903 165
	<b>18 932 947</b>	<b>12 034 666</b>

Changes in deferred income	31.12.2021	31.12.2020
	EUR	EUR
Opening balance	12 034 666	11 432 471
EU co-financing received	7 817 508	-
Capitalised co-financed project	130 468	-
Recognised in deferred income	237 284	903 165
Recognised in the income for the reporting year (see Note 2)	(1 286 979)	(300 970)
<b>Carried forward to future periods</b>	<b>18 932 947</b>	<b>12 034 666</b>

In May 2019, the European Commission approved the granting of co-financing in the amount of 50% for the project of common European interest No. 8.2.4 "Improvement of the operation of the Inčukalns underground gas storage". In 2019, the project received funding of EUR 2.9 million, whereas in 2021, funding of EUR 7.8 million was approved.

In December 2019, the European Commission approved the co-financing of 50% of the project of common European interest No. 8.2.1. "Improvement of the operation of the Latvian-Lithuanian interconnection". In 2019, EUR 751 thousand were received under this project.

Projects completed in 2019 amounted to EUR 3 938 250 (EU co-financing EUR 1,969,125), projects completed in 2020 amounted to EUR 3 300 953 (EU co-financing EUR 1,650,477), projects completed in 2021 amounted to EUR 12 838 633 (EU co-financing EUR 6 549 785).

In accordance with the Connection Agreement No. CON -2020/416 of 3 November 2020 signed between Conexus and SIA GasON for the installation of the connection to the natural gas transmission system owned by the transmission system operator from the connection point to the ownership boundary of the natural gas transmission system, a co-financed project worth EUR 130 468 was constructed and commissioned.

## 18. EMPLOYEE BENEFIT OBLIGATIONS

	31.12.2021	31.12.2020
	EUR	EUR
Provisions for post – employment benefits	1 063 214	925 691
Provisions for other collective bargaining agreement costs	310 921	102 803
	<b>1 374 135</b>	<b>1 028 494</b>

	31.12.2021	31.12.2020
Liabilities at the beginning of the period	1 028 494	1 114 516
Recognised in the income statement	120 312	92 947
Paid	(102 893)	(152 731)
Provisions for other collective bargaining agreement costs	328 222	(26 238)
<b>Liabilities at the end of the period</b>	<b>1 374 135</b>	<b>1 028 494</b>

Assumptions used in the calculation of liabilities	2021	2020
Discount rate, %	0.43%	-0.13%
Labour turnover rate, %	4.79%	4.59%
Retirement age of employees, years	65*	65
Salary increase, %	4.10%	3.00%
Contributions to the private pension fund, %	5.00%	5.00%
National social insurance mandatory contributions (employees),%	23.59%	23.59%
National social insurance mandatory contributions (persons that have reached the retirement age),%	20.77%	20.77%

\* Under Section 11 of the Law on State Pensions

Assumptions used in the calculation of liabilities	Changes in the assumptions	Impact on liabilities as a result of changes in assumptions	2021	2020
Discount rate	+0.5%	Provision decreased by	-4.69%	-4.88%
Labour turnover rate	+0.5%	Provision decreased by	-5.20%	-5.37%
Employee retirement age	+1 gads	Provisions decreased by	-5.39%	-5.47%
An increase in salaries	+0.5%	Provisions increased by	4.33%	5.00%
Contributions into the private pension fund	+0.5%	Provisions increased by	0.39%	0.39%
National social insurance contributions (employees)	+0.5%	Provisions increased by	0.39%	0.39%

Assumptions used in the calculation of liabilities	Changes in the assumptions	Impact on liabilities as a result of changes in assumptions	2021	2020
Discount rate	-0.5%	Provisions increased by	5.16%	5.38%
Labour turnover rate	-0.5%	Provisions increased by	5.70%	5.90%
Employee retirement age	-1 gads	Provisions increased by	5.32%	5.58%
An increase in salaries	-0.5%	Provisions decreased by	-3.97%	-4.59%
Contributions into private pension fund	-0.5%	Provisions decreased by	-0.39%	-0.39%
National social insurance contributions (employees)	-0.5%	Provisions decreased by	-0.39%	-0.39%



## 19. BORROWINGS FROM CREDIT INSTITUTIONS

	31.12.2021	31.12.2020
	EUR	EUR
Non-current borrowings from credit institutions	60 282 986	-
Current borrowings from credit institutions	37 772 866	21 875 000
	<b>98 055 852</b>	<b>21 875 000</b>

Conexus has borrowings from Nordic Investment Bank, AS SEB banka, a branch of OP Corporate Bank plc in Latvia, and Swedbank AS. Conexus has an available overdraft facility of 90 mio EUR. At the year end, 25 mio. EUR overdraft has been used, while the remaining 65 mio. EUR overdraft is unused and available. The agreement terms for the unused overdrafts reach beyond 1 year. At the end of the reporting period, the weighted average interest rate on long-term loans was 0.37% (0.6% in 2020). 41% of non-current borrowings have a fixed loan interest rate. All Conexus borrowings are denominated in euros and are unsecured.

If the base loan rate (EURIBOR) increased by 0.25%, the cost of the Conexus loan % would increase by 107 thousand EUR. On the other hand, if the base loan rate (EURIBOR) increased by 0.50%, the cost of the Conexus loan % would increase by 214 thousand EUR.

