

Joint-stock company

conexus
B A L T I C G R I D

Interim unaudited financial statements

FOR THE 9-MONTH PERIOD ENDED 30 SEPTEMBER 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 - 30 September 2021

Joint stock company (JSC) Conexus Baltic Grid (hereinafter – Company or Conexus) is a unified natural gas transmission and storage operator in Latvia who manages one of the most modern natural gas storage facilities in Europe – Inčukalns Underground Gas Storage (hereinafter – Inčukalns UGS, IUGS or storage facility) and main natural gas transmission system, which directly connects the Latvian natural gas market with Lithuania, Estonia and Russia.

The natural gas transmission and storage services provided by Conexus are regulated by the Public Utilities Commission (hereinafter - PUC, Regulator).

Conexus is an independent unified natural gas transmission and storage operator who takes care for the sustainability and security of infrastructure, high quality of services, that provides economic value to customers and the public at large.

Conexus is a socially responsible Company that through added economic value ensures the total development of the industry, employee growth, sustainable employment, at the same time taking care of minimum environmental impact of technological processes.

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

Conexus targets

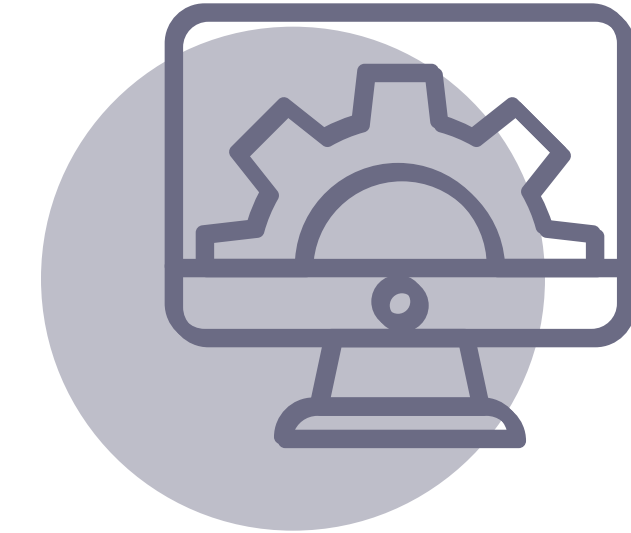
The principal medium-term (2019-2023) targets of Conexus are related to three areas: **market development, infrastructure provision and development of operations.** The strategic targets have been set in accordance with the values, vision, and mission of Conexus: **to promote sustainable operation of energy market in the region, ensure 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

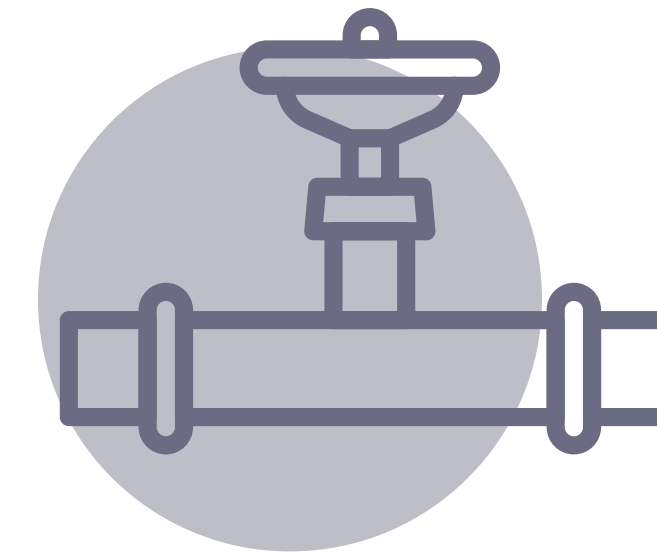
3 Implement sustainable management of the working capacity of internal and external resources

Along with the strategic targets, Conexus has defined three development guidelines that run through all planned medium-term activities, supplement the strategic targets set and contribute to their implementation.



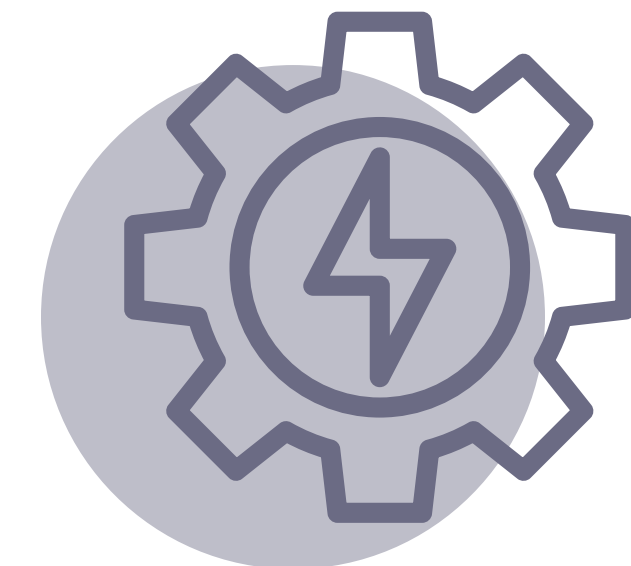
DIGITISATION

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.

The Council

The Council of Conexus represents interests of the shareholders between the shareholders' meetings and monitors the operation of Conexus Board. The operating principles and main obligations of the Council of Conexus are prescribed by the Statutes and Regulation of the Council. The tasks and responsibilities of the Council of Conexus are regulated by laws and regulations.

During the reporting period, several changes have taken place in the composition of 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

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(in Council from 3 January 2018)

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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

Born on 29 April 1965

valde@conexus.lv

Term of office: 16.11.2020 - 15.11.2023

Does not own shares in JSC "Conexus Baltic Grid"



GINTS FREIBERGS

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

Born on 23 August 1959

valde@conexus.lv

Term of office: 01.01.2021 - 31.12.2023

Owns 416 shares in JSC "Conexus Baltic Grid"



MĀRTIŅŠ GODE

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

Born on 17 August 1976

valde@conexus.lv

Term of office: 01.01.2021 - 31.12.2023

Does not own shares in JSC "Conexus Baltic Grid"



Shareholders

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.



MANAGEMENT REPORT

Main activities

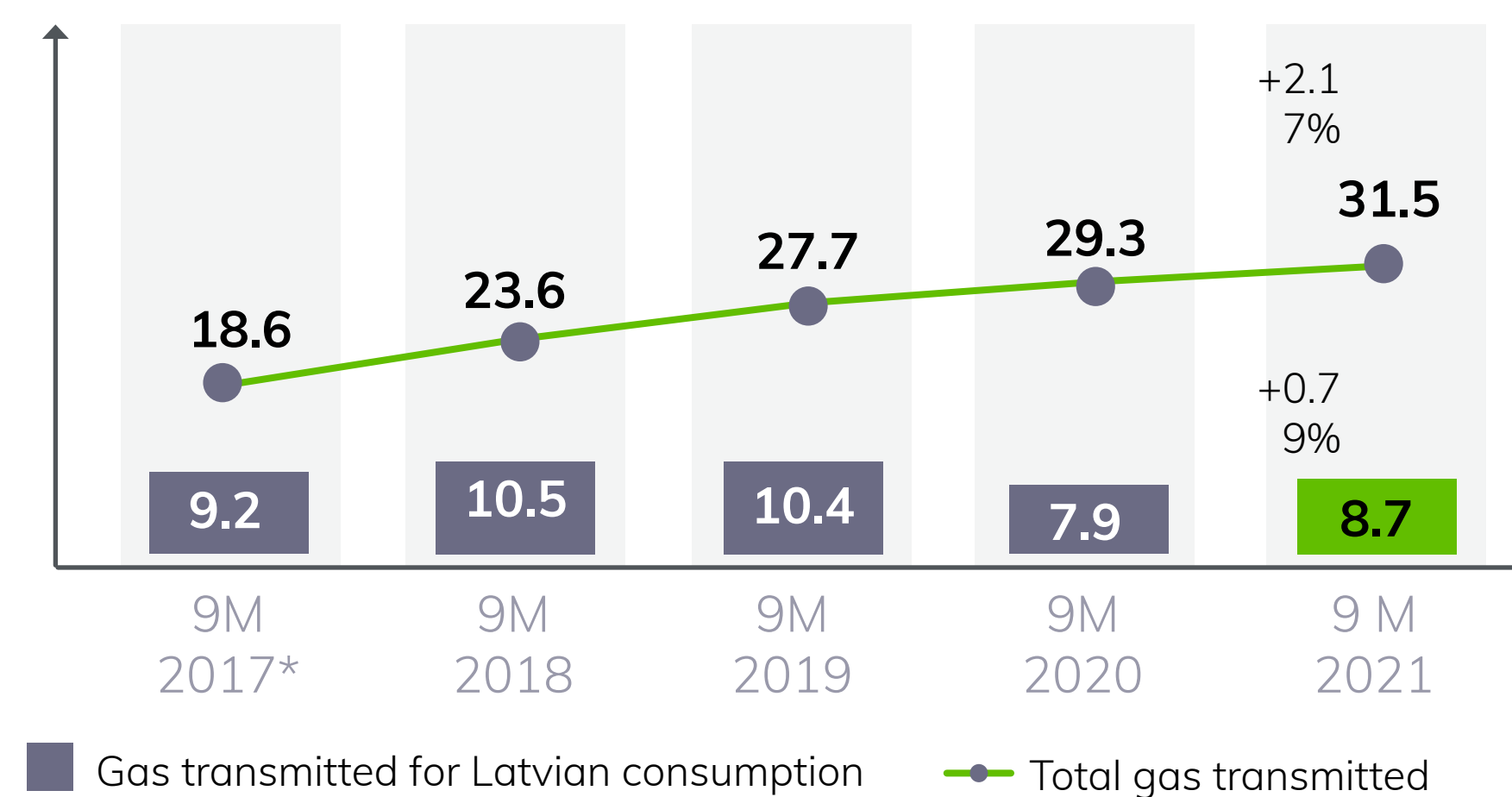
Total volume of natural gas 7% higher than prior year

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.

