conexus
BALTIC GRID

FINANCIAL STATEMENTS FOR 2023 (UNAUDITED)

Riga 2024

Prepared in accordance with IFRS Accounting Standards as adopted by the European Union

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INFORMATION ON THE COMPANY

Company	AS "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	AS „Augstsprieguma tīkls" (68.46%)
	"MM Infrastructure Investments Europe Limited" (29.06 %)
Financial statements period	1 January 2023 – 31 December 2023

Joint stock company AS "Conexus Baltic Grid" (hereinafter referred to as "the Company" or "Conexus") is a unified natural gas transmission and storage operator in Latvia 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 "the storage facility"), and the main natural gas transmission system, which directly connects Latvia's natural gas market to Lithuania and Estonia.

Customers of Conexus (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 takes care of the sustainability and safety of the infrastructure, high quality of services, which promote market development and provide 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 and sustainable employment, while at the same time ensuring minimal impact of technological processes on the environment.

WHO DO WE WANT TO BE?

Vision

Sustainable gas transmission and storage operator in regionally integrated energy market.

WHY DO WE EXIST?

Mission

Ensure reliable operation of gas transmission and storage through promotion of energy sector decarbonization and market development.

WHAT IS IMPORTANT TO US?

Values

Safety and security

It is important for us to have a secure and reliable gas transmission and storage.

Competence

We value employees' competence, knowledge, professional experience, and orientation towards development.

Cooperation

We support each other in decision making, we listen and search for common solutions internally, working with clients and partners.

Goals of Conexus

Medium-term (2023-2027) key goals of Conexus are related to three areas: **market development, infrastructure safety and security of supply, and sustainability**. The strategic goals of Conexus are set in accordance with Conexus' values, vision and mission.

MARKET DEVELOPMENT	Promote development and further integration of gas market, including promotion for growth of hydrogen and other gaseous energy carriers' markets	• **Facilitate integration of the regional market** • **Promote cooperation with other regional TSOs** to develop a unified position for the integration of biogas and hydrogen into the transmission networks, **by supporting biomethane injection into the transmission system** • **Further development of Inčukalns UGS services** by securing higher flexibility, including compression withdrawal option
INFRASTRUCTURE SAFETY AND SECURITY OF SUPPLY	Ensure available and secure gas transmission and storage infrastructure, at the same time researching and promoting adaptation options for injection of other gaseous energy carriers	• **Implement projects of common interests** • **Carry out research and development projects** to identify technical options and necessary investments for repurposing of existing infrastructure for blending or pure hydrogen usage, including by building a dedicated hydrogen infrastructure • Asset management based on future challenges
SUSTAINABILITY	Focus on climate and environmental sustainability aspects	When focusing on sustainability, Conexus shall target its attention to environmental aspects: • **E** – regional market integration that promotes renewable gas development, secure transmission, and storage infrastructure, while focusing on NOx and GHG emission reduction • **S** – safety-oriented culture, professional and development-oriented team • **G** – compliance with the Corporate Governance Code

Alongside strategic goals, Conexus has defined horizontal goals closely related to and all the planned medium-term activities.

Focus on organizational development and efficiency	Conexus will facilitate funding opportunities, as well as enhance operational efficiency.
Digitalisation and cybersecurity	Conexus will continue digitization projects focusing on operational technology, physical security, fire safety and cybersecurity.
Professional and development-oriented team	Conexus' value is a professional team, therefore the Company will development a program which shall provide opportunity for employees to develop skills by creating individual development plans. Learning new skills will be promoted to adapt to renewable gas technologies as well as transfer of skills and knowledge from experienced employees to new ones. To facilitate professional development of the team, Conexus shall create a competitive and flexible remuneration system.

Shareholders

The main governance institution of Conexus is the Shareholders' meeting, which appoints the Supervisory Council of Conexus.

Conexus is a closed 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 - AS "Augstsprieguma tīkls" (68.46 %) and "MM Infrastructure Investments Europe Limited" (29.06 %).

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

Shareholders as of 31 December 2023:

AS „AUGSTSPRIEGUMA TĪKLS" 68.46%

MM INFRASTRUCTURE INVESTMENTS EUROPE LIMITED 29.06%

OTHER SHAREHOLDERS 2.48%

Supervisory Council

Term of office from 27 April 2023 until 26 April 2026

(Since 3 January 2018)

ILMĀRS ŠŅUCINS
Chairman of the Supervisory Council

(Since 30 April 2020)

TOMOHIDE GOTO
Deputy Chairman of the Supervisory Council

(Since 28 April 2022)

IVARS MOISEJS
Member of the Supervisory Council

(Since 12 May 2021)

VIKTORS SENTUHOVSKIS
Member of the Supervisory Council

(Since 30 April 2020)

ZANE ĀBOLIŅA
Member of the Supervisory Council

(Since 27 April 2023)

MASANOBU FURUYA
Member of the Supervisory Council

(Since 30 April 2020)

NORMUNDS ŠUKSTS
Member of the Supervisory Council

Term of office until 27 April 2023

ILMĀRS ŠŅUCINS
Chairman of the Supervisory Council
(Since 3 January 2018)

TOMOHIDE GOTO
Deputy Chairman of the Supervisory Council
(Since 30 April 2020)

ZANE ĀBOLIŅA
Member of the Supervisory Council
(Since 30 April 2020)

YUKIKO FUJII
Member of the Supervisory Council
(Since 28 April 2022)

NORMUNDS ŠUKSTS
Member of the Supervisory Council
(Since 30 April 2020)

IVARS MOISEJS
Member of the Supervisory Council
(Since 28 April 2022)

VIKTORS SENTUHOVSKIS
Member of the Supervisory Council
(Since 12 May 2021)

Management Board

ULDIS BARISS

CHAIRMAN OF THE MANAGEMENT BOARD

Term of office:
from 16 November 2020 until 15 November 2023;
from 16 November 2023 until 15 November 2028

MĀRTIŅŠ GODE

MEMBER OF THE MANAGEMENT BOARD

Term of office:
from 31 December 2017 until 31 December 2023;
from 1 January 2024 until 31 December 2028.

RINALDS DIMIŅŠ

MEMBER OF THE MANAGEMENT BOARD

Term of office:
from 1 January 2024 until 31 December 2028.

GINTS FREIBERGS

MEMBER OF THE MANAGEMENT BOARD

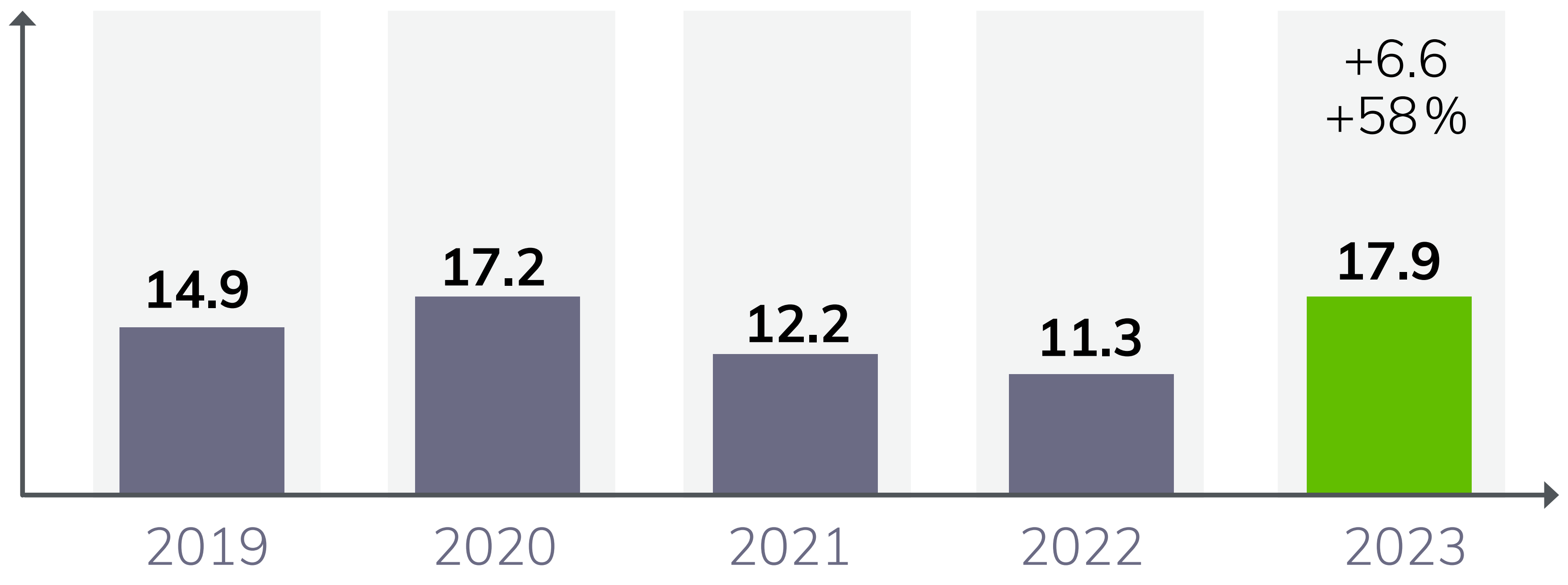
Term of office:
from 22 Decembrer 2016 until 31 Decembrer 2020;
from 1 January 2021 until 31 Decembrer 2023.

MANAGEMENT REPORT

Main activities

Amount of natural gas stored in Inčukalns UGS

Inčukalns UGS filling at the end of reporting year, TWh



At the end of the reporting year, 17.9 TWh of natural gas is stored in Inčukalns UGS (including energy supply security reserves), which is 58 % above the same time a year ago and is the largest amount of natural gas stored in the storage facility in the last five years. On 15 October 2023, at the beginning of natural gas withdrawal season, Inčukalns UGS held 21.7 TWh of natural gas. The withdrawal season has commenced with the largest amount of natural gas stored in Inčukalns UGS in the last five years.

To ensure safe and continued supply injection of natural gas into storage was continued also during 2022/2023 withdrawal season. Usually, injection into Inčukalns UGS starts after the end of withdrawal season, which is set for 30 April each year.