Changes in borrowings from credit institutions	31.12.2021	31.12.2020
	EUR	EUR
At the beginning of the reporting year	21 875 000	25 375 000
Borrowings from credit institutions	84 949 950	-
Calculated interest on borrowings	261 995	144 939
Interest on borrowings paid	(224 627)	(144 939)
Borrowings repaid	(8 769 097)	(3 500 000)
	<b>98 093 221</b>	<b>21 875 000</b>

## 20. OTHER LIABILITIES

	31.12.2021	31.12.2020
	EUR	EUR
Value added tax	1 077 833	611 962
Employee remuneration	432 171	382 599
Social insurance contributions	204 733	267 146
Dividends unpaid for the previous years	497 957	190 355
Other short-term liabilities	95 198	157 740
Personal income tax	125 424	131 367
Natural resource tax	24 380	43 237
Corporate income tax on deemed distribution of profit	1 085	3 539
Real estate tax	10	10
	<b>2 458 791</b>	<b>1 787 955</b>

## 21. ACCRUED LIABILITIES AND PROVISIONS

	31.12.2021	31.12.2020
	EUR	EUR
Accrued liabilities for annual performance bonuses	1 649 232	1 739 250
Accrued liabilities for invoices not received	3 895 714	640 973
Accrued liabilities for unused leaves	562 162	516 421
Accrued liabilities for the annual report	22 500	16 140
	<b>6 129 608</b>	<b>2 912 784</b>
<b>including financial liabilities</b>	<b>3 918 214</b>	<b>657 113</b>
Provisions for slow-moving inventories	84 223	80 154
Provisions for post-employment benefits and collective bargaining agreement costs	1 374 135	1 028 494
	<b>1 458 358</b>	<b>1 108 648</b>
<b>Movement in provisions</b>	<b>Provisions for post-employment benefits and collective bargaining agreement costs</b>	<b>Provisions for slow-moving inventories</b>
<b>NBV at 31.12.2019</b>	<b>1 114 516</b>	<b>68 339</b>
An increase in provisions	-	11 815
A decrease in provisions	(86 022)	-
<b>NBV 31.12.2020</b>	<b>1 028 494</b>	<b>80 154</b>
An increase in provisions	345 641	4 069
A decrease in provisions	-	-
<b>NBV at 31.12.2021</b>	<b>1 374 135</b>	<b>84 223</b>

## 22. TAXES

	Liabilities 31.12.2020	Calculated	Paid	Liabilities at 31.12.2021
	EUR	EUR	EUR	EUR
Corporate income tax	3 539	2 268 966	(2 271 420)	1 085
Value added tax	611 962	11 821 396	(11 355 525)	1 077 833
Social insurance contributions	267 146	3 419 567	(3 481 980)	204 733
Personal income tax	131 367	2 060 655	(2 066 598)	125 424
Natural resource tax	43 237	274 052	(292 909)	24 380
Excise tax	-	4 285	(3 571)	714
Public Utilities Commission fee	-	118 686	(118 686)	-
Real estate tax	10	1 532 662	(1 532 662)	10
	<b>1 057 261</b>	<b>21 500 269</b>	<b>(21 123 351)</b>	<b>1 434 179</b>



## 23. RELATED PARTY TRANSACTIONS

Related parties include Conexus shareholders, members of the Council and Management Board, their close family members, and companies in which they exercise control or significant influence.

Related party transactions	31.12.2021	31.12.2020
	EUR	EUR
AS Augstsprieguma tīkls related parties	545	593
<b>Total related party transaction expenses</b>	<b>545</b>	<b>593</b>
<b>NBV at the end of the reporting year</b>	<b>173</b>	<b>-</b>

On 21 July 2020, changes were made in the register of shareholders of Conexus, where a change in ownership was registered in the amount of 34.0991% of the paid-up share capital of Conexus - the shares were disposed of by PAS Gazprom, they were acquired by AS Augstsprieguma tīkls. Thus, AS Augstsprieguma tīkls has significantly increased its stake in the company (currently 68.46% of the total paid-up share capital of Conexus) and has a decisive influence on the company.

## 24. REMUNERATION TO A COMMERCIAL COMPANY OF SWORN AUDITORS

Remuneration to a commercial company of sworn auditors	31.12.2021	31.12.2020
	EUR	EUR
Statutory audit	17 000	23 700
	<b>17 000</b>	<b>23 700</b>

## 25. FINANCIAL RISK MANAGEMENT AND FAIR VALUES

The principles and guidelines for general financial risk management are set out in Conexus' Financial Risk Management Policy. The Management Board is responsible for implementing this policy within the Company.

Conexus is exposed to the following financial risks: equity risk, financing risk (including interest rate risk, refinancing risk and early redemption risk), currency risk, credit risk and liquidity risk.

Conexus' financial instruments are divided into the following categories:

Financial assets and liabilities	31.12.2021	31.12.2020
	EUR	EUR
Trade receivables	13 373 794	6 855 249
Other receivables	354 653	75 445
Cash and cash equivalents	14 676 110	15 163 736
<b>Total financial assets</b>	<b>28 404 557</b>	<b>22 094 430</b>
Borrowings from credit institutions	98 055 852	21 875 000
Trade payables	7 290 495	7 637 032
Other liabilities	3 918 214	657 112
<b>Total financial liabilities</b>	<b>109 264 561</b>	<b>30 169 144</b>

## LIQUIDITY RISK

Liquidity risk is associated with the ability of the Company to meet its liabilities within set deadlines. Conexus pursues prudent liquidity risk management by forecasting annual, quarterly and monthly cash flows to ensure adequate financial resources for its operations. If necessary, Conexus intends to take out short – term and long – term loans. Conexus' liquidity reserve consists of the Company's cash and cash equivalents as well as lines of credit granted by credit institutions.