During the first 9 months of 2021, Conexus provided safe and uninterrupted natural gas supply for the consumption of Latvia, Lithuania, Estonia and Finland. Total volume of gas transmitted reached 31.5 TWh, which is 7% more than in prior year. Volume withdrawn from Inčukalns UGS reached 12.4 TWh, which is 72% more than the year before. However, natural gas transmitted from Lithuania has decreased by 79%, reaching only 1.6 TWh. Natural gas transmitted for consumption in Latvia reached 8.7 TWh, which is 9% more than the respective period the year before. This increase is attributed to colder weather this year. During the reporting period, 12.6 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 2.4 times, reaching 2.4 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



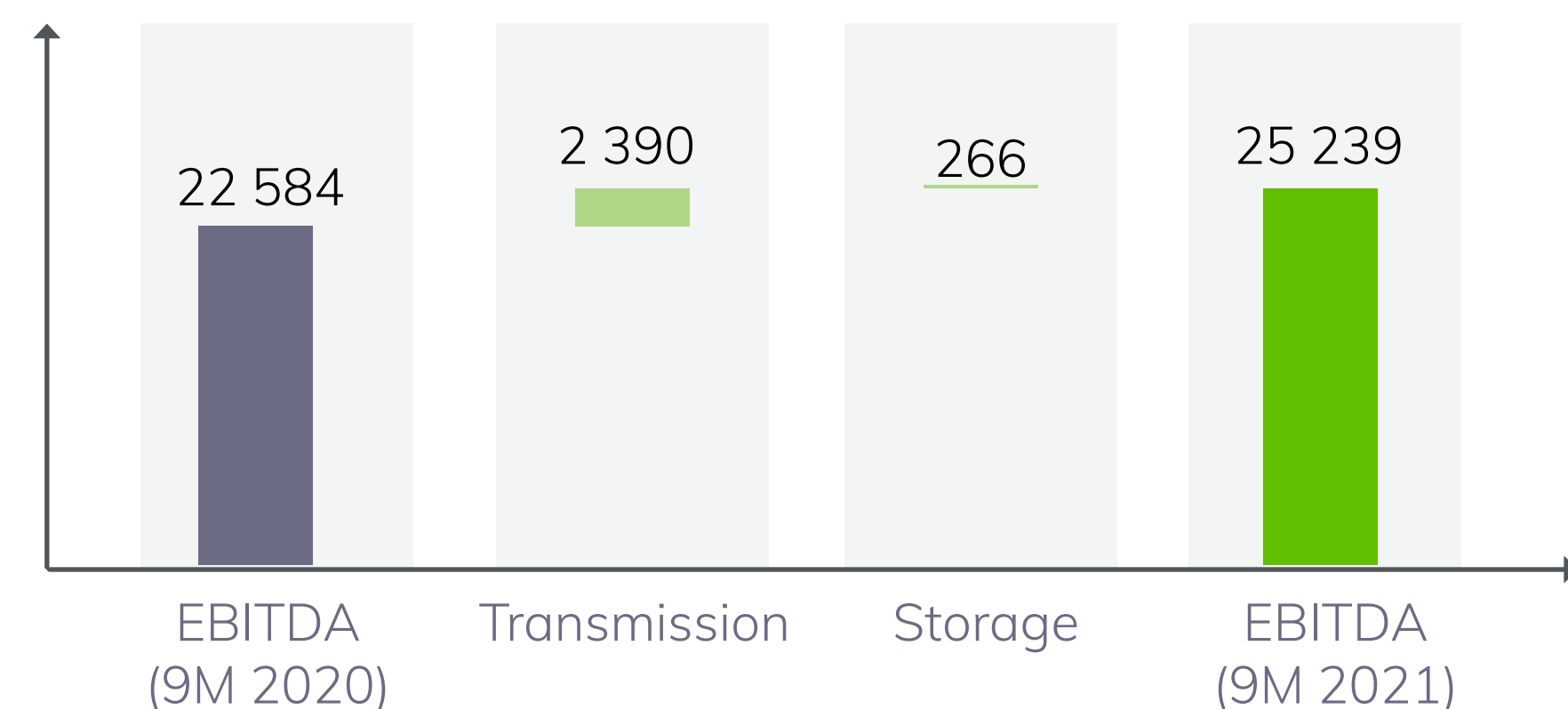
*04.01.2017-30.09.2017

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

The 2021/2022 Inčukalns UGS capacity reservations reached 18.9TWh, 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 7% to the capacity product revenue. The net turnover in the reporting period was 40 959 thousand EUR, which is 3% more than in prior year's respective period.

The Company's EBITDA during the reporting period increased by 12% in comparison to the respective period of 2020, reaching 25 239 thousand EUR. EBITDA was positively affected by the portion of auction expenses in relation to ensuring the natural gas supply, attributable to the 9 months of 2021, which was significantly lower (by 1 914 thousand EUR). The lower auction expenses are the main factor that improved Transmission segment's EBITDA by 2.4 million EUR in comparison to the respective period of 2020.

EBITDA, `000 EUR



During the 9 months of 2021, storage segment revenue reached 17 488 thousand EUR (increase by 1 215 thousand EUR or 7%) and EBITDA reached 10 760 thousand EUR (increase by 3%). Although Inčukalns UGS 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 1 215 thousand EUR, in comparison to the respective period of the previous year. Although storage revenue increased, the natural gas expenses increased as well, which resulted in storage EBITDA being only 266 thousand EUR higher than prior year.

During the reporting period, the Company's net profit was 9 541 thousand EUR, which is 356 thousand EUR less than in the respective period of prior year.

MAIN FINANCIAL INDICATORS	9M 2021	9M 2020	+/-	%
	or 30.09.2021	or 31.12.2020		
	EUR'000	EUR'000		
Net turnover	40 959	39 951	1 008	3%
EBITDA	25 239	22 584	2 656	12%
Net profit	9 541	9 897	(356)	-4%
Segment assets	444 639	453 092	(8 453)	-2%
Investments made	18 993	10 391	8 601	83%

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 loans from Nordic Investment Bank, JSC "SEB" un JSC "Swedbank", 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 84 218 thousand EUR, including overdraft in amount of 7 906 thousand EUR. At the end of the reporting period, the with 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.

CONEXUS FINANCIAL COVENANTS	30.09.2021	31.12.2020
Shareholders' equity ratio (>50%)	74%	89%
Net debt to EBITDA ratio (<5)	3.00	0.76
Debt-Service Coverage Ratio (DSCR) (>1.2)	4.93	8.26

New storage 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.

Tariff values (excluding VAT) set for the 2021/2022 storage cycle, effective from 1 May 2021:

- One-year bundled capacity product tariff 1.02260 EUR/MWh;
- Two-year bundled capacity product tariff 1.08650 EUR/MWh - for one year period (01.05.2021.-30.04.2022);
- Interruptible capacity product tariff 0.81470 EUR/MWh;
- Stock transfer product tariff 1.77960 EUR/MWh;
- Virtual reverse flow product tariff 0.34710 EUR/MWh;

🌱 The tariff of the two-year bundled unit capacity product booked in 2020/2021 storage cycle, does not change – 2.84741 EUR/MWh for two periods until 30 April 2022.

The high interest in participation in the first Inčukalns UGS capacity auction signifies the necessity for this type of capacity reservation

🌱 The demanded capacity almost twice exceeded the maximum available capacity.

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. After the final auction of Inčukalns UGS capacity, the variance between the technical capacity of the storage facility and the capacity granted to system users is 2.9 TWh.

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 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 cost of the auctions and is recalculated annually accordingly.

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.

In accordance with 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, Conexus is required to ensure that 3 160 thousand MWh of active natural gas is stored in Inčukalns UGS from the beginning of withdrawal season to March 1, 2022. 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.