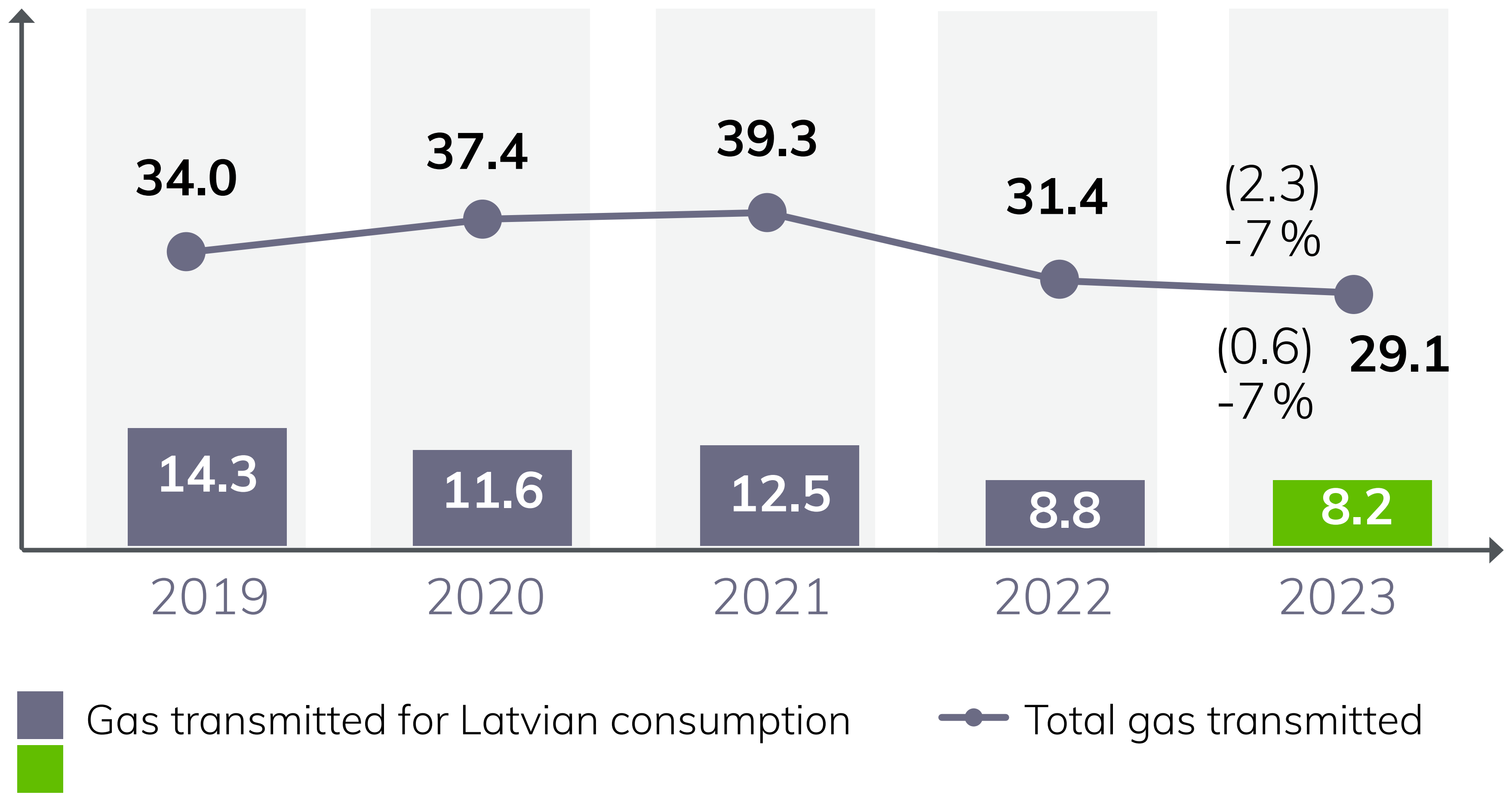
Natural gas supply

In 2023, Conexus ensured uninterrupted supply of natural gas to users in Latvia, as well as natural gas transmission and storage services for Lithuania, Estonia and Finland[1]. Deliveries of natural gas were made from the Klaipeda liquefied gas terminal, from the Inkoo liquefied gas terminal and from Inčukalns UGS. Natural gas from the Russian Federation has not been supplied for consumption in Latvia[2]. During the reporting year, the volume of natural gas transmitted from Lithuania reached 17.7 TWh, the volume of natural gas transmitted from Finland reached 4.1 TWh and 7.3 TWh were injected into the transmission system from storage. The total volume of gas transmitted in Latvia during the reporting year reached 29.1 TWh, which is 7 % less than in the prior year.

[1] Conexus ensured the service to Finland until 8 October 2023. Since October 8, when the underwater gas pipeline connecting Finland and Estonia "Balticconnector" was closed, Finnish consumers have been supplied through Inkoo liquefied natural gas terminal.

[2] Energy law, Article 106.

Transmitted natural gas, TWh



Consumption of natural gas in Latvia in 2023 reached 8.2 TWh, which is 7 % less than in the prior year. The decrease was caused by weather conditions that were milder this winter than in 2022, which led the users to consume less natural gas for heating purposes, as well as by the high gas prices, which also caused the users to reduce their consumption of natural gas. Reduction of the consumption was partially offset by increase in electricity generation in the country's largest thermal power plants[3].

Results of the storage capacity auctions

During the reporting year, several auctions of Inčukalns UGS capacity were held, in which system users were granted a total capacity of 13.4 TWh – 9.4 TWh of the one-year bundled capacity product for 2023/2024 storage cycle, 4 TWh of the two-year bundled capacity product for the 2023/2025 storage cycle. The storage capacity offered in the auctions was fully booked. The total requested amount of the storage capacity exceeded the available capacity more than 3 times. As a result of the auctions, applicable premium ranged from 2.53 EUR/MWh to 4.08 EUR/MWh. Effective rate of the premiums is 1.62 EUR/MWh (premium earned against 22.6 TWh capacity booked). Storage cycle capacity auctions were completed with the auction held on 10 May 2023, in which the last available storage capacity was auctioned.

Conexus' financial results

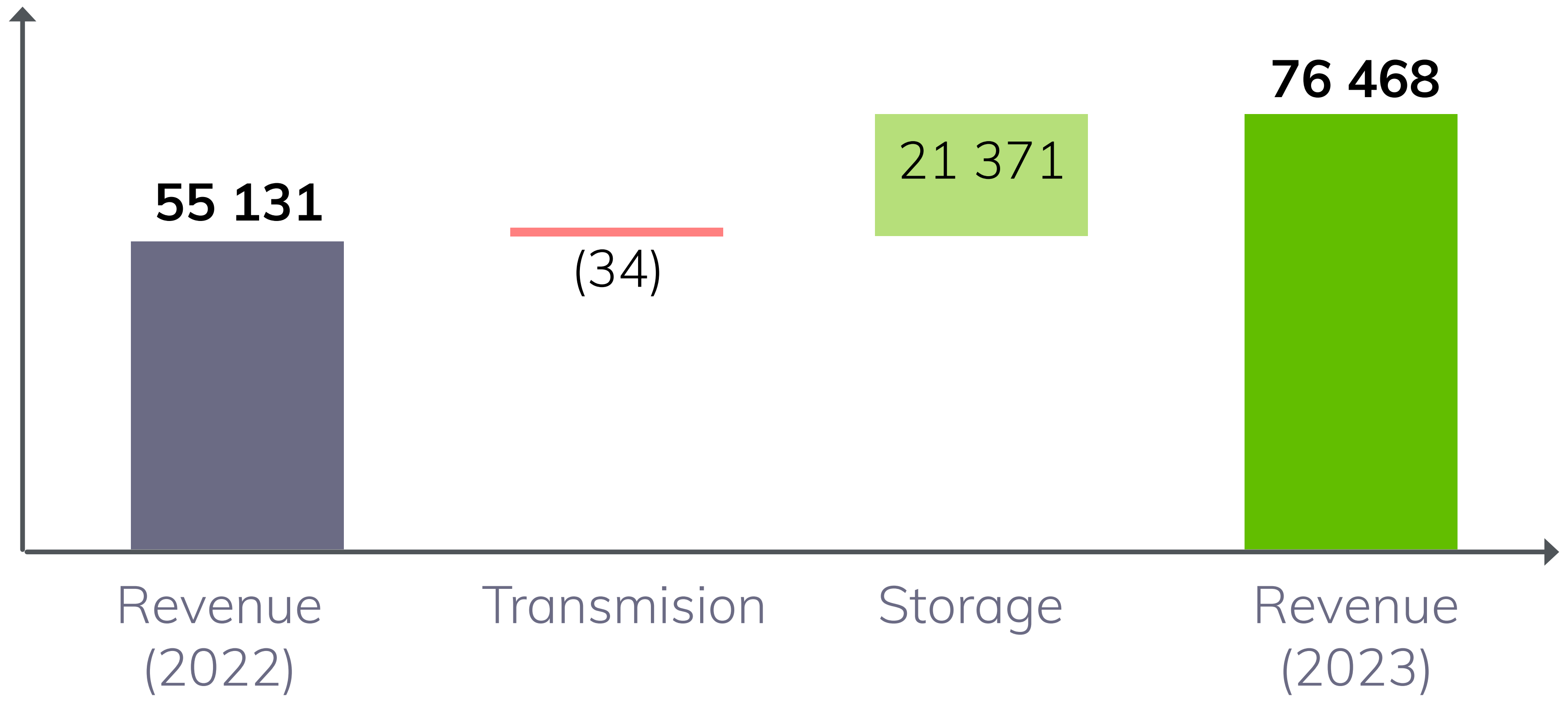
The net turnover in the reporting year was 39 % higher than in the previous year and reached EUR 76 468 thousand. During the reporting year, Conexus EBITDA increased by 57 % in comparison to 2022 reaching EUR 50 502 thousand. The revenue and EBITDA were positively affected by the increase in storage service revenues and EBITDA, while the transmission segment revenues and EBITDA remained relatively unchanged.

During the reporting year, Conexus' net profit was EUR 16 172 thousand, which is EUR 4 807 thousand more than in the prior year.

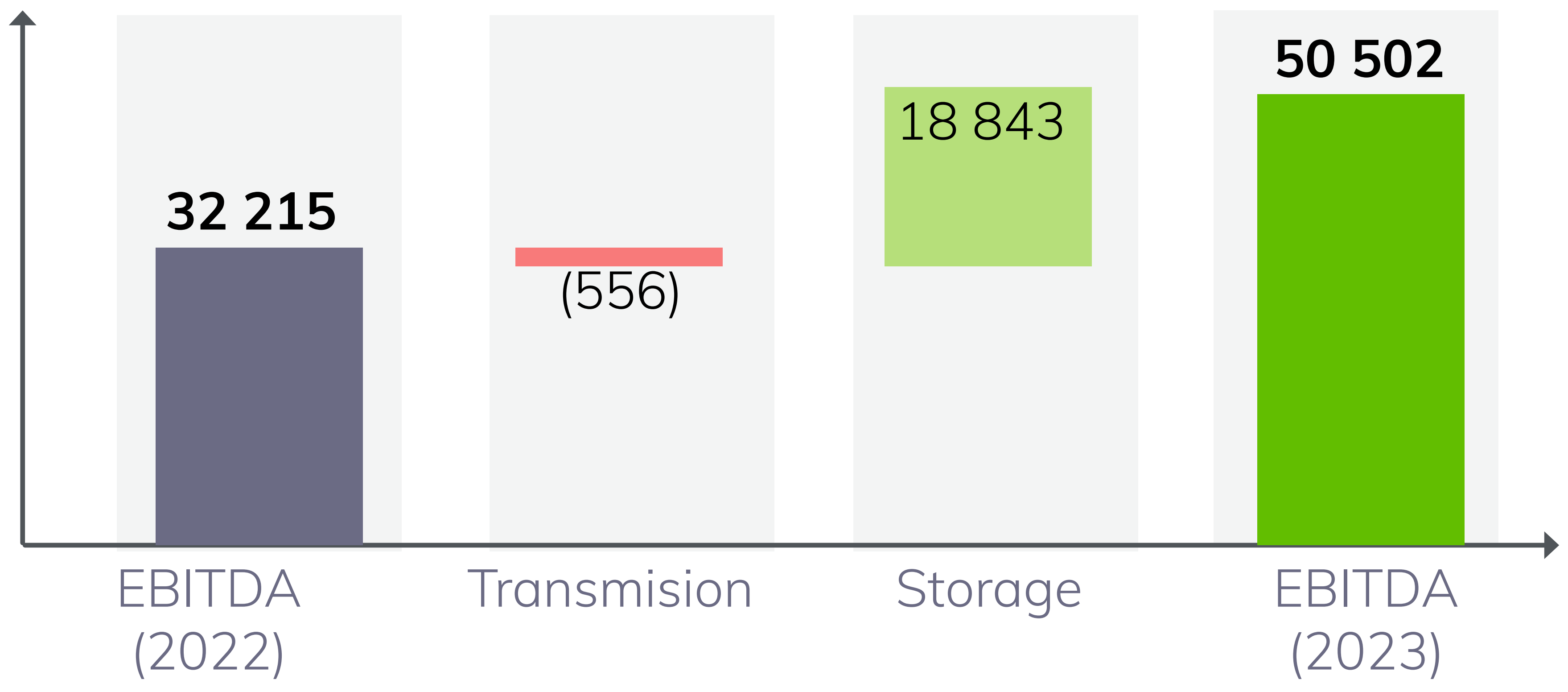
MAIN FINANCIAL INDICATORS	2023 or 31.12.2023	2022 or 31.12.2022	+/-	%
	EUR'000	EUR'000		
Net turnover	**76 468**	**55 131**	**21 337**	**39 %**
EBITDA	50 502	32 215	18 287	57 %
Net profit	**16 172**	**11 365**	**4 807**	**42 %**
Total assets	469 284	463 809	5 475	1 %
Investments (additions of intangible assets and PPE)	33 568	14 941	18 627	125 %