Maturity analysis of financial liabilities by their contractual cash flows, including interest payments:

31.12.2021	Carrying value	Contractual cash flow	1 – 3 months	3 mo.- 1 year	1 – 5 years
	EUR	EUR	EUR	EUR	EUR
Borrowings	98 055 852	99 272 976	28 249 126	9 773 287	37 725 657
Other liabilities	11 208 709	11 208 709	11 208 709	-	-
<b>Financial liabilities</b>	<b>109 264 561</b>	<b>110 481 685</b>	<b>39 457 835</b>	<b>9 773 287</b>	<b>37 725 657</b>

31.12.2020	Carrying value	Contractual cash flow	1 – 3 months	3 mo.- 1 year	1 – 5 years
	EUR	EUR	EUR	EUR	EUR
Borrowings	21 875 000	21 988 944	907 365	21 081 579	-
Other liabilities	8 294 144	8 294 144	8 294 144	-	-
<b>Financial liabilities</b>	<b>30 169 144</b>	<b>30 583 088</b>	<b>9 201 509</b>	<b>21 081 579</b>	<b>-</b>

## RISK OF ATTRACTING FINANCING

### Interest rate risk

Interest rate risk arises because Conexus uses borrowed funds for its liquidity purposes. Conexus is exposed to interest rate risk because its borrowings have variable interest rates. The Company's financial risk management policy is to assess the level, amount, and maturity of interest rate risk exposure in accordance with the Company's approved service tariff cycles.

As Conexus carries all financial assets and liabilities at amortised cost, the Company is not exposed to fair value interest rate risk.

### Refinancing risk

The occurrence of refinancing risk may be related to external macroeconomic and political circumstances, the onset of a financial crisis, or a significant deterioration in the Company's operations and financial performance. To hedge refinancing risk, the Company diversifies its loan portfolio by setting limits on key financial ratios by the type and source of borrowings. At the same time, the Company ensures diversification of the maturity dates for the repayment of the borrowings.

### Risk of early repayment

The risk of early repayment of the debt may arise if one of the lenders exercises its right to demand early repayment under the loan agreement, which would automatically entitle all of the Company's other lenders to demand early repayment of their loans.

In order to prevent the risk of early repayment of the debt, the Company regularly performs calculations and analyses of the indicators (covenants) laid down in the loan agreements and pays special attention to preventing the occurrence of defaults on payments in a timely manner. The Company maintains relations with its lenders on a regular basis, informing them in a timely manner of changes affecting the Company's business and reputation.



## CREDIT RISK

Conexus is exposed to credit risk, which is the risk that Conexus will incur a loss if a counterparty fails to meet its contractual obligations. Credit risk may arise from cash and cash equivalents, deposits with credit institutions, and the receivables past their due dates.

To limit the credit risk of receivables, Conexus assesses the creditworthiness of counterparties and sets their credit limits. If a counterparty's creditworthiness is not sufficient to cover the credit limit set by the Company, the Company requires security (a security deposit, bank guarantee). At the end of the reporting year, Conexus was not exposed to any significant credit risk related to its receivables, as none of the receivables were overdue and all receivables were paid in January 2022.

Credit risk in relation to financial assets with credit institutions is managed through a balanced placement of financial assets with at least two credit institutions. The credit institutions with which cooperation exists or is contemplated must have a rating of at least A- or A3 by an international rating agency. To ensure operating financial transactions, the Company may also invest in credit institutions with a credit rating of at least BBB- or Baa3. Based on this rating, cash and cash equivalents can be described as follows (categorised by long-term rating):

Bank	Rating	31.12.2021	31.12.2020
		EUR	EUR
Swedbank*	Aa3	551 998	11 082 180
OP Corporate bank plc branch in Latvia*	Aa3	996 872	696 523
Citadele banka	Baa2	999 999	949 544
SEB banka*	Aa3	929 405	935 582
Luminor Bank AS Latvijas branch*	Baa1	11 197 836	1 499 907
<b>Total cash:</b>		<b>14 676 110</b>	<b>15 163 736</b>

\* Credit rating assigned to the parent bank.

At 31 December 2021 and 31 December 2020, cash and cash equivalents consisted of cash held on current accounts with credit institutions.

## CAPITAL RISK MANAGEMENT

Conexus carries out its capital risk management with a view to ensuring the sustainable operation of Conexus, maintaining an optimal capital structure, and thus reducing the cost of capital. The Company takes a balanced approach to risk in relation to the Company's creditworthiness and capital structure.

The Company customarily manages capital risk, based on the calculation and analysis of the capital ratio. The capital ratio is calculated by dividing the amount of equity by total assets. The capital ratio must be maintained at the level of at least 50 percent.

The Company customarily calculates and analyses the debt ratio (Net Debt/ EBITDA). The debt ratio is calculated by dividing net debt (all non-current and current interest-bearing liabilities less cash and cash equivalents) by EBITDA (earnings before interest, taxes, depreciation, and amortisation) for the past 12 months. The value of this ratio may not exceed five.

In planning the procurement of funding, the Company follows the prudence principle, keeping open the possibilities of raising additional funding quickly if necessary.

As 31 December 2021 and 31 December 2020, the debt to total capital ratio was as follows:

	31.12.2021	31.12.2020
	EUR	EUR
Total liabilities	135 665 976	48 443 285
(Cash and cash equivalents)	(14 676 110)	(15 163 736)
(Deferred revenue, including EU co - financing)	(18 932 946)	(12 034 666)
Net total liabilities	102 056 920	21 244 884
Total equity and liabilities	468 070 283	453 091 955
<b>Debt to total capital ratio</b>	<b>21.80%</b>	<b>4.69%</b>

## CURRENCY RISK

The policy of Conexus is to focus on transactions, assets, or liabilities denominated in the functional currency of Conexus, i.e., the euro. Foreign currency risk is viewed as low. Conexus has no foreign currency balances.