Implementation of European common interest projects

Inčukalns UGS modernisation project and enhancement of Latvia-Lithuania interconnection (ELLI) - is actively continued during 2021, it is planned to invest 16 million EUR in these projects during 2021. Total planned investments are 93.5 million EUR, and for this purpose on 26 February 2021 a loan agreement was concluded with Nordic Investment Bank for 30 million EUR with a term until 4 March 2038.

During the reporting period, investments were made in amount of 19 million EUR, 52% 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 JSC Conexus Baltic Grid (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 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 savings, and the overall solution is more environmentally friendly.

Interest in Conexus services has increased

During the reporting period, several new transmission, storage and balancing system users have started operating, including from Finland.

The amount of natural gas withdrawn from Inčukalns UGS increased by 56% in season of 2020/2021

At the end of the 2020/2021 withdrawal season of Inčukalns UGS, the amount of active natural gas withdrawn from the storage has reached 17.6 TWh, which is 56% more than in the previous storage season. At the beginning of the season, the largest volume of active natural gas in recent years - 13.6 TWh – was injected into storage facility. In total, system users stored active natural gas in amount of 21.3 TWh in the Inčukalns UGS.

Overall, the high demand for natural gas storage this season was influenced by a number of factors: the low natural gas price in the summer of 2020, as well as the single market for natural gas, opened on 1 January 2020, with Estonia and Finland actively participating, resulting in increased interest from system users in services of Inčukalns UGS.

The technical capacity of Inčukalns UGS for 2021/2021 cycle has been determined

According to the measurements and calculations, Conexus has determined the capacity of Inčukalns UGS to provide the maximum amount of active natural gas to be stored in the storage i.e. the technical capacity of the storage for the 2021/2022 storage cycle. Technical capacity for 2021/2022 storage cycle will be 21.8 TWh.

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.

Dividends

Dividends were paid to shareholders from retained earnings in amount of 84 394 thousand EUR or 2.14 EUR per share.

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. The first hearing was held on 29 April 2021. The case was further examined on 27 May 2021, 21 June 2021, 12 July 2021 and 22 September 2021. By the decision of the Regional Administrative Court of October 12, 2021, the proceedings on the merits have been re-initiated and the participants to the proceedings are invited to submit the prejudicial questions to the Court of Justice of the European Union on the correctness of the interpretation of certain legal provisions of the European Parliament and the Council in the circumstances of this case. The next court hearing is scheduled for the 15 December, 2021.

Main financial indicators

		9M 2017 or 30.09.2017	9M 2018 or 30.09.2018	9M 2019 or 30.09.2019	9M 2020 or 30.09.2020	9M 2021 or 30.09.2021	Δ	Δ %	
Operating indicators	Transmitted natural gas	TWh	18.6	23.6	27.7	29.3	31.5	2.1	7%
	Total amount of natural gas stored in Inčukalns UGS	TWh	11.9	12.4	17.4	21.2	17.5	(3.8)	-18%
	Natural gas for consumption in Latvia	TWh	9.2	10.5	10.4	7.9	8.7	0.7	9%
	Volume of natural gas withdrawn from IUGS	TWh	6.8	9.1	7.4	7.2	12.4	5.2	72%
Financial indicators	Net turnover	`000 EUR	34 151	37 415	42 405	39 951	40 959	1 008	3%
	EBITDA	`000 EUR	20 853	21 866	24 438	22 584	25 239	2 656	12%
	Net profit	`000 EUR	17 573	10 233	12 343	9 897	9 541	(356)	-4%
	Segment assets	`000 EUR	359 970	352 212	360 154	445 918	444 639	(1 279)	0%
	RAB, approved*	`000 EUR	232 861	324 396	322 444	322 444	357 246	34 802	11%
	Investments	`000 EUR	9 258	7 966	10 092	10 391	18 993	8 601	83%
	Depreciation	`000 EUR	14 007	11 491	11 956	12 557	13 244	687	5%
Financial coefficients	EBITDA profitability	%	61%	58%	58%	57%	62%	5%	9%
	Net profitability	%	51%	27%	29%	25%	23%	-1%	-6%
	Return on equity ratio (ROE)	%	6.2%	3.3%	4.0%	2.8%	2.5%	-0.3%	-11.6%
	Shareholders' equity ratio**	%	86%	87%	86%	90%	74%	-16%	-18%
	Net debt to EBITDA ratio***	coef.	0.80	1.27	0.67	0.73	3.00	2.27	309%
	Debt-Service Coverage Ratio (DSCR)****	coef.	-	7.04	8.60	8.87	4.93	(3.94)	-44%
Average number of employees	number	335	336	335	329	336	7	2%	

*In 2017 RAB value is according to approved tariffs

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 1 188 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.

52% of Conexus assets are attributed to Transmission segment, and also in terms of revenue and EBITDA it is the largest. During the first 9 months of 2021, transmission revenue was positively affected by the actual air temperatures, which were lower than in the comparative months of 2020. As a result, the total demand for gas for heating purposes was higher than in the respective period of prior year, which ensured 645 thousand EUR higher revenue from the usage of exit point for consumption in Latvia than the year before.

TEMPERATURE	Average monthly temperature	Above/ below norm
January 2020	+3.1 °C	(+8.4 °C)
February 2020	+2.2 °C	(+7.1 °C)
March 2020	+2.9 °C	(+4.2 °C)
January 2021	-3.1 °C	(+2.2 °C)
February 2021	-5.2 °C	(-0.3 °C)
March 2021	+1.3 °C	(+2.2 °C)

During the first 9 months of 2021, the total volume of transmitted gas reached 31.5 TWh, 7% increase versus the respective period of prior year. During the reporting period the volume of gas transmitted for consumption in Latvia increased by 9%, reaching 27% of the total transmitted volume.



The total amount of natural gas transmitted for Lithuanian consumers' usage increased 2.4 times during the reporting period and reached 2.4 TWh. The increase occurred during the first quarter of this year, and as a result, revenue from exit capacity reservations increased by 646 thousand EUR.

At the end of 2020/2021 Inčukalns UGS withdrawal season, system users had left 5 TWh of unwithdrawn natural gas. Due to this, regional entry capacity volume decreased by 12% this year in comparison to the previous period. Additionally, the Latvia's share of regional entry capacity has trade slightly reduced. As a result, the Latvia's share of regional entry capacity revenue (ITC revenue) has decreased by 1 498 thousand EUR.

The auction expenses in relation to ensuring the natural gas supply were 1 914 thousand EUR lower than the comparative period the year before. This was the main factor that led to transmission segment's EBITDA increase by 2.4 Mio. EUR, in comparison to the respective period of 2020.

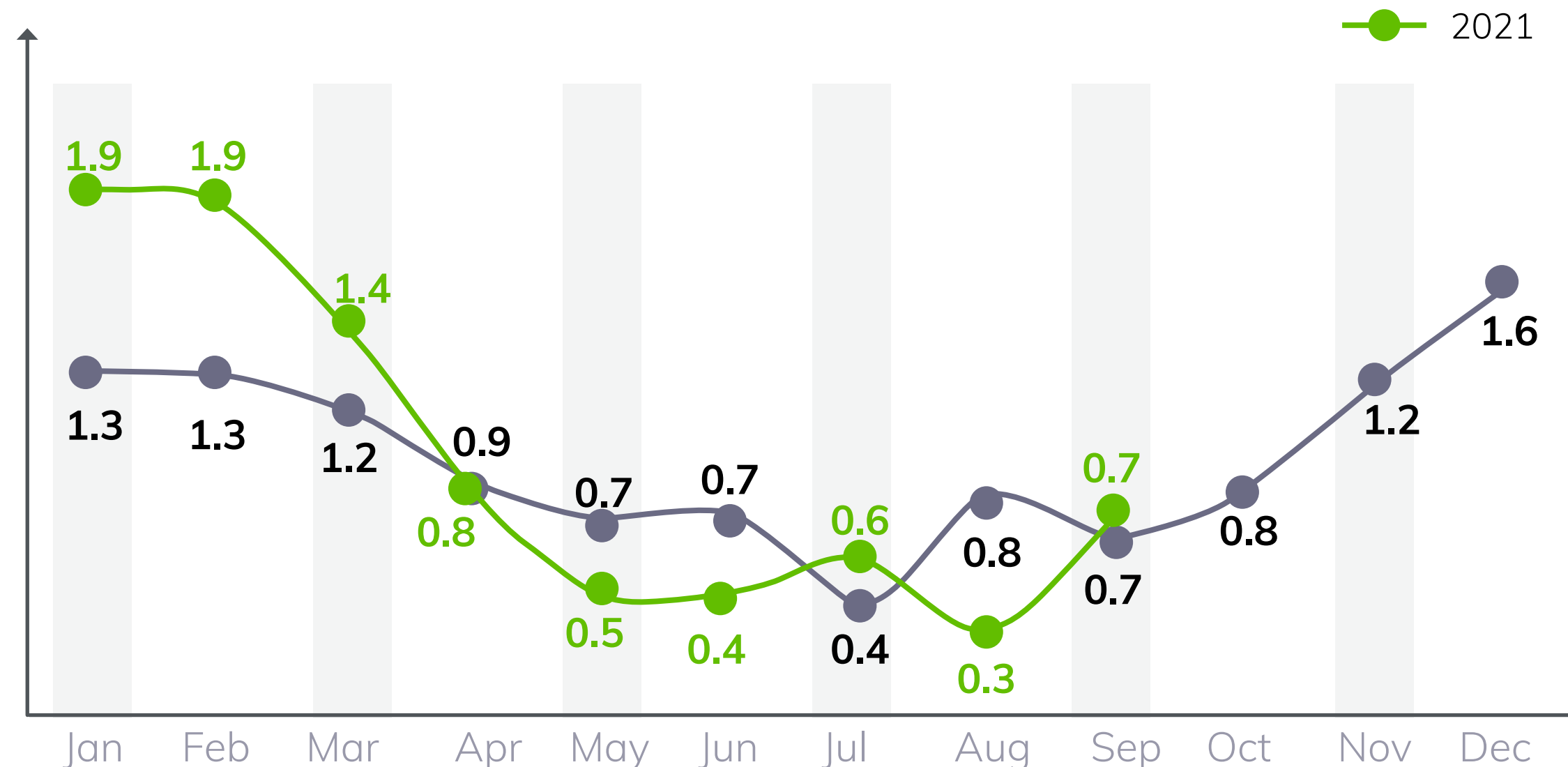
The revenue of the transmission segment during the reporting period was 23.5 million EUR and EBITDA reached 14.5 million EUR, representing 57% of the Company's total EBITDA. Net profit of the transmission segment amounted to 5.3 million EUR (11% more than in the respective period of prior year).