[3] https://ast.lv/lv/electricity-market-review

Conexus revenue, `000 EUR



Conexus EBITDA, `000 EUR



Financing and liquidity

The financial assets held by Conexus are sufficient to meet Conexus' financing needs. At the end of the reporting year, the total amount of Conexus' borrowings is EUR 79 544 thousand, overdrafts have not been used. The amount of overdrafts available to Conexus at the end of the reporting year reaches EUR 65 000 thousand, which provides significant liquidity reserve. The duration of agreements for the overdraft facilities is less than 1 year. At the end of the reporting year, Conexus holds long-term loan agreements amounting to EUR 45 000 thousand with expected withdrawal of funds during 2024.

All financial covenants set in Conexus' loan agreements have been complied with during the reporting year.

CONEXUS' FINANCIAL COVENANTS	31.12.2023	31.12.2022
Shareholders' equity ratio (>50 %)	70 %	72 %
Net debt to EBITDA ratio (<5)	1.3	2.7
Debt-Service Coverage Ratio (DSCR) (>1.2)	3.3	2.9

Carrying value of storage system service assets

In accordance with IFRS Accounting Standards, in order to ensure that the carrying amount of assets does not differ significantly from the fair value of assets, revaluation of certain asset classes has been carried out in 2023, which resulted in a reduction of the carrying amount (impairment) of storage system service assets by EUR 23 488 thousand. Company's revaluation reserves have been reduced by EUR 11 743 thousand, but EUR 11 745 thousand is recognized under "Depreciation, amortisation, and PPE impairment" line of the Company's Income statement for 2023. The impairment of storage system service assets is justified by the decision of the Public Utilities Commission regarding the utilization of the regulatory account balance of storage system service, as well as the subsequent revaluation of some classes of assets by setting the value of these classes at fair value. Additional information is set out in Note 9.

Regulatory account balance for the storage system service at the end of the storage cycle (30 April 2024) is expected to be EUR 29 648 thousand. The premium paid by system users for storage cycle set in the storage capacity auctions that took place in the spring of 2023, initially increased the balance of the storage system service regulatory account at the end of the storage cycle (30 April 2024) to EUR 43 312 thousand. In accordance with the methodology for calculating tariffs for the natural gas storage system service, the Public Utility Commission had to decide on the usage of the regulatory account balance, since the amount thereof exceeds 50 % of the revenue planned in the tariff period. In its Decision No 162 of 28 December 2023, Public Utilities Commission decided to allocate 50 % of the regulatory account balance to finance assets of the storage system service set up in the current regulatory period. As a result of this decision, value of the assets set up by the investment in the storage system service will not be included in RAB value and will not provide a return, so the regulatory carrying amount of Conexus' storage system service assets will be impaired by EUR 21 656 thousand. The regulatory carrying amount of the storage system service assets has been impaired by EUR 13 664 thousand in 2023, whereas the remaining EUR 7 992 thousand is expected to impair the regulatory carrying amount of the storage system service assets in 2024.

Legal events

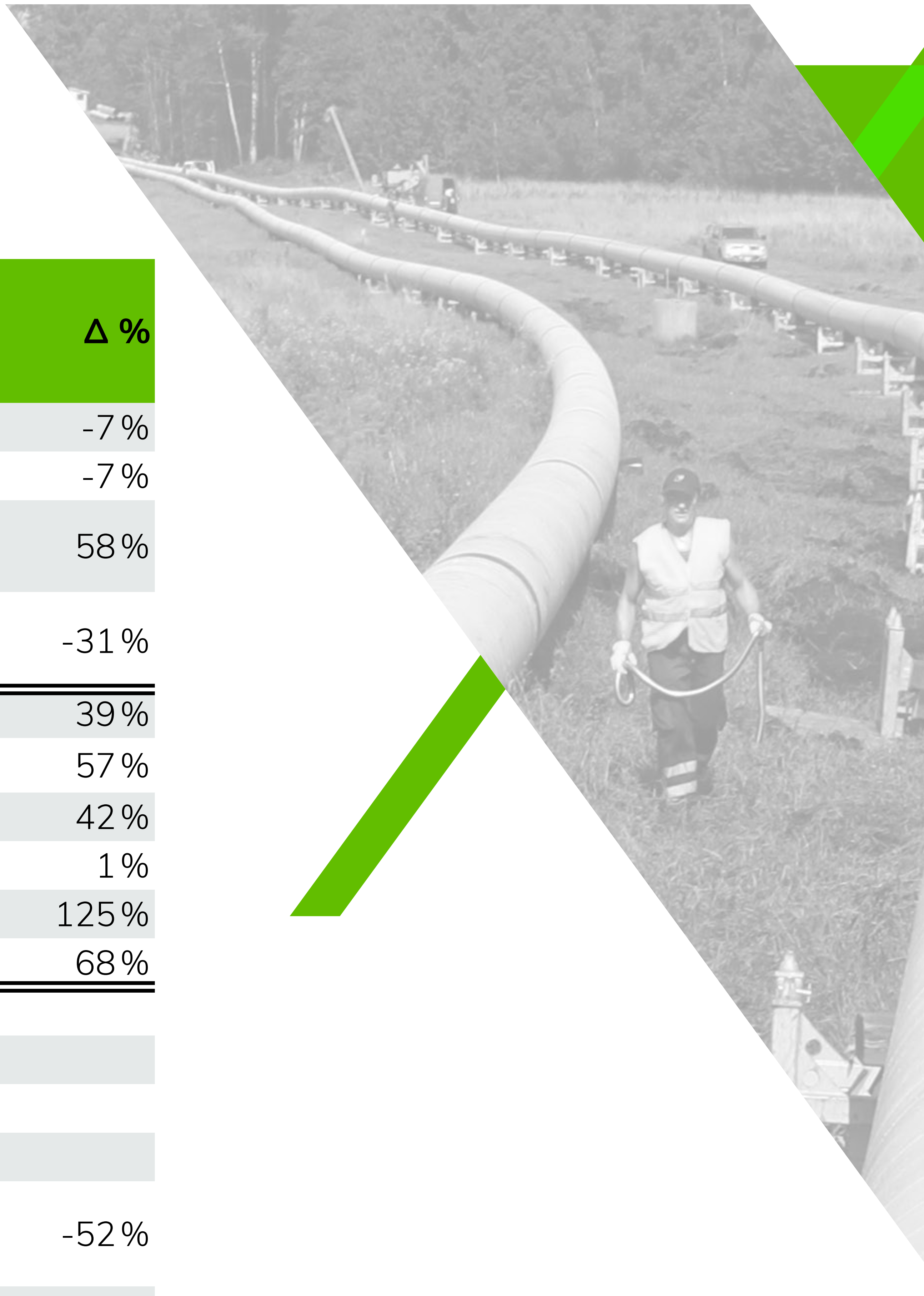
On 18 September 2018, Conexus filed an application to the Administrative district court challenging the decision No 69 of the PUC Council "On AS "Conexus Baltic Grid" natural gas transmission system tariffs" dated 18 June 2018, in relation to expenses not included in the transmission system tariff project and issuance of a new administrative act, intending to include the excluded expenses in the tariff project for the next period. By decision of the Administrative district court dated 7 April 2020, the application was rejected. Conexus submitted cassation complaint to the Department of Administrative Cases of the Senate of the Supreme Court on 7 May 2020 and the cassation proceedings were initiated. On 12 January 2024, the Senate of the Supreme Court passed a judgment rejecting Conexus' application. The judgment is not subject to appeal.

On 13 May 2020, Conexus filed an application to the Administrative district court regarding cancellation of the PUC Council's decision No 30 dated 9 April 2020 "On the request for an extension of certification conditions fulfilment deadline by AS "Conexus Baltic Grid"" and decision No 31 dated 9 April 2020 "On the imposition of an obligation and a warning to the AS "Conexus Baltic Grid"". With the decision of the Administrative district court dated 15 January 2021, the application was upheld, declaring Decision No 30 unlawful from the time of its adoption and annulling paragraph 2 of Decision No 31 PUC submitted cassation complaint to the Department of Administrative Cases of the Senate of the Supreme Court and the cassation proceedings were initiated. The date of the hearing has not been set 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 "Regarding the Capital Return Rate for the Calculation of the Draft Tariff for Natural Gas Transmission System, Natural Gas Distribution System, and Natural Gas Storage Services". By decision of 3 January 2024, the Court decided to refer to the Court of Justice of the European Union concerning the interpretation of the provisions of European Union law applicable to the case. Pending the opinion of the Court of Justice of the European Union, the proceedings in the present case have been suspended.

On 13 September 2023, Conexus filed an application to the Administrative district court regarding cancellation of the PUC Council's decision No 83 dated 10 August 2023 "On the rate of return on capital for the calculation of the tariff project for natural gas transmission system, natural gas distribution system and natural gas storage services". This decision sets an unreasonable low rate of return on capital (1.48 %) to be applied in the calculation of the new tariff for the transmission service in case of submission of new transmission tariff. The first hearing is scheduled for 11 April 2024.

Key financial indicators



			2019 or 31.12.2019	2020 or 31.12.2020	2021 or 31.12.2021	2022 or 31.12.2022	2023 or 31.12.2023	Δ	Δ %
Operating indicators	Transmitted natural gas	TWh	34.0	37.4	39.3	31.4	29.1	(2.3)	-7 %
	Volume of natural gas consumed in Latvia*	TWh	14.3	11.6	12.5	8.8	8.2	(0.6)	-7 %
	Inčukalns UGS filling at the end of reporting year**	TWh	14.9	17.2	12.2	11.3	17.9	6.6	58 %
	Volume of natural gas withdrawn from Inčukalns UGS	TWh	10.5	11.6	17.9	10.6	7.3	(3.3)	-31 %
Financial indicators	Net turnover***	`000 EUR	60 526	54 283	56 911	55 131	76 468	21 337	39 %
	EBITDA	`000 EUR	34 216	30 103	33 565	32 215	50 502	18 287	57 %
	Net profit	`000 EUR	17 945	13 112	13 217	11 365	16 172	4 807	42 %
	Total assets	`000 EUR	362 400	453 092	468 070	463 809	469 284	5 475	1 %
	Investments	`000 EUR	13 944	22 118	27 352	14 941	33 568	18 627	125 %
	Depreciation and amortisation	`000 EUR	16 080	16 823	17 806	17 859	29 938	12 079	68 %
Financial coefficients	EBITDA profitability	%	57 %	55 %	59 %	58 %	66 %	8 ppt	
	Net profitability	%	30 %	24 %	23 %	21 %	21 %	0 ppt	
	Return on Equity ratio (ROE)	%	5.8 %	3.5 %	3.6 %	3.4 %	4.8 %	1.4 ppt	
	Shareholders' equity ratio****	%	87 %	89 %	71 %	72 %	70 %	(2 ppt)	
	Net debt to EBITDA ratio (Net debt / EBITDA)*****	coef.	0.6	0.8	3.0	2.7	1.3	(1.4)	-52 %
	Debt-service Coverage Ratio (DSCR)******	coef.	9.3	8.3	3.7	2.9	3.3	0.4	14 %
	Average number of employees	number	343	341	352	356	361	5	1 %

* Volume of natural gas injected into the distribution system
** Including energy supply security reserves
*** Comparative figures reclassified to be comparable with 2023 figures

Financial covenants:
**** Shareholders' equity ratio > 50 %
***** Net debt to EBITDA ratio < 5
****** Debt-Service Coverage Ratio (DSCR) > 1.2

Other events and further development

With the aim to promote production of biomethane and its free circulation in Latvia, Conexus continues to develop a solution, allowing biomethane producers to deliver biomethane to a centralised biomethane entry point using special mobile gas containers to be fed into the common gas transmission system.