## FAIR VALUE

IFRS 13 sets out a hierarchy of valuation techniques based on whether the valuation technique uses observable market data or unobservable market data. Observable market data is obtained from independent sources. If no market data is observable, the valuation technique reflects Conexus management's assumptions about the market circumstances. This hierarchy requires the use of observable market data whenever available. When carrying out revaluation, Conexus considers the relevant observable market prices whenever possible.

The objective of determining fair value, even when the market is not active, is to establish the transaction price at which market participants would be willing to sell the asset or incur a liability at a particular measurement 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 inputs used in valuation techniques are categorised into Level 1, Level 2, and Level 3 inputs. The level of the fair value hierarchy of a financial instrument should be determined to be the lowest level if a significant portion of its value consists of lower-level data.

The classification of a financial instrument in the fair value hierarchy is made in two levels:

1. Classify the inputs at each level to determine the fair value hierarchy;
2. Classify the financial instrument itself on the basis of the lowest level if a significant part of its value consists of inputs from the lower level.

### Quoted market prices – Level 1

Level 1 valuation techniques use unadjusted quoted prices in an ac-

tive market for identical assets or liabilities when quoted prices are readily available and the price represents the actual market circumstances for transactions under fair competitive circumstances.

### Valuation techniques using market data – Level 2

In the models used in the Level 2 valuation technique, all significant inputs are directly or indirectly observable on the asset or liability side. The market data used in the model is not quoted in Level 1 but is observable directly (i.e., price) or indirectly (i.e., derived from price).

### Valuation techniques using market data that are not based on observable market data – Level 3

Valuation techniques that use market data that is not based on observable market data (unobservable market data) are classified within Level 3. Unobservable market data is data that is not readily available in an active market due to the complexity of an illiquid market or financial instrument. Level 3 inputs are generally determined based on observable market data of a similar nature, historical observations, or analytical approaches.

Classification of financial assets and liabilities at the levels of the fair value hierarchy:

	Level	31.12.2021	31.12.2020
		EUR	EUR
<b>Assets:</b>			
Trade receivables	3.	13 373 794	6 855 249
Other receivables	3.	354 653	75 445
Cash and cash equivalents	2.	14 676 110	15 163 736
<b>Liabilities:</b>			
Borrowings from credit institutions	3.	98 055 852	21 875 000
Trade payables	3.	7 290 495	7 637 032
Other liabilities	3.	4 943 541	1 387 807



### **ASSETS AND LIABILITIES MEASURED AT FAIR VALUE**

The carrying amounts of liquid and short-term (with a maturity of fewer than three months) financial instruments, such as cash and cash equivalents, short-term receivables, and current trade payables, approximate their fair values.

The fair value of borrowings from banks is determined by discounting future cash flows at market interest rates. As the interest rates applied to borrowings from banks are largely volatile and do not differ significantly from market rates and the risk premium applied by Conexus has not changed significantly, the fair value of non-current liabilities approximates their carrying amount.

### **ASSETS MEASURED AT FAIR VALUE**

Conexus' buildings, structures, including gas pipeline infrastructure, and technological equipment are stated at revalued amounts that approximate their fair values. The revaluation was carried out in 2020. Due to the unique nature and use of the assets, Level 3 inputs were used for the revaluation, which means that the data are not freely observable for the respective type of assets. This was a revaluation (the previous revaluation was carried out in 2016, when the assets were still owned by AS Latvijas Gāze), and the level of data of the used assumptions was not changed.

The revaluation was performed by an external expert using the amortised replacement cost method. Using this method, the initial value of assets is determined according to current prices and requirements and the materials used. The main assumptions in the revaluation method relate to the cost of materials used and the average cost of construction at the time of the revaluation. Data on the construction of similar assets in recent years, which is available to Conexus, is also used to determine the values. A significant part of the revaluation is the revaluation of the underground gas pipelines. The total length of pipelines in the transmission system is 1,190 km. If the average cost of construction in the country increases or the cost of materials used increases significantly, the value of the assets will also increase. If the cost of construction or used materials decreases, the value of the

assets will also fall. In addition to the historical cost, the accumulated depreciation of each asset was determined, considering the physical, functional, and technical depreciation of the asset as the main factors. If the revalued assets are used significantly differently or functionally have been depreciated, the value of the revalued assets may decrease significantly. Management evaluated the pipeline and general construction price levels in 2021 and did not identify any material changes from January 2020 when the revaluation was carried out. As no other significant changes were identified, management concluded that the carrying amount of the revalued property, plant, and equipment is not materially different from the amount that would have been determined using fair value at the end of the reporting year.

## **26. ACCOUNTING POLICIES**

### **BASIS OF PREPARATION**

The financial statements of Conexus have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. These financial statements cover the period from 1 January 2021 to 31 December 2021.

These unaudited financial statements were approved by the Board of Directors of Conexus on 2 February 2022 and will be approved by the shareholders of Conexus. Shareholders have the right to reject the financial statements prepared and submitted by Conexus and to request that new financial statements be prepared.

The financial statements have been prepared on a going concern basis. Assets and liabilities in the financial statements are measured at cost, and property, plant and equipment are remeasured to fair value. The statement of cash flows has been prepared in accordance with the indirect method. The financial statements of Conexus are presented in EUR.