TRANSMISSION	9M 2021 or 30.09.2021	9M 2020 or 31.12.202	+/-	%
	EUR'000	EUR'000		
Net turnover	23 471	23 678	(207)	-1%
EBITDA	14 480	12 090	2 390	20%
Segment Net Profit	5 258	4 732	526	11%
Segment assets	231 817	232 042	(225)	0%
Depreciation and amortisation	7 680	7 276	404	6%
Investments made	8 116	5 841	2 274	39%
Regulated asset base, approved	171 820	171 820	0	0%

The transmission segment's assets at the end of the reporting period amounted to EUR 232 million, which comprised 52% of the total assets of the Company. During the reporting period, capital investments were made in amount of 8.1 million EUR. Largest investments during the 9 months of 2021:

- Within the framework of the European project of common interest "Enhancement of Latvia -Lithuania Interconnection" (ELLI), the Company invested a total of 738 thousand EUR in several sub-projects during the 9 months of 2021.
- Izborska-Inčukalns UGS insulation replacement – 3 406 thousand EUR;
- Transmission gas pipelines insulation repairs – 1 033 thousand EUR.

Natural gas for consumption in Latvia, TWh

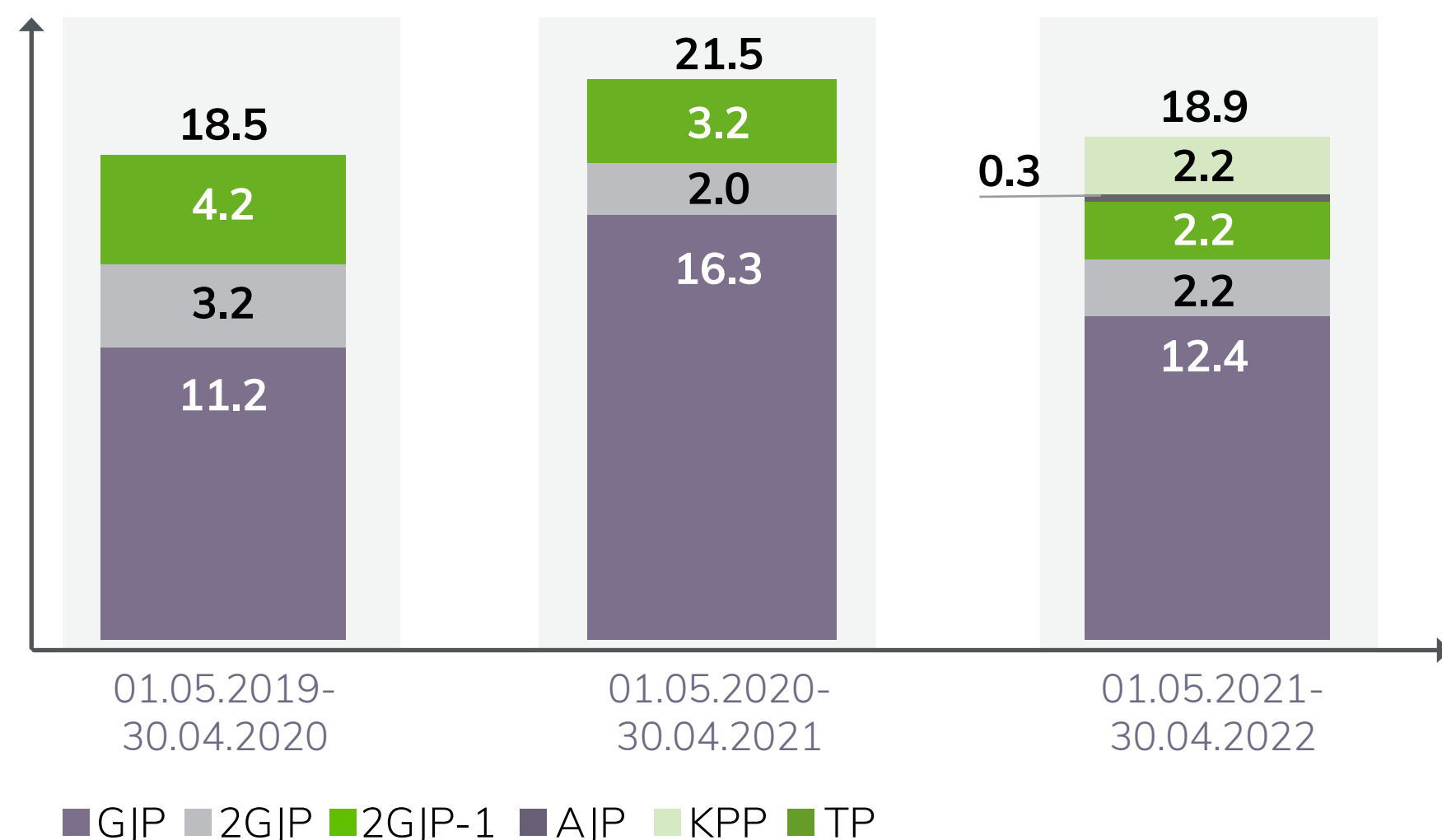


Storage

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 1 215 thousand EUR.

Storage reservations by products, TWh



The storage segment's operations require usage of natural gas. During the reporting period, the natural gas price has significantly increased, which impacted the storage segment's expenses and decreased the segment's EBITDA and profit accordingly.

The storage segment revenue during the reporting period was 17.5 million and EBITDA reached 10.8 million EUR. The storage segment profit reached 4.3 million EUR

STORAGE	9M 2021 or 30.09.2021	9M 2020 or 31.12.2020	+/-	%
	EUR'000	EUR'000		
Net turnover	17 488	16 273	1 215	7%
EBITDA	10 760	10 494	266	3%
Segment Net Profit	4 284	5 164	(881)	-17%
Segment assets	210 766	205 886	4 880	2%
Depreciation and amortisation	5 564	5 281	283	5%
Investments made	10 877	4 550	6 327	139%
Regulated asset base, approved	185 426	150 624	34 802	23%

Storage segment's assets at the end of the reporting period amounted to 211 million EUR, which comprised 48% of the total assets of the Company. During the first 9 months of 2021, capital investments were made in amount of 10.9 million EUR, which was 6.3 million EUR more than in prior year. Largest investments (reconstruction of bores and gas collection point 3 (GCP3) and gas compression unit of Compressor Unit 2 (CU2) modernization, in total 9.1 million EUR) were made within the framework of the European major project of common interest PCI 8.2.4. "Enhancement of Inčukalns UGS".

Subsequent events

On 15 October, withdrawal season commenced in Inčukalns UGS

At the end of 2021/2022 natural gas injection season, users have stored 17.4 TWh of natural gas. Reaching 80% of maximum volume of stored active natural gas, 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 8.5 TWh, therefore the natural gas volume in Inčukalns UGS is evaluated as sufficient for a heating season in Latvia.

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).