The European Union's (EU) and European Commission's energy transformation and decarbonisation pathway obliges member states to significantly reduce their GHG emissions in the long term and to promote a transition towards renewable energy. The transformation strategy is based on the development of a hydrogen economy, in which hydrogen will be used as energy carrier and means of storage of renewable energy for future use. During the reporting year, Conexus, together with other national transmission system operators "Gasgrid Finland" (Finland), "Elering" (Estonia), "Amber Grid" (Lithuania), "Gaz System Poland" (Poland) and "Ontras" (Germany), has launched Northern-Baltic Hydrogen Corridor project, which aims to establish a cross-border hydrogen transmission corridor from Finland through Estonia, Latvia, Lithuania and Poland to Germany by 2030.

Implementation of climate-friendly and sustainable energy solutions is one of Conexus' strategic directions. During the reporting year, Conexus has concluded a contract for the construction of a solar panel park, including purchase of the equipment, in the territory of Inčukalns UGS following an open procurement procedure. The project is planned to be completed by the next spring. The use of solar energy is expected to generate around 1 000 000 kWh per year and it is forecasted to provide 25 % of the total electricity consumption in the storage.

On 13 December 2023, the Association of Issuing Bodies (AIB) formally approved the Conexus' gas domain protocol for Latvia making Conexus a formal member of the AIB's Gas Scheme Group. The Domain Protocol sets out the rules for the circulation of guarantees of origin allowing the issuance of gas guarantees of origin that comply with the international standard. In accordance with the requirements of the Energy Law, Conexus has established a system for the issuance, circulation and control of guarantees of origin for gas from renewable energy sources implementing the system in accordance with the requirements of the European Energy Certificate System (EECS) developed by the European Association of Issuing Bodies. The approval of the domain protocol ensures that the registry is legally recognised in the member countries of the European Association of Issuing Bodies. EECS provides a reliable, internationally recognised standard of origin for biomethane injected into the interconnected gas system. Conexus administers the guarantees of origin in an electronic register, which has been set up and maintained by the Finnish information technology company "Grexel Systems Oy" in accordance with the requirements set by Conexus and EECS.

During the reporting year, Conexus continued active work on Inčukalns UGS modernisation project, where the technical infrastructure and equipment safety is to be significantly improved by 2025 to maintain the functionality of Inčukalns UGS after increase of pressure within the national transmission network.

"Enhancement of Latvia-Lithuania Interconnection" (ELLI) project was completed in 2023. At the end of 2019, the European Climate, Infrastructure and Environment Executive Agency (formerly the Innovation and Networks Executive Agency) approved the allocation of funds in the amount of EUR 10 million for the project to increase the capacity of the Lithuanian-Latvian gas pipeline. From the funds provided EUR 5.5 million was allocated to Conexus. Within the project, Conexus implemented 17 sub-projects in Latvia, such as rebuilding of several valve nodes, branch lines to GRS and GRS connections to pipeline. Prior to the project, the capacity of the cross-border point

was limited to 67.6 GWh/d from Lithuania to Latvia and 65.1 GWh/d from Latvia to Lithuania. From 13 November 2023, following the implementation of the project, the capacity was increased to 90 GWh/d in the direction towards Latvia with a possible dynamic increase to approximately 100 GWh/d and to 82 GWh/d in the direction towards Lithuania with a possible dynamic increase to approximately 100 GWh/d. For a limited period of time and under specific operating conditions of the transmission system, system operators can provide technical capacity of up to 130 GWh/d from Lithuania to Latvia and up to 119 GWh/d from Latvia to Lithuania.

International credit rating agency S&P Global Ratings (S&P) has left unchanged the long-term issuer credit rating assigned to Conexus. The BBB+ credit rating with a stable outlook has been maintained. In its report, S&P notes that it views Latvia's regulatory framework for gas transmission and storage as supportive for the sector and offers regulatory transparency at least until 2026.

Subsequent events

According to the management's assessment, there are no subsequent circumstances or events since the last date of the reporting year until the signing of this report that would have a significant effect on the financial position of Conexus as of 31 December 2023.

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 including overdrafts minus cash and cash equivalents
EBITDA profitability	EBITDA / income
Net profitability	net profit / income
Return on equity ratio (ROE)	net profit / equity average value (over the reporting period)
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 MANAGEMENT BOARD'S RESPONSIBILITY

The Management Board of the Company is responsible for preparing its financial statements.

Based on the information available to the Management Board of AS "Conexus Baltic Grid", unaudited financial statements for the year ended 31 December 2023 have been prepared in accordance with IFRS Accounting Standards as adopted by the European Union and in all material aspects present a true and fair view of the assets, liabilities, financial position, profit and loss and respective cash flows. Information provided in the Management Report is accurate.

ULDIS BARISS	RINALDS DIMIŅŠ	MĀRTIŅŠ GODE
Chairman of the Management Board	Member of the Management Board	Member of the Management Board

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FINANCIAL STATEMENTS

INCOME STATEMENT

	Note	2023	2022
		EUR	EUR
Revenue	2	76 467 879	55 131 399
Other income	3	1 049 741	881 767
Maintenance and operating costs	4	(8 079 268)	(7 326 125)
Personnel expenses	5	(15 985 653)	(13 834 205)
Other operating costs	6	(2 950 649)	(2 638 298)
Depreciation, amortisation, and PPE impairment	8, 9, 11	(29 938 201)	(17 858 532)
Operating profit		**20 563 849**	**14 356 006**
Financial costs	7	(2 303 314)	(604 096)
Profit before tax		**18 260 535**	**13 751 910**
Corporate income tax	23	(2 088 770)	(2 387 165)
Profit for the year		**16 171 765**	**11 364 745**

Notes on pages 24 to 64 form an integral part of these financial statements.

ULDIS BARISS
Chairman of the
Management Board

RINALDS DIMIŅŠ
Member of the
Management Board

MĀRTIŅŠ GODE
Member of the
Management Board

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STATEMENT OF COMPREHENSIVE INCOME

	Note	2023	2022
		EUR	EUR
Profit for the year		**16 171 765**	**11 364 745**
Other comprehensive income / (loss):			
Revaluations of post – employment benefits as a result of changes in actuarial assumptions	18	29 480	59 045
Revaluation reserves decrease in property, plant and equipment	9, 16	(12 291 041)	(921 246)
Total other comprehensive loss not to be reclassified to profit or loss in subsequent periods		**(12 261 561)**	**(862 201)**
Total comprehensive income		**3 910 204**	**10 502 544**

Notes on pages 24 to 64 form an integral part of these financial statements.

ULDIS BARISS
Chairman of the Management Board

RINALDS DIMIŅŠ
Member of the Management Board

MĀRTIŅŠ GODE
Member of the Management Board

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STATEMENT OF FINANCIAL POSITION

	Note	31.12.2023	31.12.2022
ASSETS		**EUR**	**EUR**
Long-term investments			
Intangible assets	8	17 990 579	2 108 009
Advances for intangible assets		40 700	-
Property, plant and equipment	9	418 229 727	427 077 998
Advances for property, plant and equipment		2 483 546	5 322 009
Long-term deferred expenses	10, 15	-	1 007 865
Right-of-use assets	11	448 358	461 503
Total long-term investments		**439 192 910**	**435 977 384**
Current assets			
Inventories	12	4 677 609	3 690 935
Receivables from contracts with customers	13	11 555 119	10 237 307
Other receivables	14	265 160	2 456 478
Deferred expenses	10, 15	640 226	480 075
Cash and cash equivalents	24, 28	12 953 450	10 967 116
Total current assets		**30 091 564**	**27 831 911**
TOTAL ASSETS		**469 284 474**	**463 809 295**

Notes on pages 24 to 64 form an integral part of these financial statements.

ULDIS BARISS
Chairman of the Management Board

RINALDS DIMIŅŠ
Member of the Management Board

MĀRTIŅŠ GODE
Member of the Management Board

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STATEMENT OF FINANCIAL POSITION (continued)

	Note	31.12.2023	31.12.2022
EQUITY AND LIABILITIES		**EUR**	**EUR**
Equity			
Share capital		39 786 089	39 786 089
Own shares		(23 352)	(24 270)
Reserves	16	188 650 930	207 960 842
Retained earnings		100 503 041	85 638 003
Total equity		**328 916 708**	**333 360 664**
Non-current liabilities			
Borrowings from credit institutions	19	65 568 897	69 468 183
Deferred income	17	26 070 874	24 957 748
Employee benefit obligations	18	1 331 477	1 351 768
Non-current lease liabilities	11	450 798	459 358
Total non-current liabilities		**93 422 046**	**96 237 057**
Current liabilities			
Borrowings from credit institutions	19	13 974 779	12 961 766
Trade payables	20	5 781 591	7 411 426
Other liabilities	21	2 373 934	2 204 749
Accrued liabilities	22	17 696 397	2 260 852
Deferred income from contracts with customers	17	4 475	-
Deferred income, other	17	974 483	767 335
Advances from customers	13	6 112 857	8 580 382
Current lease liabilities	11	27 204	25 064
Total current liabilities		**46 945 720**	**34 211 574**
TOTAL EQUITY AND LIABILITIES		**469 284 474**	**463 809 295**

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STATEMENT OF CHANGES IN EQUITY

	Note	Share capital	Own shares	Reserves	Retained earnings	Total
		EUR	EUR	EUR	EUR	EUR
Opening balance at 01.01.2022		**39 786 089**	**(25 320)**	**216 230 918**	**76 412 620**	**332 404 307**
Dividends		–	1 050	–	(9 548 661)	(9 547 611)
Reduction of revaluation reserve	16	–	–	(8 329 121)	7 409 299	(919 822)
Other comprehensive income:						
Revaluations of post-employment benefits as a result of changes in actuarial assumptions	18	–	–	59 045	–	59 045
Total other comprehensive income		–	–	59 045	–	59 045
Profit for the year		–	–	–	11 364 745	11 364 745
Total		–	*1 050*	*(8 270 076)*	*9 225 383*	*956 357*
As 31 December 2022		**39 786 089**	**(24 270)**	**207 960 842**	**85 638 003**	**333 360 664**
Opening balance at 01.01.2023		**39 786 089**	**(24 270)**	**207 960 842**	**85 638 003**	**333 360 664**
Dividends		–	918	–	(8 355 078)	(8 354 160)
Reduction of revaluation reserve	16	–	–	(7 596 715)	7 048 351	(548 364)
Other comprehensive income:						
Reduction of the revaluation reserve as a result of revaluation	*16*	–	–	*(11 742 677)*	–	(11 742 677)
Revaluations of post-employment benefits as a result of changes in actuarial assumptions	18	–	–	29 480	–	29 480
Total other comprehensive income		–	–	*(11 713 197)*	–	*(11 713 197)*
Profit for the year		–	–	–	16 171 765	16 171 765
Total		–	*918*	*(19 309 912)*	*14 865 038*	*(4 443 956)*
As 31 December 2023		**39 786 089**	**(23 352)**	**188 650 930**	**100 503 041**	**328 916 708**