In preparing Conexus' financial statements in accordance with IFRS, the balances in the financial statements are estimated as accurately as possible based on current information available to management and operations based on assumptions and estimates.

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

### **CURRENCY AND REVALUATION OF FOREIGN CURRENCIES**

Items presented in the financial statements are denominated in EUR, which is the functional currency of Conexus' business environment and the official currency of the Republic of Latvia.

All foreign currency transactions are translated into EUR using the exchange rate of the European Central Bank ruling on the date of the relevant transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate ruling on the balance sheet date. Foreign currency gains and losses are recognised in the income statement for the respective period.

### **SIGNIFICANT ESTIMATES AND JUDGMENTS**

The financial statements have been prepared in accordance with IFRS using significant estimates and judgments made by management. Assumptions and accounting estimates affect the carrying amount of assets and liabilities at the reporting date and the amount of revenue and expenses during the reporting period. Actual results may differ from these estimates and assumptions about the outcome of future events.

Management has identified the following areas of the financial statements that required significant estimates or judgments: estimating the frequency of revaluation of PPE and the replacement cost of PPE, estimating the useful life of PPE.

Amortisation of intangible assets and depreciation of property, plant and equipment are determined by applying approved useful lives based on past experience and industry practice. The estimated useful lives of property, plant and equipment are based on assumptions about the future use of property, plant and equipment whose renewal or conversion has been decided by management, and the revaluation process also determines the remaining useful lives of the assets to be revalued.

### **NON-MONETARY ASSETS AND LIABILITIES**

#### **INTANGIBLE ASSETS**

Identifiable non-monetary assets that are not in physical form and that Conexus uses to provide services or for economic purposes are recognised as intangible assets. Conexus' intangible assets mainly consist of software licences and patents.

Intangible assets are carried at cost less accumulated amortisation.

Intangible assets are amortised on a straight-line basis over their estimated useful lives. The average useful life of intangible assets is 5 years.



## PROPERTY, PLANT AND MACHINERY

Property, plant and equipment are tangible assets intended to be used in more than one period for the provision of services and goods or for economic purposes. The main categories of Conexus' PPE are buildings, transmission lines, and related technical facilities, Inčukalns UGS structures, equipment, and machinery. Buildings and technical equipment are reported in the financial statements at their revalued value. Revaluations are performed with sufficient regularity to ensure that the carrying amount of these assets does not differ materially from that which would be determined using fair value at the end of the reporting period. Other non-current assets, including land, buffer gas in the Inčukalns underground gas storage facility, technical natural gas in the long-distance gas pipelines, and the emergency reserve for spare parts of non-current assets are carried at cost.

A PPE item is recognised as an asset if it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. PPE are stated at cost less accumulated depreciation and impairment loss.

Assets under construction, assembly or installation that are not ready for their intended use at the time of acquisition are recognised as work in progress in the financial statements. Subsequent costs are included in the asset's carrying amount based on the asset's recognition criteria.

The cost of maintaining or repairing an item of property, plant and equipment is recognised in the income statement in the period in which it is incurred.

The increase in value resulting from the revaluation of property, plant and equipment is recognised in the equity item "Reserves". The revaluation reserve is reduced when the revalued asset is disposed of or liquidated, or when, in the opinion of management, there is no longer any basis for an increase in its carrying amount. The balance of the revaluation reserve for the PPE item that is depreciated in the financial statements is included in retained earnings. During the period in which the revalued asset is used, part of the revaluation reserve, calculated

as the difference between the depreciation on the revalued carrying amount of the asset and the depreciation on the original cost of the asset, is recognised in equity.

From the date the asset is ready for its intended use, it is depreciated and amortised over its estimated useful life. Land, advance payments made for property, plant and equipment and construction in progress and emergency spare parts inventories, as well as for buffer gas in Inčukalns UGS and technical gas in the long-distance gas pipelines are not depreciated.

Where the carrying amount of an item of PPE exceeds its recoverable amount, the asset is written down immediately to its recoverable amount. The gain or loss on the disposal of an item of PPE is calculated as the difference between the carrying amount of the asset and the proceeds on disposal. Depreciation is not calculated for land, buffer gas in Inčukalns UGS, technological gas in long-distance pipelines, spare parts for emergencies, work in progress, works of art, and advance payments made on PPE.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the PPE items:

Types of PPE	Estimated useful life in years
Buildings	20-100
Engineering structures	20-65
Plant and machinery	5-35
Other PPE	3-15

## LEASES

Applying IFRS 16, Conexus recognised the right to use real estate (land) and office space that Conexus leases to carry out its business activities in the reporting period.

The right-of-use assets are initially measured at the present value of the lease payments outstanding at that date. The lease payments are

discounted using Conexus' weighted average cost of capital (WACC). Subsequent initial recognition, the rights-of-use are measured using the cost model. Under the cost model, the rights-of-use assets are measured at cost less accumulated amortisation and accumulated impairment loss.

The assets are depreciated from the commencement date to the maturity of the lease. Subsequent to initial recognition, a lease liability is measured:

- ◆ by increasing the carrying amount to show the interest on the lease; and
- ◆ reducing the carrying amount to show lease payments made.

In the balance sheet, the right-of-use assets are presented separately from other assets, and the lease liability is presented separately from other liabilities. In the income statement, interest expense on the lease liability is presented separately from the depreciation expense on the right-of-use asset. Upon adoption of IFRS 16, modified retrospective application was applied in the financial statements rather than the full application. This assumes that the date of initial application is 1 January 2019, and that rights-of-use assets are recognised only from the contracts entered into after that date.