ABBREVIATIONS AND FORMULAS:

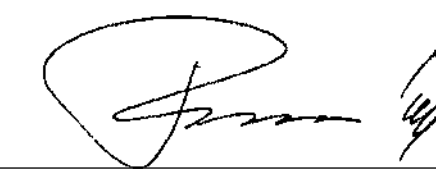
MWh	megawatt-hours
TWh	terawatt-hours
EUR/MWh/d/g	Euro for megawatt-hour per day/ per year
EBITDA	earnings before interest, taxation, depreciation & amortisation
RAB	regulated asset base
Net debt	loans minus cash and cash equivalents
EBITDA profitability	EBITDA/income
Net profitability	net profit/income
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

STATEMENT OF THE BOARD'S RESPONSIBILITY

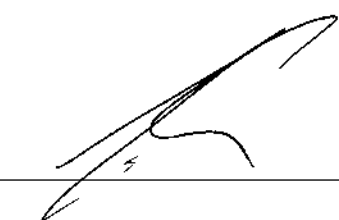
The Board of the Company is responsible for preparing its financial statements. The unaudited financial statements of the Company for the 9 months period ending 30 September 2021 were prepared in accordance with the International Financial Reporting Standards as adopted by the European Union, providing true and fair view of the financial position of the Company, its operational results and cash flow.



ULDIS BARISS
Chairman of the Board



GINTS FREIBERGS
Member of the Board



MĀRTIŅŠ GODE
Member of the Board

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FINANCIAL STATEMENTS

PROFIT OR LOSS STATEMENT

	Note	01.01.2021- 30.09.2021	01.01.2020- 30.09.2020
		EUR	EUR
Revenue	1	40 958 908	39 950 577
Other income	2	679 991	1 096 980
Maintenance and operating costs	3	(4 904 423)	(7 256 121)
Personnel expenses	4	(8 960 652)	(8 985 713)
Other operating expenses	5	(2 534 537)	(2 221 982)
Profit before depreciation, taxes and interest payments		25 239 287	22 583 741
Depreciation, amortization and impairment of property, plant and equipment	7, 8, 10	(13 243 824)	(12 557 033)
Operating profit		11 995 463	10 026 708
Financial expenses, net	6	(197 371)	(129 771)
Profit before taxation		11 798 092	9 896 937
Corporate income tax		(2 256 640)	-
Profit for the reporting period		9 541 452	9 896 937


STATEMENT OF OTHER COMPREHENSIVE INCOME

	Note	01.01.2021- 30.09.2021	01.01.2020- 30.09.2020
		EUR	EUR
Profit for the reporting period		9 541 452	9 896 937
Other comprehensive income			
Property, plant and equipment revaluation		-	92 100 425
Remeasurement of post-employment benefits due to changes in actuary's assumptions		-	-
Total other comprehensive income		-	92 100 425
Total comprehensive income		9 541 452	101 997 362

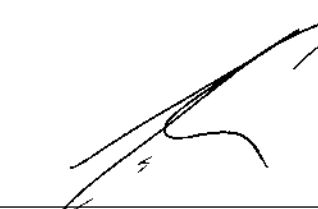
The accompanying notes on pages 27 to 43 form an integral part of these financial statements.



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STATEMENT OF FINANSIAL POSITION

	Note	30.09.2021	31.12.2020
ASSETS		EUR	EUR
Non-current assets			
Intangible assets	7	1 859 509	1 872 671
Property, plant and equipment	8	429 703 078	424 022 779
Non-current prepaid costs	14	1 133 847	1 209 438
Right-of-use assets	10	474 426	503 584
Total non-current assets:		433 170 860	427 608 472
Current assets			
Inventories	11	3 044 375	3 021 003
Advances paid for inventories		24 648	-
Receivables from contracts with customers	12	5 830 448	6 855 249
Other receivables	13	84 802	93 002
Current prepaid costs	14	427 797	350 493
Cash and cash equivalents		2 055 858	15 163 736
Total current assets:		11 467 928	25 483 483
TOTAL ASSETS:		444 638 788	453 091 955

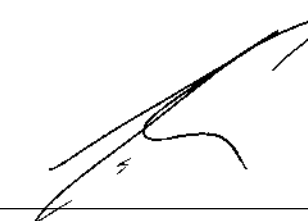
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STATEMENT OF FINANSIAL POSITION (continued)

	Note	30.09.2021	31.12.2020
LIABILITIES AND SHAREHOLDERS' EQUITY		EUR	EUR
Shareholders' equity:			
Share capital		39 786 089	39 786 089
Treasury shares		(25 320)	(34 678)
Reserves	15	218 789 631	224 758 592
Retained earnings		70 506 848	140 138 666
	<i>Retained earnings</i>	60 965 396	127 026 860
	<i>Profit for the reporting period</i>	9 541 452	13 111 806
Total shareholders' equity:		329 057 248	404 648 669
Non-current liabilities			
Deferred income	16	18 416 632	10 781 736
Employee benefit liabilities		1 028 494	1 028 494
Loans from credit institutions	17	63 488 715	-
Non-current lease liabilities	10	467 511	453 852
Total non-current liabilities:		83 401 352	12 264 082
Short-term liabilities			
Borrowings	17	20 729 072	21 875 000
Accounts payable to suppliers and contractors		5 611 819	7 637 032
Other liabilities	18	1 836 184	1 787 955
Provisions and accrued liabilities	19	2 420 632	2 912 784
Deferred income	16	634 302	1 252 930
Customer advances		930 278	653 285
Current lease liabilities	10	17 901	60 218
Total current liabilities:		32 180 188	36 179 204
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		444 638 788	453 091 955

The accompanying notes on pages 26 to 42 form an integral part of these financial statements.


		
ULDIS BARISS Chairman of the Board	GINTS FREIBERGS Member of the Board	MĀRTIŅŠ GODE Member of the Board

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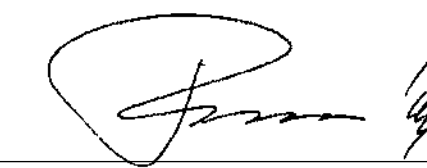
STATEMENT OF CHANGES IN EQUITY

	Share capital	Treasury shares	Reserves	Retained earnings	Total
	EUR	EUR	EUR	EUR	EUR
As at 1 January 2020	39 786 089	(36 471)	140 629 827	135 341 259	315 720 704
Dividends	-	1 793	-	(16 312 297)	(16 310 504)
Decrease of the revaluation reserve	-	-	(7 997 898)	7 997 898	-
<i>Other comprehensive income:</i>					
Increase of the revaluation reserve	-	-	92 100 425	-	92 100 425
Other comprehensive income	-	-	26 238	-	26 238
Total other comprehensive income	-	-	92 126 663	-	92 126 663
Profit for the reporting year	-	-	-	13 111 806	13 111 806
<i>Total</i>	-	1 739	84 128 765	4 797 407	88 927 965
As at 31 December 2020	39 786 089	(34 678)	224 758 592	140 138 666	404 648 669
Dividends	-	9 358	-	(85 142 231)	(85 132 873)
Decrease of the revaluation reserve	-	-	(5 968 961)	5 968 961	-
Profit for the reporting period	-	-	-	9 541 452	9 541 452
<i>Total</i>	-	9 358	(5 968 961)	(69 631 818)	(75 591 421)
As at 30 September 2021	39 786 089	(25 320)	218 789 631	70 506 848	329 057 248

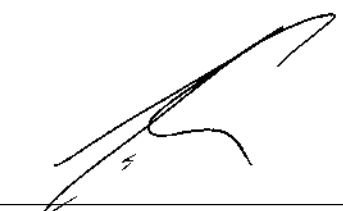
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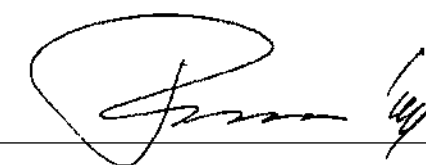
STATEMENT OF CASH FLOWS

	Note	01.01.2021-30.09.2021	01.01.2020-30.09.2020
Cash flows from operating activities		EUR	EUR
Profit before taxes		11 798 092	9 896 937
Adjustments for:			
- depreciation	8	12 666 075	12 103 028
- amortization of intangible assets	7	507 616	390 641
- loss/(gain) from disposals of property, plant and equipment		239 407	143 927
- amortization of the right of use assets	10	70 134	63 365
- change in provisions	19	474 710	-
- participation in the transnational cross-border project		75 590	100 786
- amortization of EU co-financing	2, 16	(265 828)	(225 728)
- interest expenses		196 634	129 191
Change in operating assets and liabilities:			
- (increase)/decrease in debtors		955 698	157 159
- (increase)/decrease in advance payments for inventories		(24 648)	8 426
- (increase)/decrease in inventories		(16 313)	493 224
- (decrease)/ increase in creditors		(3 788 727)	483 610
Corporate income tax paid		(2 256 748)	-
Net cash flows from operating activities		20 631 691	23 744 566
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(18 731 853)	(10 447 762)
Purchase of intangible assets	7	(500 810)	(201 492)
Income from the sale of property, plant and equipment		68 490	26 924
Net cash flows from investing activities		(19 164 173)	(10 622 330)
Cash flows from financing activities			
Interest paid		(179 530)	(110 512)
Received borrowings	17	67 906 155	-
Repayment of borrowings	17	(5 563 368)	(2 625 000)
EU co-financing received	16	7 817 509	-
Lease payments	10	(86 738)	(88 183)
Dividends paid		(84 469 424)	(16 312 296)
Net cash flows from financing activities		(14 575 396)	(19 135 991)
Net cash flows		(13 107 878)	(6 013 755)
Cash and cash equivalents at the beginning of the reporting period		15 163 736	21 504 400
Cash and cash equivalents at the end of the reporting period		2 055 858	15 490 645