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STATEMENT OF CASH FLOWS

	Note	2023	2022
Cash flow from operating activity		**EUR**	**EUR**
Profit before corporate income tax		**18 260 535**	**13 751 910**
Adjustments:			
- depreciation and impairment of property, plant and equipment	9	29 194 738	17 123 684
- depreciation of the right-of-use assets	11	13 145	26 251
- amortisation of intangible assets	8	730 319	708 597
- loss / (profit) on disposal of PPEs	6	152 767	(34 135)
- changes in provisions		(20 291)	(22 367)
- amortisation of the EU co-financing	3	(820 889)	(614 520)
- interest expense		2 389 890	609 927
- interest income		(80 105)	-
Changes in the working capital:			
- decrease of receivables from contracts with customers, other receivables and deferred expenses		713 357	1 083 048
- increase in inventories		(986 674)	(1 064 396)
- (decrease) / increase of lease liabilities, trade payables, accrued liabilities, advances from customers and other liabilities		(4 331 736)	3 036 874
Corporate income tax paid		(2 088 770)	(2 387 165)
Net cash flow from operating activity		**43 126 286**	**32 217 708**
Cash flow from investing activity			
Acquisition of property, plant and equipment	9	(28 958 250)	(16 873 561)
Acquisition of intangible assets	8	(501 400)	(926 543)
Proceeds from the sale of property, plant and equipment items		4 789	35 866
Received EU co-financing	17	2 141 164	7 643 940
Net cash flow from investing activities		**(27 313 697)**	**(10 120 298)**

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STATEMENT OF CASH FLOWS (continued)

	Note	2023	2022
Cash flow from financing activities		**EUR**	**EUR**
Interest paid	19	(2 568 496)	(563 790)
Borrowings received	19	10 000 000	20 000 000
Borrowings repaid	19	(12 899 286)	(35 688 383)
Lease payments	11	(27 203)	(40 217)
Dividends paid		(8 331 270)	(9 514 014)
Net cash flow from financing activity		**(13 826 255)**	**(25 806 404)**
Net cash flow		**1 986 334**	**(3 708 994)**
Cash and cash equivalents at the beginning of the reporting year		**10 967 116**	**14 676 110**
Cash and cash equivalents at the end of the reporting year		**12 953 450**	**10 967 116**

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NOTES TO THE FINANCIAL STATEMENTS

1. SEGMENT INFORMATION

Description of segments

Conexus is operating in two segments: natural gas transmission and natural gas storage. Conexus derives all of its revenue from regulated services applying the tariffs set by the regulatory authority. The split of information included into operating segments corresponds to the split of regulated services. This split is defined in the internal management accounting system and is applied both in the appraisal of results and in the decision-making. Segment information (segment profit or loss statements and investments made) is regularly submitted to Conexus' Management Board and Conexus' Supervisory Council.

NATURAL GAS TRANSMISSION

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

The natural gas transmission segment generates revenue from capacity trading for natural gas consumption in Latvia as well as international natural gas transportation.

The regulatory (tariff) periods for the natural gas transmission system service differ from the financial reporting year. In accordance with the Methodology for the Calculation of the Tariffs of the Natural Gas Transmission System Services, deviations of income and expenses may occur against the allowed ones during the tariff period, which will affect tariff values in the subsequent tariff period. In the transmission segment, such deviations can occur due to actual consumption of natural gas differing from the one planned in the tariffs, leading to revenue adjustment. Actual revenue of transmission segment generated during gas years from 1 January 2020 until 30 November 2023 is EUR 16.7 million less than the allowed revenue for the same period. The allowed revenue for the regulatory period set from 1 December 2023 to 30 September 2026 is increased by the amount of the ungained revenue.

On 26 October 2023, The Regulator's Council made a decision[4] on transmission system service tariffs, which entered into force on 1 December 2023. According to the decision, the fee for using the exit point for supplying consumers in Latvia increases by 37 % from 1.9296946 EUR/MWh to 2.6488301 EUR/MWh, whereas the tariffs for standard yearly capacity product, short term standard capacity product, interruptible capacity product and interruptible virtual counterflow capacity product of the natural gas transmission system do not change and retain their current values. Conexus estimates that the fee increase for usingthe exit point for supplying consumers in Latvia will impact the natural gas invoice by 0.5-1.1 % depending on consumption. Although the overall costs for the transmission system service have decreased, the increase in tariffs is driven by a decrease in natural gas consumption in Latvia in the recent years.

The largest investments of the transmission system service in the reporting year:

- Within the framework of the European project of common interest PCI 8.2.1 "Enhancement of Latvia-Lithuania Interconnection" (ELLI), Conexus invested a total of EUR 1 079 thousand in several sub-projects during the reporting year. Main activities were carried out on the reconstruction of Zaķumuiža, Daugmale and Vangaži gas regulation stations. ELLI project has been completed;

[4] https://likumi.lv/ta/id/346867

- Investments made in replacing insulation of gas pipelines in the section between Izborsk – Inčukalns UGS in the amount of EUR 6 160 thousand;
- Repairs of transmission gas pipeline sections and their anti-corrosion insulation were made in the amount of EUR 2 030 thousand.

NATURAL GAS STORAGE

Inčukalns UGS provides storage of natural gas in the underground gas storage facility for consumption during the heating season and for other needs of the system users.

The storage segment generates revenue from the booking of storage capacity, which is granted to system users in storage capacity auctions within the storage cycle. The storage cycle lasts from May 1 to April 30 of the following year.

During 2022/2023 storage cycle, Inčukalns UGS capacity booking reached 24.1 TWh. During 2023/2024 storage cycle, Inčukalns UGS capacity booking reached 24.4 TWh (including energy supply security reserve 1.8 TWh). Revenue from capacity products during the reporting year increased by EUR 14 018 thousand compared to the previous year. The revenue growth relates to auctions of storage capacity, which have resulted in the effective rate of applicable premium of 1.62 EUR/MWh (the total amount of applicable premium divided by the booked capacity).

The regulatory (tariff) periods for the natural gas storage system service differ from both the financial reporting year and the regulatory periods for natural gas transmission. In accordance with Methodology for the Calculation of Natural Gas Storage Service Tariffs, deviations of revenue and costs may occur against allowed ones during the tariff period, which will affect tariff values in subsequent tariff cycles. In storage segment, such deviations are accrued in a regulatory account. Please refer to Carrying value of storage system service assets section of the management report for more details.

New tariffs of natural gas storage system service came into force on 1 May 2023. Due to decreased planned revenue attributable to the tariff period, tariff values of the most popular storage products decreased by 14 %. On 18 January 2024, the Public Utilities Commission adopted a decision[5] on tariffs for the natural gas storage system service, which will come into force on 1 May 2024. For basic products, such as the one-year bundled capacity product and the two-year bundled capacity product, tariffs for the next storage cycle will stay unchanged. The tariff for the stock transfer product will increase from 1.3581 EUR/MWh/storage cycle to 3.2260 EUR/MWh/storage cycle. The stock transfer product tariff is determined by the previous season's auction results for the two-year bundled capacity product, which in turn is determined by the market demand.

The largest investments of the storage system service during the reporting year are the modernization of gas compression units at compressor station No. 2, reconstruction of gas collection point No. 3 and installation of the new gas compression unit, EUR 18 653 thousand in total. These investments were made within the framework of the European project of common interest PCI 8.2.4 "Enhancement of Inčukalns UGS". At the end of 2023, modernization of gas compression units has been completed.

[5] https://www.sprk.gov.lv/events/apstiprinatas-conexus-baltic-grid-dabasgazes-uzglabasanas-sistemas-pakalpojuma-tarifu

Reconciliation of segment financial information to Conexus financial information

Segment income statements for 2023:

	Trans-mission	Storage	Conexus total	Difference between segments total and Conexus total
	EUR	EUR	EUR	EUR
Revenue	26 225 544	50 242 335	76 467 879	-
Other income	240 442	809 299	1 049 741	-
Maintenance and service costs	(3 116 399)	(4 962 869)	(8 079 268)	-
Personnel expenses	(9 073 248)	(6 912 405)	(15 985 653)	-
Other operating costs	(1 787 737)	(1 162 912)	(2 950 649)	-
Depreciation, amortisation, and impairment of property, plant and equipment	(9 959 630)	(19 978 571)	(29 938 201)	-
Finance costs	(1 356 442)	(946 872)	(2 303 314)	-
Corporate income tax	(195 219)	(1 893 551)	(2 088 770)	-
Profit for the reporting period	**977 311**	**15 194 454**	**16 171 765**	**-**

Segment income statements for 2022:

	Trans-mission	Storage	Conexus total	Difference between segments total and Conexus total
	EUR	EUR	EUR	EUR
Revenue	26 259 950	28 871 449	55 131 399	-
Other income	275 959	605 808	881 767	-
Maintenance and service costs	(3 651 234)	(3 674 891)	(7 326 125)	-
Personnel expenses	(8 076 816)	(5 757 389)	(13 834 205)	-
Other operating costs	(1 763 143)	(875 155)	(2 638 298)	-
Depreciation, amortisation, and impairment of property, plant and equipment	(10 099 447)	(7 759 085)	(17 858 532)	-
Finance costs	(382 773)	(221 323)	(604 096)	-
Corporate income tax	(1 500 333)	(886 832)	(2 387 165)	-
Profit for the reporting period	**1 062 163**	**10 302 582**	**11 364 745**	**-**

Total assets by segments as at 31.12.2023 and investments during 2023:

	Trans-mission	Storage	Conexus total	Difference between segments total and Conexus total
	EUR	EUR	EUR	EUR
Segment assets	251 881 527	217 402 947	469 284 474	-
Investments in property, plant and equipment and intangible assets	10 964 317	22 604 137	33 568 454	-

Total assets by segments as at 31.12.2022 and investments during 2022:

	Trans-mission	Storage	Conexus total	Difference between segments total and Conexus total
	EUR	EUR	EUR	EUR
Segment assets	238 760 565	225 048 730	463 809 295	-
Investments in property, plant and equipment and intangible assets	5 452 438	9 488 226	14 940 664	-

Geographical information

All operating activities are held in Latvia.

Major customers

Revenue generated during 2023 from the largest customers, each individually representing at least 10 % of the total revenue of Conexus:

	Transmission	Storage	Conexus total
	EUR	EUR	EUR
Revenue from major customers	18 519 770	24 044 083	42 563 853

Revenue generated during 2022 from the largest customers, each individually representing at least 10 % of the total revenue of Conexus:

	Transmission	Storage	Conexus total
	EUR	EUR	EUR
Revenue from major customers	25 592 141	18 204 528	43 796 669

2. REVENUE

Revenue from contracts with customers recognised over time	**IFRS applied**	**2023**	**2022**
		EUR	EUR
Revenue from transmission services	15. IFRS	25 309 428	25 740 793
Balancing income, net	15. IFRS	916 116	519 158
Revenue from transmission services		**26 225 544**	**26 259 951**
Revenue from storage services*	15. IFRS	50 242 335	28 871 448
Revenue from storage		**50 242 335**	**28 871 448**
Total		**76 467 879**	**55 131 399**

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

* including deferred income in the amount of EUR 4 475 (2022: EUR 237 284) for reserved capacity recognised in revenue based on accruals principle.