During the reporting period, Conexus did not take advantage of any practical reliefs for short-term and low-value leases, as no such leases were entered into during the reporting period.

## INVENTORIES

In the financial statements, inventories are stated at the lower of cost and net realisable value. Net realisable value is the selling price in the ordinary course of business of Conexus, less costs to complete and costs to sell.

Inventories of materials and spare parts included in inventories are valued at weighted average prices, except for natural gas, which is accounted for using the FIFO method. Inventories are expensed in the income statement in the period in which they are consumed.

Provisions have been made for the impairment of obsolete, slow-moving or damaged inventories. The amount of the provisions are charged off to profit or loss for the period. The amount of provisions required is reviewed at regular intervals, but at least once in the reporting period.

## PROVISIONS

Provisions for liabilities are recognised when Conexus has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation. Provisions are recognised when the amount of the cost can be measured reliably. No provisions are made for future operating loss.

Provisions are measured at the present value using the best estimate available at the end of the reporting period. The required level of provisions is reviewed regularly, but at least once a year.

## EMPLOYEE BENEFITS

Conexus recognises accruals for employees when they arise from a contract or there is a past practice that results in a justified obligation.

### *Social security and pension contributions*

National social security mandatory contributions to Conexus' state-funded pension scheme are made in the amount provided for in the laws of the Republic of Latvia. In addition, Conexus makes contributions to an external defined-contribution private pension scheme. Conexus does not incur any additional legal or constructive obligations if the state-funded pension scheme or private pension plan is



unable to meet its obligations to Conexus employees. Contributions to the social security and pension plans are expensed on an accrual basis and are presented as employee benefits.

#### *Post-employment and other benefits*

Under the terms of the collective bargaining agreement, Conexus provides certain benefits to employees whose terms of employment meet certain criteria in the event of termination of employment and for the remainder of their lives. Post-employment benefit obligations are calculated based on current salary levels, the number of employees who are or will be eligible for future benefits, and actuarial assumptions. The benefit obligations are calculated once a year.

The present value of the benefit obligation is determined by discounting the expected cash flows using market rates for government bonds. Actuarial gain or loss arising from adjustments and changes in actuarial assumptions are recognised in the statement of comprehensive income in the period in which they occur.

#### *Employee benefit obligations*

Management's best estimates of the amount of employee benefit obligations are based on an assessment of key financial and demographic assumptions made through periodic actuarial advice.

The interest rate used to discount the liabilities of the Scheme represents the average yield on government bonds with an original maturity of 5 years or more, as determined in the last two auctions (source: Treasury). The inflation rate is determined with reference to the Central Statistical Bureau of Latvia data for the 12 months of the year and reflects the % change in average consumer prices compared to the previous period.

Assumptions on mortality are determined in accordance with actuarial advice based on statistics published in 2016 (Central Statistical Bureau of Latvia).

#### **PREPAYMENTS**

Prepayments are costs incurred before the annual reporting date but attributable to later periods.

Prepayments are payments made by Conexus that, because of their economic nature, relate to future periods beginning more than one year after the balance sheet date.

Non-current prepayments are subject to an amortisation period and are amortised in the income statement on a straight-line basis over their economic nature. The financial statements include current assets that are amortised to profit and loss over a period of 12 months and the remaining amount is included in non-current assets.

#### **ACCRUED INCOME**

Accrued income comprises clearly known settlement amounts with buyers and customers for natural gas transmission, storage, and balancing in the reporting year for which the deadline for submission of the supporting document (invoice) has not yet expired in accordance with the terms of the contract. These amounts are calculated on the basis of the service fee specified in the concluded contracts.

#### **DEFERRED INCOME**

Deferred income is recognised when payments are received for services to be rendered by Conexus in subsequent periods. Payments presented under deferred income are recognised in the income statement in the period in which the performance obligations are met.

Conexus initially recognises asset-based financing from the European Union for Conexus' long-term investments as long-term deferred income. The financing is recognised as income in the income statement over the useful life of the acquired PPE items.

Under current deferred income, Conexus recognises payments received for capacity services reserved by Conexus. At the time of service, Conexus recognises receivables and revenue and simultaneously reduces deferred income.

## CONTRACTUAL ASSETS

Contractual assets include compensation rights for transmission and storage services that have not yet been invoiced as of the reporting date. These rights are recognised under trade receivables.

## CONTRACTUAL LIABILITIES

Contractual liabilities consist primarily of advances received from customers and clients and deferred revenue for transmission and storage services.

## ACCRUED LIABILITIES

Accrued liabilities are recognised when the amount and timing of the liability can be calculated relatively accurately, and the degree of uncertainty is much less than for the accruals. Accrued liabilities are recognised for:

- ◆ services for which proof of payment (invoice) has not yet been received at the balance sheet date due to the terms of the supply, purchase, or company contract or for other reasons. These obligation amounts are calculated on the basis of the prices stated in the contract and the actual receipt of the goods or services;
- ◆ payments for employees' annual leaves and bonuses.

## FINANCIAL ASSETS

Financial assets include receivables, and cash and cash equivalents. The classification depends on the purpose for which the financial asset was acquired. Financial assets comprise cash, an equity instrument of another person, a contractual right to receive cash or another financial asset, an exchange of financial assets or financial liabilities, and a contract that will be settled in equity instruments.

Financial assets are derecognised when the contractual obligations relating to the cash flows from the financial asset have expired or have been transferred to another party, or the significant risks and rewards of ownership of the asset have been transferred.