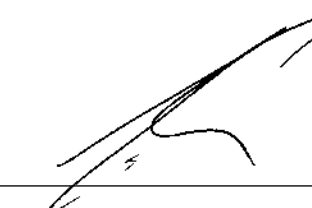
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NOTES TO THE FINANCIAL STATEMENTS

NOTES TO THE STATEMENT OF PROFIT OR LOSS

1. REVENUE

	01.01.2021.- 30.09.2021	01.01.2020.- 30.09.2020
	EUR	EUR
Revenue from transmission services	23 470 910	23 678 027
Revenue from storage services	17 487 998	16 272 550
	40 958 908	39 950 577

All revenue is generated in Latvia.

2. OTHER INCOME

	01.01.2021.- 30.09.2021	01.01.2020.- 30.09.2020
	EUR	EUR
Net result from balancing	(1 004 217)	(15 219)
Income from EU financing	265 828	225 728
Other income	1 418 380	886 471
	679 991	1 096 980

3. MAINTENANCE AND OPERATING COSTS

	01.01.2021.- 30.09.2021	01.01.2020.- 30.09.2020
	EUR	EUR
Maintenance of transmission and storage infrastructure	2 583 453	4 921 506
Cost of materials	816 259	744 807
Natural gas expenses	812 486	946 037
Maintenance of IT infrastructure	528 136	474 609
Maintenance of transport and machinery	164 089	169 162
	4 904 423	7 256 121

4. PERSONNEL EXPENSES

	01.01.2021.- 30.09.2021	01.01.2020.- 30.09.2020
	EUR	EUR
Salary	6 930 086	6 898 594
Compulsory state social security contributions	1 631 257	1 690 660
Life, health and pension insurance	389 180	387 387
Other personnel costs	10 129	9 072
	8 960 652	8 985 713

5. OTHER OPERATING EXPENSES

	01.01.2021.- 30.09.2021	01.01.2020.- 30.09.2020
	EUR	EUR
Taxes and duties*	1 027 575	1 047 055
Office and other administrative costs	1 267 555	1 031 000
Net loss from disposals of property, plant and equipment	239 407	143 927
	2 534 537	2 221 982

* Real estate tax, Natural resources tax, Public Utilities Commission fee, State and municipal fees, Corporate income tax from theoretically distributed profit

6. FINANCIAL EXPENSES

	01.01.2021.- 30.09.2021	01.01.2020.- 30.09.2020
	EUR	EUR
Interests paid	179 530	110 512
Asset lease interest expense	17 104	18 679
Other financial expenses	737	580
	197 371	129 771

NOTES TO THE STATEMENT OF FINANCIAL POSITION

7. INTANGIBLE ASSETS

Intangible assets	30.09.2021	31.12.2020
Historical cost	EUR	EUR
Beginning of the period	7 705 353	6 988 487
Additions	500 810	771 934
Disposals	(9 840)	(55 068)
End of the period	8 196 323	7 705 353
Accumulated amortization		
Beginning of the period	5 832 682	5 342 742
Amortization for the reporting period	507 615	544 726
Disposals	(3 483)	(54 786)
End of the period	6 336 814	5 832 682
Balance as at 31.12.2020	1 872 671	1 645 745
Balance as at 30.09.2021	1 859 509	1 872 671

8. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Machinery and equipment	Other property and equipment	Spare parts emergency reserve	Assets under construction	TOTAL
	EUR	EUR	EUR	EUR	EUR	EUR
Historical cost or revalued amount						
31.12.2019	656 621 419	127 156 914	6 660 420	1 404 727	4 657 656	796 501 136
Additions	-	411 689	825 755	-	19 857 622	21 095 066
Revaluated	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)
Transferred	37	-	-	158 461	-	158 498
31.12.2020	772 653 150	130 919 337	7 367 348	1 563 188	12 751 360	925 254 383
Accumulated depreciation						
31.12.2019	397 085 635	67 732 802	4 403 067	-	-	469 221 504
Calculated	10 999 985	4 603 971	587 705	-	-	16 191 661
Calculated accelerated depreciation	82 628	(309 297)	15 428	-	-	(211 241)
Revaluated	32 214 500	(13 169 683)	40 999	-	-	19 085 816
Disposals	(1 791 013)	(1 079 134)	(185 989)	-	-	(3 056 136)
31.12.2020	438 591 735	57 778 659	4 861 210	-	-	501 231 604
Balance as at 31.12.2019	259 535 784	59 424 112	2 257 353	1 404 727	4 657 656	327 279 632
Balance as at 31.12.2020	334 061 415	73 140 678	2 506 138	1 563 188	12 751 360	424 022 779

8. PROPERTY, PLANT AND EQUIPMENT (continued)

	Land and buildings	Machinery and equipment	Other property and equipment	Spare parts emergency reserve	Assets under construction	TOTAL
	EUR	EUR	EUR	EUR	EUR	EUR
Historical cost or revalued amount						
31.12.2020	772 653 150	130 919 337	7 367 348	1 563 188	12 751 360	925 254 383
Additions	-	356 830	357 888	-	18 017 135	18 731 853
Reclassified	7 776 915	151 828	-	-	(7 928 743)	-
Disposals	(861 351)	(265 658)	(148 843)	-	-	(1 275 852)
Transferred	248 209	(360 410)	112 201	-	(83 938)	(83 938)
30.09.2021	779 816 923	130 801 927	7 688 594	1 563 188	22 755 814	942 626 446
Accumulated depreciation						
31.12.2020	438 591 735	57 778 659	4 861 210	-	-	501 231 604
Calculated	8 531 722	3 577 972	556 381	-	-	12 666 075
Disposals	(594 721)	(232 083)	(147 507)	-	-	(974 311)
Transferred	126 746	(215 275)	88 529	-	-	-
30.09.2021	446 655 482	60 909 273	5 358 613	-	-	512 923 368
Balance as at 31.12.2020	334 061 415	73 140 678	2 506 138	1 563 188	12 751 360	424 022 779
Balance as at 30.09.2021	333 161 441	69 892 654	2 329 981	1 563 188	22 755 814	429 703 078

9. CO-FINANCED PROJECTS

	30.09.2021	31.12.2020
	EUR	EUR
Opening balance	1 310 224	1 411 010
Transferred to expenses for the period	(75 591)	(100 786)
Transferred to future periods	1 234 633	1 310 224
Incl. non-current part (see Note 14)	100 786	100 786
Current part	1 133 848	1 209 438

10. LEASE

	30.09.2021	31.12.2020
	EUR	EUR
Right-of-use assets		
Opening balance	503 584	532 734
Recognised changes in lease contracts	40 976	57 397
Depreciation recognised in the statement of profit or loss	(70 134)	(86 547)
Balance as at 31.12.2020	474 426	503 584
Lease liability		
Opening balance	514 070	543 455
Recognised changes in lease contracts	40 976	57 397
Recognised decrease in lease liabilities	(86 738)	(111 718)
Recognised lease interest expense	17 104	24 936
Balance as at 31.12.2020	485 412	514 070
incl. Non-current lease liabilities	467 511	453 852
Current lease liabilities	17 901	60 218

11. INVENTORIES

	30.09.2021	31.12.2020
	EUR	EUR
Natural gas	1 372 922	1 477 709
Materials and spare parts	1 744 547	1 623 448
Write-off of inventory value to net realisable value	(73 094)	(80 154)
	3 044 375	3 021 003

Write-off of inventory value to net realisable value	30.09.2021	31.12.2020
	EUR	EUR
Write-offs at the beginning of the period	(80 154)	(68 339)
Write-offs during period	7 059	(11 815)
Write-offs at the end of the period	(73 095)	(80 154)

12. RECEIVABLES FROM CONTRACTS WITH CUSTOMERS

	30.09.2021	31.12.2020
	EUR	EUR
Receivables for natural gas transporting	3 355 733	4 625 819
Receivables for natural gas storage	2 370 764	2 009 978
Receivables for balancing operations	103 022	218 523
Receivables for penalties	929	929
	5 830 448	6 855 249
Incl. Accrued income		
For natural gas transporting	1 218 247	2 335 550
For natural gas storage	1 210 847	1 571 515
For balancing operations	882 167	111 273
	3 311 261	4 018 338