	2023	**2022**
	EUR	EUR
Income from balancing activities	12 008 790	35 537 104
Cost of balancing activities	(11 092 674)	(35 017 946)
	916 116	**519 158**

3. OTHER INCOME

	2023	**2022**
	EUR	EUR
Revenue from EU co-financing	820 890	614 520
Other income	228 851	267 247
	1 049 741	**881 767**

4. MAINTENANCE AND OPERATING COSTS

	2023	2022
	EUR	EUR
Transmission and storage system maintenance services	4 583 143	4 244 720
Cost of materials	1 255 515	1 571 426
Cost of natural gas	959 116	482 772
Maintenance of IT infrastructure	998 324	782 040
Maintenance of vehicles and machinery	283 170	245 167
	8 079 268	**7 326 125**

5. PERSONNEL EXPENSES

	2023	2022
	EUR	EUR
Salaries	12 335 255	10 741 147
State social insurance mandatory contributions	2 905 033	2 507 532
Life, health, and pension insurance	732 503	570 533
Other personnel costs	12 862	14 993
	15 985 653	**13 834 205**
Including remuneration of the Management Board and Supervisory Council: - Remuneration for work	682 255	618 350
- State social insurance mandatory contributions	160 945	146 274
- Life, health and pension insurance	45 798	45 358
- Other personnel costs	2 400	3 000
	891 398	**812 982**
The average number of employees	**361**	**356**

6. OTHER OPERATING EXPENSES

	2023	2022
	EUR	EUR
Taxes and duties*	965 453	874 632
Office and other administrative costs	1 832 429	1 763 666
Net loss on disposal of property, plant and equipment	152 767	-
	2 950 649	**2 638 298**

* Real estate tax, Natural resources tax, PUC fee, State and municipal fees, Corporate income tax from deemed profit distribution

7. FINANCIAL EXPENSES, NET

	2023	2022
	EUR	EUR
Interest paid	2 581 510	589 271
Capitalised borrowing costs	(212 403)	-
Lease interest expense	20 783	20 656
Gain of interest on bank account balances, deposits	(85 919)	-
Gain from exchange rate fluctuations	(657)	(5 831)
	2 303 314	**604 096**

8. INTANGIBLE ASSETS

	Intangible assets	Intangible assets under development	TOTAL
		EUR	EUR
Historical cost			
31.12.2021	**8 189 289**	**61 054**	**8 250 343**
Additions	-	775 357	775 357
Transfers	787 416	(787 416)	-
Disposals	(185 204)	-	(185 204)
31.12.2022	**8 791 501**	**48 995**	**8 840 496**
Amortisation			
31.12.2021	**6 209 094**	**-**	**6 209 094**
Amortisation charge	708 597	-	708 597
Disposals	(185 204)	-	(185 204)
31.12.2022	**6 732 487**	**-**	**6 732 487**
Net book value 31.12.2021	**1 980 195**	**61 054**	**2 041 249**
Net book value 31.12.2022	**2 059 014**	**48 995**	**2 108 009**

	Patents, software, licences	Co-financed assets	Intangible assets under development	TOTAL
			EUR	EUR
Historical cost				
31.12.2022	**8 791 501**	**-**	**48 995**	**8 840 496**
Additions	-	-	15 605 024	15 605 024
Transfers	473 837	-	(473 837)	-
Disposals	(1 525 025)	-	-	(1 525 025)
Transfers	-	1 007 865	-	1 007 865
31.12.2023	**7 740 313**	**1 007 865**	**15 180 182**	**23 928 360**
Amortisation				
31.12.2022	**6 732 487**	**-**	**-**	**6 732 487**
Amortisation charge	730 319	-	-	730 319
Disposals	(1 525 025)	-	-	(1 525 025)
31.12.2023	**5 937 781**	**-**	**-**	**5 937 781**
Net book value 31.12.2022	**2 059 014**	**-**	**48 995**	**2 108 009**
Net book value 31.12.2023	**1 802 532**	**1 007 865**	**15 180 182**	**17 990 579**

Intangible assets at 31 December 2023 include fully amortised intangible assets with a historical cost of EUR 3 685 071 (at 31.12.2022: EUR 5 223 393). Intangible assets consist of software and software licences.

In 2023, capitalised borrowing costs amounted to EUR 3 453 (2022: EUR 0).

At 31 December 2023 in the financial accounting, co-financing of the project “Increase of Capacity of Klaipėda-Kiemenai Pipeline in Lithuania” for the remaining amount of EUR 1 007 865 has been reclassified from the deferred expenses to intangible assets. According to the PUC’s decision of 30 April, 2014 No. 97 (minutes No. 16, p. 4) On Distribution of Investment Costs for the Project of Common Interest “Increase of Capacity of Klaipėda-Kiemenai Pipeline in Lithuania” in 2017, a payment in the amount of EUR 1 713 370 was made to Amber Grid AB. In accordance with IFRIC 12 “Service Concession Agreements”, the payment shall be recognized in the financial accounts in intangible assets. The amortisation period of the asset is set until 2033, according to the estimated payback period of the investments.

On the basis of the decision of ACER (Agency for the Cooperation of Energy Regulators) of 11 August 2014 “On the investment request including cross-border cost allocation for the Gas Interconnection Poland-Lithuania project of common interest No 8.5” and the inter-operator agreement of 11 May 2018 on sharing the costs of the GIPL project “Gas Interconnection Poland – Lithuania” (GIPL) with “GAZ-System” A.S., “Amber Grid AB” and “Elering” AS, the planned Conexus’ co-financing for the construction of the interconnector is set at EUR 14 700 000.

Regulation (EU) No 347/2013 of the European Parliament and of the Council of 17 April 2013 lays down an obligation to make this payment, thereby gaining access to a wider range of potential customers in the future and reducing dependence on a single supplier.

According to the information received from the Polish operator “GAZ-System” A.S., investments in the construction of a cross-border gas interconnector have been made, but documents justifying the payments have not yet been received. Thus, at 31 December 2023 the Polish-Lithuanian interconnection GIPL should be recognized in the financial accounts as part of the costs of intangible assets under development and accrued liabilities in the amount of planned co-financing of EUR 14 700 000.

Although the Conexus business model does not generally fall within the scope of the IFRIC 12, the IFRIC 12 can be applied to the recognition of co-financing of a project of common interest, because the PUC and the Regulation of the European Parliament and the Council stipulate the obligation to make these co-payments for the construction of infrastructure, thus gaining access to a wider range of potential clients in the future and reducing dependence on a single supplier. Co-financing payments are not recognized in the profit or loss statement, as IFRIC 12 is applied by analogy. Conexus does not have ownership rights to the co-financed assets, therefore they are not recognized as fixed assets.

9. PROPERTY, PLANT AND EQUIPMENT (PPE)

Net book amounts and movements of property, plant and equipment by groups, including groups of revalued categories:

	Land	Buildings, structures	Plant and equipment	Other property and equipment	Wells	Gas compression units	Automatic equipment control systems	Emergency spare parts	Cushion gas	Assets under construction	TOTAL
		EUR	EUR	EUR	EUR	EUR	EUR	EUR		EUR	EUR
Historical cost or revalued amount											
31.12.2021	**1 084 168**	**616 248 276**	**96 827 897**	**4 241 222**	**154 839 599**	**37 217 009**	**3 549 005**	**1 538 779**	**10 708 163**	**20 027 015**	**946 281 133**
Additions	8 306	-	1 236 523	1 131 296	44 902	9 385	-	-	-	11 734 895	14 165 307
Reclassified*	-	10 546 995	(862 088)	1 543 493	5 285 909	1 137 968	3 849 105	-	-	(21 501 382)	-
Disposals	-	(874 961)	(721 223)	(692 560)	(404 900)	(1 150 300)	(142 205)	-	-	-	(3 986 149)
Transfers**	-	-	-	-	-	-	-	286 605	-	-	286 605
31.12.2022	**1 092 474**	**625 920 310**	**96 481 109**	**6 223 451**	**159 765 510**	**37 214 062**	**7 255 905**	**1 825 384**	**10 708 163**	**10 260 528**	**956 746 896**
Accumulated depreciation											
31.12.2021	**-**	**403 306 997**	**41 832 595**	**3 018 836**	**44 440 524**	**20 301 563**	**2 709 296**	**-**	**-**	**-**	**515 609 811**
Calculated	-	8 635 488	4 027 099	486 928	2 711 816	892 633	369 720	-	-	-	17 123 684
Disposals	-	(672 482)	(718 388)	(656 431)	(268 418)	(606 673)	(142 205)	-	-	-	(3 064 597)
Transfers*	-	(22 478)	(905 699)	1 311 838	-	(97 210)	(286 451)	-	-	-	-
31.12.2022	**-**	**411 247 525**	**44 235 607**	**4 161 171**	**46 883 922**	**20 490 313**	**2 650 360**	**-**	**-**	**-**	**529 668 898**
Net balance value 31.12.2021	**1 084 168**	**212 941 279**	**54 995 302**	**1 222 386**	**110 399 075**	**16 915 446**	**839 709**	**1 538 779**	**10 708 163**	**20 027 015**	**430 671 322**
Net balance value 31.12.2022	**1 092 474**	**214 672 785**	**52 245 502**	**2 062 280**	**112 881 588**	**16 723 749**	**4 605 545**	**1 825 384**	**10 708 163**	**10 260 528**	**427 077 998**

* amounts include capitalised property, plant and equipment and reclassification between groups by synchronising accounting in financial and asset management systems – from Buildings, structures to: Plant and equipment EUR 182 599, Other property and equipment EUR 25 440; from Plant and equipment to: Buildings, structures EUR 189 027, Other property and equipment EUR 1 506 848.;
** emergency spare parts in the amount of EUR 286 605 were reclassified to the inventories of materials in warehouses.