### *Trade receivables*

Trade receivables are financial assets with fixed or determinable pay-

ments that are not quoted in an active market. Current trade receivables are not discounted. Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method less any allowance for impairment. To measure trade receivables, Conexus uses the expected credit loss model, which provides for an allowance for impairment, regardless of whether a loss event has previously occurred.

Conexus applies a simplified approach to trade receivables and recognises lifetime loss on receivables based on a historical analysis of credit losses and considering expected future trends. Conexus uses a provision matrix based on the maturity structure of the receivables and based on a historical default rate of 3 (three) years, as supplemented by future forecasts. Expected credit losses on receivables are calculated based on assumptions about default risk and expected loss rates. In determining these assumptions and selecting the data for the impairment calculation, Conexus considers its experience, current market conditions, and future estimates at the end of each reporting period.

## CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash held in the accounts with the bank.

If the Company's current accounts with banks have been granted a credit line or credit facility (overdraft) and this has been used to create a negative balance in the Company's bank account at the end of the reporting period, the credit line used is recognised in full in creditors as loans from credit institutions.

## FINANCIAL LIABILITIES

Loans, payables to suppliers, and other creditors are included in financial liabilities.

## LIABILITIES

Accounts payable are initially recognised at fair value. In subsequent periods, trade receivables are carried at amortised cost using the effective interest method. Creditors are classified as current liabilities



if the payment term is one year or less. If the payment term is longer than one year, creditors are presented as long-term liabilities.

The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial asset or liability. When calculating the effective interest rate, Conexus estimates future cash flows considering all contractual terms of the financial instrument except for future credit losses.

### **BORROWINGS**

Conexus takes borrowings from financial institutions to build long-term assets. The borrowings are initially recorded at fair value less transaction costs incurred. In subsequent periods, the borrowings are carried at amortised cost using the effective interest method.

The difference between the proceeds, net of borrowing costs, and the redemption value is recognised in the income statement using the effective interest method. This difference is recognised in finance costs. Borrowings are classified as current liabilities unless Conexus has an irrevocable right to defer settlement of the liability for at least 12 months after the balance sheet date. A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

### **REVENUE**

IFRS 15, which was adopted by Conexus in 2018, addresses the recognition of revenue and establishes principles for reporting useful information to users of the financial system about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. Entities use a five-step model to determine when and to what extent to recognise revenue. The new model assumes that revenue is recognised when Conexus transfers control of the goods or services to the customer, and in the amount that Conexus expects to receive in exchange. Depending on whether certain criteria are met, revenue is recognised:

◆ over time, consistent with Conexus' financial performance or

◆ when control of the goods or services is transferred to the customer

IFRS 15 sets out the principles that Conexus should follow to present qualitative and quantitative information that provides users of financial statements with useful information about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer.

The internal revenue recognition policies for different types of contracts with customers were analysed to determine the performance obligations, the timing of those obligations, the transaction price, and its allocation to identify potential differences in the revenue recognition model under the new standard. No significant differences between them were identified. IFRS 15 requires that an asset be recognised as incremental costs incurred in obtaining such contracts with customers and for which it is probable that they will be recovered. The current practice followed by Conexus means that there are no contract costs that can be capitalised.

Revenue from contracts with customers should be recognised based on the fulfilment of obligations to customers. Revenue represents the delivery of goods or services to customers for an amount that reflects the consideration Conexus expects to receive in exchange for those goods or services. Under this accounting model, a sale is recognised when the services are provided to and accepted by the customer, even if not invoiced, and there is a possibility that the economic benefits associated with the transaction will flow to Conexus. Conexus' accounting policies for the major types of revenue are set out below.

#### **Revenue from transmission**

The transmission service is treated as a single performance obligation under IFRS 15. The sale of transmission capacity products is a regulated service provided by Conexus to users of the transmission system applying the approved tariffs. Short-term (quarterly, monthly, daily, and same-day capacity) and long-term transmission capacity

(annual capacity) products are offered. Revenue from trading transmission capacity products, which by the nature of the service includes the provision of transmission infrastructure and does not change over time for each unit of capacity depending on the product selected, is recognised in the income statement for each reporting month pro-rata to the transmission capacity reserved by the user.

#### Revenue from storage

The storage service is considered a single performance obligation under IFRS 15. Conexus provides the storage capacity of the Inčukalns underground gas storage capacity to storage users that have reserved natural gas storage capacity during the storage season, in accordance with the approved tariffs. Revenue from the sale of storage capacity that, due to the nature of the service, represent the provision of Inčukalns underground gas storage infrastructure and do not change during the storage season is recognised for each reporting month in accordance with the storage tariffs and pro-rata to the remaining months until the end of the storage season.

#### Interest income

Interest income is recognised using the effective interest method. Interest income from time deposits is classified as other income. Interest income from cash funds – financial income.

#### Income from fines

Contractual fines and penalties for late payment are recognised as revenue when it is clear that Conexus will derive an economic benefit from them, i.e., the recognition of the revenue generally coincides with the receipt of the penalty.

#### Other income

Other income from the rendering of services is recognised in the period in which they are rendered. Other income from the sale of materials is recognised when the buyer has accepted them.

Conexus maintains information on the amount of natural gas pumped into and out of from the transmission system by transmission system

users and calculates the imbalance. The amount of daily imbalance is the difference between the input and output amounts. In cases where a negative imbalance occurs at the transmission system user, the charge for the amount of imbalance is calculated for each day by multiplying the calculated amount by the daily published balancing price for natural gas (the obligation to perform balancing is the same for each unit of transported gas). Revenue from balancing is recognised for each reporting month when a negative imbalance occurs at the transmission system user that has resulted in a shortage of natural gas in the transmission system.