13. OTHER RECEIVABLES

	30.09.2021	31.12.2020
	EUR	EUR
Other receivables	64 144	75 445
Other prepaid expenses	19 593	16 708
Advances to the SRS deposited funds account	1 065	849
	84 802	93 002

14. PREPAID EXPENSES

	30.09.2021	31.12.2020
	EUR	EUR
Non-current part		
Participation in the transnational cross-border project	1 133 848	1 209 438
Total non-current part	1 159 044	1 209 438
Current part		
Participation in the transnational cross-border project	100 786	100 786
IT expenses	221 096	162 095
Insurance expenses	75 618	66 537
Transport expenses	11 477	11 408
Other prepaid expenses	18 819	9 667
Total current part	427 796	350 493
Total prepaid expenses	1 561 644	1 559 931

15. RESERVES

	30.09.2021	31.12.2020
	EUR	EUR
Property, plant and equipment revaluation reserve	193 814 295	199 783 256
Post-employment benefit revaluation reserve	328 076	328 076
Reorganisation reserve	24 647 260	24 647 260
	218 789 631	224 758 592

16. DEFERRED INCOME

	30.09.2021	31.12.2020
	EUR	EUR
Non-current part	18 416 632	10 781 736
Current part (EU co-financing)	397 018	349 765
Current part (contract liabilities)	237 284	903 165
	19 050 934	12 034 666

Movement of deferred income	30.09.2021	31.12.2020
	EUR	EUR
Opening balance	12 034 666	11 432 471
EU co-financing received	7 817 509	-
Recognized contract liabilities	367 752	903 165
Transferred to revenue for the period (see Note 2)	(1 168 993)	(300 970)
Transferred to future periods	19 050 934	12 034 666

17. BORROWINGS

	30.09.2021	31.12.2020
	EUR	EUR
Borrowings from credit institutions	63 488 715	-
Short-term loans from credit institutions	20 729 072	21 875 000
	84 217 787	21 875 000

During the reporting period, the Company received loans from Nordics Investment Bank, AS SEB banka and Swedbank AS, as well as extended the repayment term of the loan from OP Corporate Bank plc branch in Latvia. At the end of the reporting period, the Company's total borrowing amount is 84 217 thousand EUR, including the overdraft utilized 7 906 thousand EUR. At the end of the reporting period, the weighted average interest rate on long-term borrowing is 0.37% (in 2020: 0.6%).

18. OTHER LIABILITIES

	30.09.2021	31.12.2020
	EUR	EUR
Value added tax	342 970	611 961
Staff remuneration	419 551	382 599
Social contributions	236 400	267 146
Dividends undistributed from prior years	511 565	190 355
Other non-current liabilities	96 848	157 741
Personal income tax	114 974	131 367
Natural resources tax	94 003	43 237
Corporate income tax from theoretically distributed profit	5 077	3 539
Real estate tax	14 796	10
	1 836 184	1 787 955

19. PROVISIONS AND ACCRUED LIABILITIES

	30.09.2021	31.12.2020
	EUR	EUR
Provisions for annual performance bonuses	1 148 106	1 739 251
Accruals for gas losses in collector layer	474 710	-
Accrued liabilities for unreceived invoices	264 420	640 972
Accrued unused vacation costs	516 421	516 421
Accrued liabilities for annual audit	16 975	16 140
	2 420 632	2 912 784

20. FINANCIAL RISK MANAGEMENT AND FAIR VALUE

The principles and guidelines for general management of financial risks are set out in the Company's financial risk management policy. Financial risk management is ensured by the Member of the Board responsible for the financial area.

Company is exposed to the following financial risks: capital risk, interest rate risk, currency risk, credit risk and liquidity risk.

The Company's financial assets include receivables from contracts with customers, other debtors, cash and cash equivalents.

LIQUIDITY RISK

Liquidity risk is associated with ability of the Company to settle its obligations within agreed terms. Company follows prudent liquidity risk management when estimated annual, quarterly and monthly cash flows to ensure appropriate amount of funds necessary for operating activities. If necessary, Company can leverage short-term credit lines if needed. The liquidity reserves of the Company are made of the Company's own cash and cash equivalents and credit lines granted by credit institutions.

INTEREST RATE RISK

Interest rate risk arises from the use of borrowed cash resources to ensure liquidity. Company uses general borrowing to finance its operations.

The Company is exposed to interest rate risk as the borrowing has variable interest rates. The Company's financial risk management policy stipulates that the interest rate of the largest portion of the borrowing is variable.

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

CREDIT RISK

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

To restrict credit risk, the Company uses security deposits. As the end of reporting period the Company was not subject to significant credit risk related to its debtors as there were no overdue debts and all trade receivables were collected during April 2021.

CAPITAL RISK MANAGEMENT

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

CURRENCY RISK

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

21. ACCOUNTING POLICIES

BASIS OF PREPARATION

The unaudited financial statements of Company are prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union. The financial statements cover the period from 1 January 2021 to 30 September 2021.

The financial statements were prepared on a going concern basis. Assets and liabilities in the financial statements are measured on the historical cost basis, and items of property, plant and equipment are remeasured to fair value. The cash flow statement has been prepared in accordance with the indirect method. Financial indicators in the financial statements of the Company are reported in thousands of the EUR, unless stated otherwise.

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

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

CURRENCY UNIT AND REVALUATION OF FOREIGN CURRENCY

The items in the financial statements are expressed in Euro, which is the functional currency of the economic activity environment of the Company and official currency in the Republic of Latvia.

All transactions in foreign currencies are translated into euro at the exchange rate of the European Central Bank on the day of the relevant transactions. All monetary assets and liabilities denominated in foreign currencies are revalued to EUR according to the exchange rate on the last day of the reporting year. Gains or losses from the revaluation of foreign currencies are recognized in the profit and loss statement of the respective period.

SIGNIFICANT ESTIMATES AND JUDGEMENTS

The financial statements are prepared in accordance with IFRS, using significant management estimates and judgements. Judgements and accounting estimates affect the amounts of assets and liabilities at the balance sheet date and the amount of income and expenses for the reporting period. It should be noted that actual results may differ from the estimates and assumptions for the outcome of future events.

The management has determined the following areas of financial statements requiring significant estimates or judgements: estimation of the frequency of revaluation of property, plant and equipment, determining the replacement value of property, plant and equipment subject to revaluation and estimation of the remaining useful life of property, plant and equipment.

Amortisation of intangible assets and depreciation of property, plant and equipment are determined on the basis of approved useful lives, based on prior experience and industry practices. During revaluation process, the remaining useful live of revalued asset is estimated and usually – prolonged as compared to the previous estimate, as a result of technological improvements.

NON-FINANCIAL ASSETS AND LIABILITIES

INTANGIBLE ASSETS

Recognised as intangible assets are identifiable non-monetary assets without physical substance that are used for the provision of services or for operating purposes. Intangible assets of Company mainly consist of software licenses and patents.

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

PROPERTY, PLANT AND EQUIPMENT

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

The Company's buildings and constructions and equipment and machinery are stated at revalued amount. Revaluation shall be made with sufficient regularity to ensure the carrying amount does not materially differ from that which would be determined using fair value at the end of the reporting period. All other property, plant and equipment groups (including land, cushion gas, line fill and emergency reserve of spare parts) are stated at historical cost.

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

Assets in the process of construction, assembly or installation, but not yet ready for the intended use or are classified under Assets under construction. Subsequent costs are included in the asset's carrying amount based on asset recognition criteria. Current repair and maintenance costs are charged to the profit or loss statement as incurred.

Revaluation gain is included in Reserves under equity. Revaluation reserve is reduced if the revalued asset is disposed of, eliminated or an increase in value is no longer warranted according to the management's assessment. Revaluation surplus of written-off PPEs is transferred to the retained earnings under equity. During the useful life of the revalued within each reporting period, part of the revaluation reserve calculated as the difference between depreciation of the carrying amount of the revalued asset and depreciation of the from the initial cost value

are recognised as accumulated profits under equity.

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

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

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

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

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

LEASE

Upon adoption of IFRS 16 in the reporting period the Company recognised right-of-use assets for property (land) and office space leased by the Company in the ordinary course of business.

Initially right-of-use assets are measured at the present value of outstanding lease payments at the date of recognition. Lease payments are discounted using WACC set for the Company.

Subsequent to initial recognition, right-of-use assets are measured at cost. Under the cost model, right-of-use assets are measured at cost net of accumulated amortisation and impairment losses. Assets are amortised from the date of acquisition to the end date of lease. Subsequent to initial recognition, lease liabilities are measured:

- by increasing the carrying amount to reflect interest on lease liabilities and
- by reducing the carrying amount to reflect lease payments made.