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

Net book amounts and movements of property, plant and equipment by groups, including groups of revalued categories:

	Land	Buildings, structures	Plant and equipment	Other property and equipment	Wells*	Gas compression units*	Automatic equipment control systems*	Emergency spare parts	Cushion gas	Assets under construction	TOTAL
		EUR	EUR	EUR	EUR	EUR	EUR	EUR		EUR	EUR
Historical cost or revalued amount											
31.12.2022	**1 092 474**	**625 920 310**	**96 481 109**	**6 223 451**	**159 765 510**	**37 214 062**	**7 255 905**	**1 825 384**	**10 708 163**	**10 260 528**	**956 746 896**
Additions	-	7 250	315 546	606 236	-	8 837	18 187	-	-	31 707 374	32 663 430
Reclassified	12 037	4 593 456	415 850	180 378	489 140	2 380 662	4 079 164	-	-	(12 150 687)	-
Disposals	-	(926 923)	(661 581)	(442 759)	(13 000)	(1 166 220)	(1 688)	(12 395)	-	(97 395)	(3 321 961)
Recognized impairment*	-	-	-	-	(21 468 279)	(8 061 251)	(3 727 322)	-	-	-	(33 256 852)
Transfers**	-	-	-	-	-	-	-	146 719	-	-	146 719
31.12.2023	**1 104 511**	**629 594 093**	**96 550 924**	**6 567 306**	**138 773 371**	**30 376 090**	**7 624 246**	**1 959 708**	**10 708 163**	**29 719 820**	**952 978 232**
Accumulated depreciation											
31.12.2022	**-**	**411 247 525**	**44 235 607**	**4 161 171**	**46 883 922**	**20 490 313**	**2 650 360**	**-**	**-**	**-**	**529 668 898**
Calculated	-	8 825 608	3 794 240	558 433	2 732 666	914 339	624 285	-	-	-	17 449 571
Disposals	-	(812 278)	(640 906)	(441 741)	(10 452)	(693 891)	(1 688)	-	-	-	(2 600 956)
Excluded as a result of revaluation*	-	-	-	-	(5 287 570)	(4 089 877)	(391 561)	-	-	-	(9 769 008)
Reclassified	-	41 509	(3 284)	(34 223)	-	-	(4 002)	-	-	-	-
31.12.2023	**-**	**419 302 364**	**47 385 657**	**4 243 640**	**44 318 566**	**16 620 884**	**2 877 394**	**-**	**-**	**-**	**534 748 505**
Net balance value 31.12.2022	**1 092 474**	**214 672 785**	**52 245 502**	**2 062 280**	**112 881 588**	**16 723 749**	**4 605 545**	**1 825 384**	**10 708 163**	**10 260 528**	**427 077 998**
Net balance value 31.12.2023	**1 104 511**	**210 291 729**	**49 165 267**	**2 323 666**	**94 454 805**	**13 755 206**	**4 746 852**	**1 959 708**	**10 708 163**	**29 719 820**	**418 229 727**

* The Company has revised the carrying amount of property, wells, gas compression units and automatic equipment control systems, determining their value at fair value. The carrying amount of property, plant and equipment reduced by EUR 23 487 844. The reduction in the carrying amount of EUR 11 742 677 is recognised in the reduction of the revaluation reserve and included in the statement of "Comprehensive income" in position of "Revaluation reserves decrease in property, plant and equipment", EUR 11 745 167 recognised in the "Income statement" under the position "Depreciation, amortisation, and PPE impairment".
** inventories of materials in warehouses in the amount of EUR 146 719 were transferred to the Emergency spare parts.

At 31.12.2023, property, plant and equipment included fully depreciated assets with an original value of EUR 13 438 560 (31.12.2022: EUR 11 573 690). In 2023, capitalised borrowing costs amounted to EUR 208 949 (2022: EUR 0). The cadastral value of the real estate is EUR 37 742 239 (31.12.2022: EUR 38 252 837). The total length of the transmission system pipelines is 1190 km.

At the end of the reporting period significant part of the construction in progress consists of projects co-financed by the EU (Note 18). The balance of Assets under construction by projects:

Assets under construction	Planned project completion date	31.12.2023	31.12.2022
		EUR	EUR
Projects of common interest “Enhancement of Inčukalns UGS”	01.12.2025.	22 080 453	8 534 857
Projects of common interest “Enhancement of Latvia-Lithuania Interconnection”	31.12.2023.	-	1 180 131
EU co-financed projects		**22 080 453**	**9 714 988**
Other projects	2024. – 2025.	7 639 367	545 540
Total		**29 719 820**	**10 260 528**

At the end of the reporting period significant part of the construction in progress consists of projects co-financed by the EU (Note 18). The balance of advances for property, plant and equipment by projects:

Advances for property, plant and equipment	31.12.2023	31.12.2022
	EUR	EUR
Projects of Inčukalns UGS	2 217 520	5 075 020
Projects of gas transmission	-	149 075
EU co-financed projects	**2 217 520**	**5 224 095**
Other projects	266 026	97 914
Total	**2 483 546**	**5 322 009**

The following groups of property, plant and equipment are carried at revalued amounts: buildings and structures, machinery and equipment, wells, gas compression units, automatic equipment control systems. Land plots, emergency spare parts, cushion gas in the Inčukalns UGS collector layer and in gas pipelines in the transmission system, other property and equipment and assets under construction are not revalued. The accounting policies require property, plant and equipment to 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 property, plant and equipment was carried out in 2020. The revaluation was performed by independent certified appraisers from SIA Grant Thornton Baltic. 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.

The biggest part of revalued assets consisted of assets classified as buildings and structures (underground gas pipelines, storage wells and valves), and PPE items classified as machinery and equipment (gas regulation stations, motor vehicles and machinery, compression units, gas purification equipment).

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

Historical cost	31.12.2023	31.12.2022
	EUR	EUR
Buildings and structures	105 284 870	104 938 465
Machinery and equipment	41 353 189	43 808 930
Wells	54 636 874	63 206 056
Gas compression units	11 817 155	10 692 301
Automatic equipment control systems	4 746 852	4 605 545

In 2023 the management has assessed the price level of pipelines, machinery and general construction and has identified significant increase in inflation, labour and material costs as compared to January 2020, when the revaluation was performed and fair value was determined, using the amortized replacement cost method. Thus, there is a reason to believe that the fair value of PPE items could be significantly higher than the current carrying amount as at 31 December 2023. However, to comply with prudency principles and taking into account geopolitical situation and uncertainty in the gas sector, the assets' value in use was also calculated in order to determine the recoverable amount of the natural gas transmission and storage infrastructure.

In accordance with the requirements of paragraph 31 of IAS 16 "Property, Plant and Equipment," if the Company has opted to revalue its assets, such revaluations must be conducted at intervals sufficient to ensure that the carrying values of the assets on the balance sheet date do not materially deviate from their values. The standard also mandates that the Company should categorize assets with similar characteristics and utility in the Company's operations into groups.

Decision of the Council of the Public Utilities Commission No. 162 of 28 December 2023 on the "Allocation of the AS "Conexus Baltic Grid" natural gas storage system service regulatory account" specifies that 50 % of the regulatory account balance can be allocated to finance assets of the storage system service set up in the current regulatory period. As a result of this decision, value of the assets set up by the investment in the storage system service will not be included in RAB value and will not provide a return, so the carrying amount of Conexus storage system service assets will be impaired by EUR 21 656 thousand. The Company has decided to allocate part of the balance of the regulatory account to assets created during the regulatory period in the Inčukalns UGS modernisation project that are not financed by EU co-financing.

In order to determine whether the fair value of groups of PPE corresponds to the carrying amount at the end of the reporting year, the Company performed an internal assessment of the fair value of assets as of December 31, 2023 for those groups of PPE that were valued at revalued value and showed signs of impairment. According to paragraph 62 of IFRS 13 "Fair Value Measurement," the Company assessed that the most appropriate valuation method is the income approach.

As a result of the revaluation, a decrease in value of EUR 23 487 844 was identified. A reduction in the carrying amount of EUR 11 742 677 of wells, gas compression units, and automatic equipment control systems, has been recognized as a decrease in the revaluation reserve and included in the Consolidated Statement of Comprehensive Income under the line item "Revaluation reserves decrease in property, plant and equipment." Additionally, EUR 11 745 167 has been recognized in the Profit or Loss Statement under the line item "Depreciation, amortisation, and PPE impairment."

In determining the fair value of property, plant and equipment groups, the Company has applied the rate of return on equity approved for the existing regulatory period and has assumed that after the end of the regulatory period, the rate of return on equity will reach the estimated market rate. A discount rate of 7.25 % is used in the calculation. If this rate were 6.25 %, then the carrying amount of certain groups of fixed assets should be reduced by EUR 21 459 thousand. If this rate were 8.25 %, then the asset value of these groups of fixed assets should be reduced by EUR 25 461 thousand.

10. CO-FINANCED PROJECTS

In order to support integration of gas markets, competition and security of gas supply, the European union coordinates and partially finances the construction of cross-border gas interconnections between European Union countries. Typically, the construction is performed by the Transmission System Operator (TSO) of the country where the pipe is physically located, but the cost is spread to all the countries, which are deemed to benefit from the connection. The benefits are monetarily assessed by the European union, and they include components such as expected savings on lower gas price and avoided gas disruptions, access to new suppliers/markets etc. The cost of cross-country interconnections is allocated to the TSOs of the countries benefitting, based on the proportions calculated by the EU. Co-financing is included in long-term assets because the estimated payback period of the investments is determined to be over a long period of time.

Increase of Capacity of Klaipeda-Kiemenai Pipeline in Lithuania

According to the PUC Decision of 30 April, 2014 No. 97 (minutes No 16, p. 4) On Distribution of Investment Costs for the Project of Common Interest "Increase of Capacity of Klaipėda-Kiemenai Pipeline in Lithuania" in 2017, a payment in the amount of EUR 1 713 370 was made to Amber Grid AB. Deferred expenses are expensed during estimated period of return on investment till 2033.

	31.12.2023	31.12.2022
	EUR	EUR
Opening balance	1 108 652	1 209 438
Recognised during the reporting period	(100 786)	(100 786)
Reclassified to intangible assets (Note 8)	(1 007 866)	-
Carried forward to future periods	**-**	**1 108 652**
Including short-term portion	-	100 786
Long-term portion	-	1 007 865

Gas Interconnection Poland-Lithuania

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) (hereinafter "GIPL").

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 the terms of cross-border cost sharing in the GIPL project of common interest (No. 8.5), determines that 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. Compensation payment of EUR 14 700 thousand is to be paid immediately with a one-time payment after the commissioning of the GIPL project. On 11 May 2018, Conexus signed an inter-operator agreement on sharing the costs of the GIPL project (hereinafter "the Agreement") with GAZ-System A.S., Amber Grid AB and Elering AS.

In accordance with IFRIC 12 "Service Concession Agreements", payments for co-financing of projects in financial accounting from the deferred expenses have been reclassified to intangible assets (Note 8).

11. LEASE

	31.12.2023	31.12.2022
	EUR	EUR
Right-of-use assets		
Net book value at the beginning of the reporting period	**461 503**	**451 108**
Recognised changes in lease agreements	-	36 646
Depreciation recognised in the income statement	(13 145)	(26 251)
Net book value at the end of the reporting period	**448 358**	**461 503**
Lease liabilities		
Net book value at the beginning of the reporting period	**484 422**	**467 337**
Recognised changes in lease agreements	-	36 646
Recognised reduction of the lease liability (lease payments made*)	(27 203)	(40 217)
Recognised lease interest expense	20 783	20 656
Net balance value at 31.12.2023	**478 002**	**484 422**
Incl.: Long-term lease liabilities	450 798	459 358
Short-term lease liabilities	27 204	25 064

* in the cash flow statement for 2023, lease payments in the amount of EUR 27 204 are included in the cash flow from financing activities (31.12.2022: EUR 40 217)

Conexus' right-of-use assets include land, premises and construction rights.

	Term	Maturity date
Land lease, Inčukalns underground gas storage	36 years	31.12.2054
Land lease, Stigu street 14	36 years	31.12.2054
Construction rights, Stigu street 14	70 years	31.12.2089

12. INVENTORIES

	31.12.2023	31.12.2022
	EUR	EUR
Natural gas	2 272 259	1 015 561
Materials and spare parts	2 542 897	2 814 519
Advance payments for inventories	1 433	665
Write-off of inventory to net realisable value	(138 980)	(139 810)
	4 677 609	**3 690 935**

Write-off of inventory to net realisable value	31.12.2023	31.12.2022
	EUR	EUR
Write-offs at the beginning of the period	**(139 810)**	**(84 223)**
Write-offs during the reporting period	830	(55 587)
Write-offs at the end of the period	**(138 980)**	**(139 810)**

13. RECEIVABLES FROM CONTRACTS WITH CUSTOMERS

	31.12.2023	31.12.2022
	EUR	EUR
Debt for transportation of natural gas	6 138 523	6 767 731
Debt for storage of natural gas	5 416 596	2 826 333
Debt for balancing activities	-	580 939
Debt for contractual fines and late payment fines	-	1815
	11 555 119	**10 176 818**
Accrued income		
Accrued income for balancing activities	-	60 489
	60 489	-
	-	**60 489**
Total receivables from contracts with customers	**11 555 119**	**10 237 307**

Accrued income refers to 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 the issuance of supporting document (invoice) has not yet come at the balance sheet date.