In the financial statements, revenue from balancing is reported under the Other income section at net value (less costs for periods when the balance is positive).

When market participants cause differences and Conexus does not have sufficient gas resources to ensure the proper functioning of the gas transmission system, Conexus purchases corresponding balancing volumes of gas.

#### Corporate income tax

Starting 1 January 2018, the Law on Corporate Income Tax has been effective in the Republic of Latvia, which provides for a new regime for the payment of this tax. The tax rate is 20% of the taxable base, which is determined by dividing the value of the taxable income by a factor of 0.8 and includes:

- ◆ Distributed profits (calculated dividends, dividend-like costs, deemed dividends), and
- ◆ Conditionally distributed profit (for example, non-business expenses, and other specific cases specified by law).

When distributing retained earnings that had been accrued until 31 December 2017 and subject to corporate income tax under the previous legislation, the new tax regime does not apply to these dividends. The calculated corporate income tax on retained earnings, in accordance with the requirements of IFRS, is classified as other operating expenses.



As at 31 December 2021, Conexus had fully utilised the provisions presented in previous periods in the amount of EUR 1 039 986, reducing the CIT taxable base in the 2021 taxation period.

### SHARE CAPITAL AND DIVIDENDS

Conexus' share capital consists of dematerialised registered shares. The shares constitute the share capital. The nominal value of each share is one euro. Conexus is a shareholder-owned company and pays dividends in accordance with the laws and regulations of the Republic of Latvia. Dividends are recognised as a liability in Conexus' financial statements in the period in which the amount of dividends and their payment procedure are approved by the shareholder.

### ADOPTION OF NEW STANDARDS, AMENDMENTS, AND INTERPRETATIONS

The guidelines described below, which became effective on 1 January 2019, have had no impact on these financial statements:

- ◆ IFRIC 23. Uncertainty over Income Tax Treatments
- ◆ Amendments to IFRS 9 Financial Instruments – Prepayment Features with Negative Compensation
- ◆ Amendments to IAS 28 Associates and Joint Ventures - Non-current Interests in Associates and Joint Ventures
- ◆ Amendments to IAS 19 Employee Benefits – Plan Amendment, Curtailment and Settlement; and
- ◆ Annual Improvements to IFRSs 2017

See information on the implementation of the new IFRS 16 Leases below in this note.

Several new standards and interpretations have been issued and are effective for annual periods beginning on or after 1 January 2019:

Amendments to IFRS 3 Business Combinations - Definition of Business (effective for annual periods beginning on or after 1 January 2020, not yet adopted by the EU).

Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Materiality (effective for annual periods beginning on or after 1 January 2020, not yet adopted by the EU).

Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective date not yet determined, not yet adopted by the EU). Conexus management decided not to implement the new standards and interpretations before their effective date. Conexus management is of the view that the implementation of the new standards, amendments, and interpretations will not have a material impact on Conexus' financial statements in the year of implementation.

### FAIR VALUE MEASUREMENT

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an ordinary transaction between market participants in the principal market, or otherwise in the most advantageous market, to which Conexus has access at that time. The fair value of liabilities reflects the risk of default. In accordance with Conexus' accounting policies and disclosure requirements, fair value must be determined for financial and non-financial assets and liabilities. In estimating the fair value of an asset or liability, Conexus uses observable market inputs to the extent possible. Fair value is categorised into different levels of the fair value hierarchy based on the inputs used in the valuation techniques:

- ◆ Level 1: Quoted market prices (unadjusted) for identical assets or liabilities;
- ◆ Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- ◆ Level 3: Inputs for assets or liabilities that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or liability can be categorised into different levels of the fair value hierarchy, the fair value measurement is generally categorised into the level of the fair value hierarchy that is relevant to the entire measurement.

Reclassifications between levels of the fair value hierarchy are recognised by Conexus at the end of the reporting period in which they are made.

For valuation and presentation purposes, fair values have been determined using the methods set out below. Where necessary, further information on the assumptions made in determining fair value is disclosed in the notes to the financial statements for the asset or liability.

The first level includes cash and cash equivalents. Cash and cash equivalents are financial assets with a maturity term of up to 3 months. Conexus believes that the fair value of these financial assets corresponds to their initial nominal value and carrying amount at any of the following dates.

The breakdown of Conexus financial assets and liabilities into hierarchical levels is reflected in Note 25.

## **BORROWINGS FROM CREDIT INSTITUTIONS**

Conexus' borrowings include a fixed and a variable portion of the interest rate, and the Company annually reviews changes in the fixed portion of the credit institution's borrowing rate in accordance with current market conditions. In the case of a finance lease, the market interest rate is determined by reference to similar leases. For short-term non-interest-bearing financial liabilities, the approximate fair value is assumed to be their initial recognition and their subsequent carrying amount, as the effect of discounting is considered immaterial.

## **PAYABLES AND RECEIVABLES**

Trade receivables, receivables from related parties, other receivables, other financial assets, trade and other payables, payables to related parties, and other financial liabilities generally have a maturity of up to six months, and Conexus considers that the fair value of these financial assets and liabilities corresponds to their initial nominal value and the carrying amount at any of the following dates.

The financial statements were prepared by:



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**AIJA MARTINSONE-STAGE**  
Head of Financial Accounting Division

\* This document is electronically signed with a secure electronic signature and contains a time-stamp