Right-of-use assets relating to leased assets are disclosed in the statement of financial position separately from other assets and lease liabilities are disclosed separately from other liabilities. Interest expenses on lease liabilities are disclosed in the statement of profit or loss separately from amortisation of the right-of-use asset. IFRS 16 was implemented using the modified retrospective approach rather than the full application approach with 1 January 2019 as the date of the initial application, and rights of use and assets were recognised only for contracts signed after the above date.

During the reporting period the Company did not make use of a practical expedient for short-term leases and leases for which the underlying asset is of low value as such contracts were not signed during the reporting period.

INVENTORIES

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

The inventory of natural gas, materials and spare parts is measured using the weighted average price, except for the stock of natural gas,

which is measured according to FIFO. Inventories expenses are recognised in profit or loss when they have been consumed.

Provisions are made for impairment of obsolete, slow-moving or damaged inventories. The amount of provisioning is included in the profit or loss for the period. The required amount of provisions are reviewed periodically, at least on an annual basis.

PROVISIONS

Provisions for obligations are recognised when due to past events the Company has a present legal or constructive obligation and it is probable that an outflow of resources will be required to settle the obligation. Provisions are recognised if the amount can be reliably estimated. Provisions are not recognised for future operating losses.

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

PREPAID EXPENSES

Prepaid expenses represent expenses paid during the reporting year but relate to future periods.

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

Non-current prepaid expenses are subjected to amortisation and they are gradually recognized in the profit or loss based on their economic substance. Those prepaid expenses are disclosed under current assets that will be amortised during 12 months under profit or loss, and the remaining balance – within non-current assets.

DEFERRED INCOME

Grants linked to assets and EU funding for establishment of non-current investments are initially recognised under non-current portion of deferred income. Grants are recognised as revenue in the statement of profit or loss income gradually over the useful life of the underlying assets.

Short-term deferred income comprises payments received towards reservations of natural gas storage capacity. A receivable and revenue is recognised by the Company on the date the service is provided, and deferred income is reduced by a corresponding amount at the same time.

CONTRACT ASSETS

Contract assets include the right to a consideration for transmission and storage services provided, which have not been invoiced at the reporting date. These rights are included under receivables as accrued income. Accrued income includes clearly known amounts to be settled with clients in relation to transportation, storage and balancing operations of natural gas of the Company in the reporting year with regard to which the due date for issuing the payment supporting document (invoice) as set in the agreement has not arrived at the reporting date. These amounts are calculated based on fees for services set in effective agreements.

CONTRACT LIABILITIES

Contract liabilities consist primarily of advances paid by customers, deferred income for transmission and storage services provided. Deferred income is recognised if payments are received by the Company in the reporting period for services to be performed in future periods (following the reporting period). Payments included under deferred income are recognised as revenue in the reporting period in which the performance obligation is realised.

ACCRUED LIABILITIES

Accrued liabilities are recognised if the amount and maturity date of the liability is reasonably accurately determinable and the degree of uncertainty is significantly lower than that for provisions.

Accrued liabilities are recognised:

- for services for which the supporting document for payment (invoice) has not been received at the reporting date due to delivery, purchase or company contract provisions, or for other reasons. The amount of these liabilities is calculated based on the contract price and documents supporting actual receipts of goods or services;
- settlements with regard to annual staff vacations and bonuses.

FINANCIAL ASSETS

Financial assets include receivables, cash and cash equivalents. Classification depends on the purpose for which the financial asset was acquired. Financial assets are cash, instruments in equities of another party, contractual rights to receive cash or other financial assets and offset financial assets or financial liabilities, and a contract with equity based settlements.

Financial assets are derecognised when the contractual rights to receive cash flows from the financial asset have expired or have been transferred to another party or when substantially all the risks and rewards of ownership have been transferred.

ACCOUNTS RECEIVABLE

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Short term receivables are not discounted. Receivables are initially recognised at fair value and subsequently recognised at amortised cost using the effective interest rate less impairment allowances. Receivables from services provided are assessed by the Company using the expected credit loss model with impairment allowances recognised regardless of whether or not a loss event had taken place.

The Company uses a simplified approach to receivables and recognises life-time expected credit losses based on the analysis of historical credit losses and forward-looking information. The Company uses an

allowance matrix based on the ageing structure of receivables and the historical level of default for 3 years supplemented with forward-looking information. Expected credit losses for receivables are calculated based on the assumed risk of default and expected loss rates. In making these assumptions and selecting data for impairment calculation the Company relies on its experience, the present market conditions and forward-looking information at the reporting date.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise balances of current accounts and demand deposits at banks, as well as short term, highly liquid investments with initial maturity of up to 90 days that are readily convertible to cash and are not subject to significant risk of changes in value.

FINANCIAL LIABILITIES

Financial liabilities include loans and trade accounts payable and other creditors.

LIABILITIES

Accounts payable are initially recognised at fair value. In subsequent periods, accounts payable are carried at amortised cost calculated in accordance with the effective interest rate method. Accounts payable are classified as current liabilities if the payment term is one year

or less. Where the payment term exceeds one year accounts payable are classified as non-current liabilities.

The effective interest rate is a rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability. When calculating the effective interest rate, the Company estimates future cash flows considering all contractual terms of the financial instruments, but not future credit losses.

BORROWINGS

The Company obtains loans from credit institutions to finance long-term asset creation. Loans are initially recognised at the fair value net of borrowing costs. In future periods, loans are carried at amortised cost calculated using the effective interest rate of the loan.

The difference between the amount received, net of borrowing costs, and the value of the loan at maturity is gradually charged to the statement of profit or loss using the effective interest rate. The difference is recognised under finance expenses. Loans are classified as current liabilities except when the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Financial liabilities are derecognised when the underlying obligation is discharged or cancelled or expires.

REVENUE

IFRS 15, which was adopted by the Company in 2018, deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Entity adopts a five-step model to determine when to recognise revenue, and at what amount. The new model specifies that revenue should be recognised when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled.

Depending on whether certain criteria are met, revenue is recognised:

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

IFRS 15 also establishes the principles that a Company shall apply to provide qualitative and quantitative disclosures which provide useful information to users of financial statements 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 the different types of contracts with customers have been analysed, identifying the performance obligations, the determination of the calendar of satisfaction of these obligations, transaction price and allocation thereof, in order to identify possible differences with respect to the revenue recognition model under the new standard. No significant differences between them have been detected. IFRS 15 requires the recognition of an asset for incremental costs incurred in obtaining such contracts with customers and which are expected to be recovered. The current practices applied by Company imply that there are no contract costs to be capitalized.

Revenues derived from contracts with customers must be recognised based on compliance with performance obligations with customers. Revenue reflects the transfer of goods or services to customers at an amount that reflects the consideration to which Company expects to be entitled in exchange for such goods or services. Based on this recognition model, sales are recognised when services are rendered

to the customer and have been accepted by the customer, even if they have not been invoiced, and it is probable that the economic benefits associated with the transaction will flow to the Company. The specific accounting policies for the Company's main types of revenue are explained below.

Revenue from transmission services

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

Revenue from storage

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

Interest income

Interest income is recognised using the effective interest rate method. Interest income on term deposits is classified as Other income. Interest on cash balances is classified as Finance income.

Income from fines

Contractual penalties and late payment fines are recognised when it is certain that the Company will receive economic benefits, i.e., recognition usually coincides with the receipt of penalty.

Other income

Other income from services is recognized when services are provided. Other income from sale of materials is recognised when the buyer has accepted them.

Company maintains information on the quantity of natural gas entered in the transmission system and exited from it by the transmission

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

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

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

SHARE CAPITAL AND DIVIDENDS

The Company's share capital consists of ordinary voting shares. Share capital consists of ordinary shares. Nominal value of each share is EUR 1.00. The Company is owned by shareholders and it distributes dividends according to laws of the Republic of Latvia. Dividends are recognised as a liability in the Company's financial statements in the period in which the shareholders approves the amount of dividends.

LOANS FROM CREDIT INSTITUTIONS

Non-derivative financial liabilities are measured at fair value, at initial recognition and for disclosure purposes, at each annual reporting date. Fair value of financial liabilities with outstanding maturities longer than six months is calculated based on the present value of future principal and interest cash flows, discounted at the market interest rate at the measurement date. Loans include a fixed and floating interest rate components and changes to the fixed component are assessed each year according to changes in the market situation. As a result it is assumed that the loan interest rate approximates the market rate in all reporting dates presented. For finance leases the market interest rate is determined with reference to similar lease agreements. Fair value of shorter term financial liabilities with no stated interest rate is deemed to approximate their face value on initial recognition and carrying value on any subsequent date as the effect of discounting is immaterial.

PAYABLES AND RECEIVABLES

As trade receivables, amounts due from related parties, other receivables, other financial assets, accounts payable to contractors and other creditors, accounts payable to related parties and other financial liabilities typically mature in less than six months the Company believes that the fair value of these financial assets and liabilities matches their initial nominal value and their carrying amount at any future date.

The financial statements were prepared by:



AIJA MARTINSONE-STAGE

Head of Financial Accounting Division

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