Expected credit losses on contracts with customers are insignificant, during the last 3 years no debts have been written down, therefore, it was decided not to recognise allowances for doubtful debts.

The rules approved by PUC set strict criteria for providing debt repayment guarantees. Additional information is disclosed in the Credit risk section of Note 28.

14. OTHER RECEIVABLES

	31.12.2023	31.12.2022
	EUR	EUR
Other current financial receivables		
Other current financial receivables	20 400	12 253
Total other current financial receivables	**20 400**	**12 253**
Other current non-financial receivables		
Advances for services	181 590	125 623
Advance payment for balancing services in Gas Stock Exchange	-	2 000 000
Deferred value added tax	63 170	330 030
Provisions for doubtful advances made	-	(11 428)
Total other current non-financial receivables	**244 760**	**2 444 225**
Total other receivables	**265 160**	**2 456 478**

15. DEFERRED EXPENSES

	31.12.2023	31.12.2022
	EUR	EUR
Non-current part		
Deferred expenses related to participation in a transnational cross-border project reclassified (Note 8)	-	1 007 865
Total non-term part	**-**	**1 007 865**
Current part		
Deferred expenses related to participation in a transnational cross-border project reclassified (Note 8)	-	100 786
IT expenses	481 344	232 916
Insurance payments	78 925	75 993
Transport expenses	8 824	9 933
Other deferred expenses	71 133	60 447
Total short-term part	**640 226**	**480 075**
Total deferred expanses	**640 226**	**1 487 940**

16. RESERVES

	31.12.2023	31.12.2022
	EUR	EUR
PPE revaluation reserve	163 915 291	183 254 683
Revaluation reserve for post-employment benefits	88 379	58 899
Reorganisation reserve*	24 647 260	24 647 260
	188 650 930	**207 960 842**

* due to the reorganization of AS “Latvijas Gāze” in two separate companies (in 2017) – AS “Latvijas Gāze” and Conexus, the assets and liabilities related to the core business were transferred to Conexus, including the reorganization reserve.

Movement of revaluation reserves during the reporting period	Property, plant and equipment revaluation reserve	Post-employment benefit revaluation reserve
Balance at 31.12.2021	**191 583 804**	**(146)**
Reassessment of actuarial assumptions	-	59 045
Depreciation of the revalued portion of property, plant and equipment for the reporting period transferred to retained earnings	(7 407 875)	-
Disposed revalued items of property, plant and equipment	(921 246)	-
Balance at 31.12.2022	**183 254 683**	**58 899**
Reassessment of actuarial assumptions	-	29 480
Depreciation of the revalued portion of property, plant and equipment for the reporting period transferred to retained earnings	(7 048 351)	-
Reduction of the revaluation reserve as a result of revaluation (Note 9)	(11 742 677)	-
Disposed revalued items of property, plant and equipment*	(548 364)	-
Balance at 31.12.2023	**163 915 291**	**88 379**

* disposed revalued items of PPE – complete or partial replacement of buildings and technological equipment due to physical and technological wear and tear.

17. DEFERRED INCOME

	31.12.2023	31.12.2022
	EUR	EUR
EU co-financed projects	26 070 874	24 957 748
Non-current portion	**26 070 874**	**24 957 748**
Current portion (other projects)	4 654	4 654
Current portion (EU co-financing)	969 829	762 681
Current portion (contractual liabilities)	4 475	-
Current portion	**978 958**	**767 335**
Total deferred income	**27 049 832**	**25 725 083**

Changes in deferred income

Changes in deferred income (EU co-financing)	31.12.2023	31.12.2022
	EUR	EUR
Opening balance	**25 725 083**	**18 695 663**
EU co-financing received	2 141 164	7 643 940
Recognised in other income for the reporting year (Note 3)	(820 890)	(614 520)
Recognized deferred income from contracts with customers*	4 475	-
Carried forward to future periods	**27 049 832**	**25 725 083**

* Payment for full storage cycle received in 2023

Changes in deferred income (contract liabilities)	31.12.2023	31.12.2022
	EUR	EUR
Opening balance	**-**	**237 284**
Recognised in deferred income	12 305	-
Recognised in revenue for the reporting year (Note 2)	(7 830)	(237 284)
Carried forward to future periods	**4 475**	**-**

In accordance with the European Commission resolution No.C(2010) 5554 dated August 13, 2008 on the award of a financial grant under the EC Regulation (EC) No.663/2009 on gas and electricity interconnections, the Company has received co-financing of 50 %, but not more than EUR 10 000 thousand for realization of Actions No.EEPR-2009-INTg-RF-LV-LT-I2.566527 “Modernization of 15 wells at the Inčukalns UGS” and SI2.566531 “Construction of a gas passage below the River Daugava and a pig receiver”.

In May 2019, the European Commission approved the granting of co-financing in the amount of 50 % or EUR 44 000 thousand for the project of common European interest No 8.2.4 “Improvement of the operation of the Inčukalns underground gas storage”.

In December 2019, the European Commission approved the co-financing of 50 % or EUR 2 750 thousand for the project of common European interest No 8.2.1. “Improvement of the operation of the Latvian-Lithuanian interconnection”.

Statement of deferred income for 2021 and 2022:

Project	Deferred income 31.12.2021	Received EU co-financing 2022	Recognised in other income (Note 3) 2022	Deferred income 31.12.2022	Received EU co-financing 2023	Recognised in other income (Note 3) 2023	Deferred income 31.12.2023
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Project of gas transmission from 2011	**1 695 478**	-	(79 329)	**1 616 149**	-	(66 487)	**1 549 662**
Project of Inčukalns UGS from 2011	**5 570 124**	-	(187 914)	**5 382 210**	-	(187 914)	**5 194 296**
Project of Inčukalns UGS from 2019 (Nr.8.2.4.)	**10 628 060**	6 373 053	(294 524)	**16 706 589**	2 001 477	(502 936)	**18 205 130**
Project of gas transmission from 2019 (Nr.8.2.1.)	**673 472**	1 270 887	(48 100)	**1 896 259**	139 687	(58 900)	**1 977 046**
Connection to Conexus` gas transmissions system	**128 529**	-	(4 653)	**123 876**	-	(4 653)	**119 223**
Total	**18 695 663**	**7 643 940**	**(614 520)**	**25 725 083**	**2 141 164**	**(820 890)**	**27 045 357**

18. EMPLOYEE BENEFIT OBLIGATIONS

	31.12.2023	31.12.2022
	EUR	EUR
Provisions for post–employment benefits	1 097 224	1 099 387
Provisions for other collective bargaining agreement costs*	234 253	252 381
	1 331 477	**1 351 768**

* gifts on anniversaries of life and seniority

	31.12.2023	31.12.2022
Liabilities at the beginning of the period	1 351 768	1 374 135
Recognised in the income statement	164 245	136 225
Paid	(155 056)	(99 547)
Remeasurement of post – employment benefits as a result of changes in actuarial assumptions – in equity	(29 480)	(59 045)
Liabilities at the end of the period	**1 331 477**	**1 351 768**

Remeasurement of post – employment benefits is negative due to the following assumptions: increase in wages and salaries, changes in future increase of remuneration, slightly reduced labour turnover ratio. The revaluation was reduced by the higher discount rate used in the calculation. In the reporting year, the discount rate used to discount post-employment benefit obligations is 3.43 % (2022.: 2.81 %).

Sensitivity analysis of the total value of post-employment benefit, EUR	2023		2022	
	Increase	Decrease	Increase	Decrease
Discount rate (-/+ 1 % point)	118 972	(100 348)	125 856	(105 433)
	9 %	-8 %	9 %	-8 %
Labour turnover rate (-/+ 1 % point)	135 994	(114 985)	142 275	(119 538)
	10 %	-9 %	11 %	-9 %
Monthly salary increase (+/- 1 % point)	105 159	(89 713)	109 482	(92 846)
	8 %	-7 %	8 %	-7 %
Retirement age of employees, years (-/+ 1 year)	73 402	(73 203)	63 491	(69 302)
	6 %	-5 %	4.70 %	-5.13 %

19. BORROWINGS

	31.12.2023	31.12.2022
	EUR	EUR
Non-current borrowings from credit institutions	65 568 897	69 468 183
Current borrowings from credit institutions	13 899 286	12 899 286
Accrued interest on borrowings from credit institutions	75 493	62 480
	79 543 676	**82 429 949**

Conexus has borrowings both from local and international credit institutions. The weighted average interest rate is 3.30 % at the end of reporting year (31.12.2022: 1.76 %). At the end of the reporting year, 35 % of borrowings outstanding have a fixed loan interest rate (31.12.2022: 36 %). All borrowings of Conexus are denominated in euros and are unsecured.

At the end of the reporting year, committed long-term loan agreements in the amount of EUR 45 000 thousand are available to Conexus, with expected withdrawal during 2024.

	EUR	EUR
At the beginning of the reporting year	**82 429 949**	**98 094 076**
Received borrowings from credit institutions	10 000 000	20 000 000
Borrowings repaid to credit institutions	(12 899 286)	(10 738 433)
Overdraft repaid	-	(24 949 950)
Accrued interest on loans from credit institutions	2 581 509	589 271
Paid interest on loans from credit institutions	(2 568 496)	(565 015)
	79 543 676	**82 429 949**

All changes in borrowings, except accrued interest liabilities, are presented in the Statement of cash flows as Cash flows from financing activities.

The limits of financial covenants specified in the existing agreements of Conexus during the reporting year have been complied with, information on financial covenants is disclosed in the section on Capital risk management (Note 28).

Lease liabilities are disclosed in Note 11.

20. TRADE PAYABLES

	31.12.2023	31.12.2022
	EUR	EUR
Payables for other operating costs	1 154 837	2 601 436
Payables for long-term investments	3 279 422	2 531 876
Related party payables (Note 26)	344 466	1 565 086
Payables for balancing operations	515 600	664 113
Payables for intangible assets	487 266	48 915
Current financial liabilities	**5 781 591**	**7 411 426**

21. OTHER LIABILITIES

	31.12.2023	31.12.2022
	EUR	EUR
Dividends unpaid for the previous years	554 446	531 555
Current financial liabilities	**554 446**	**531 555**
Value added tax	544 168	561 508
Employee remuneration	578 327	531 526
State social insurance mandatory contributions	345 292	299 923
Personal income tax	129 291	160 172
Other short-term liabilities	188 907	64 907
Natural resource tax	31 272	49 695
Corporate income tax on deemed distribution of profit	511	3 614
Excise tax, Real estate tax	1 720	1 849
Current non-financial liabilities	**1 819 488**	**1 673 194**
Other liabilities total	**2 373 934**	**2 204 749**

22. ACCRUED LIABILITIES

	31.12.2023	31.12.2022
Accrued liabilities for annual performance bonuses	1 549 356	1 553 601
Accrued liabilities for unused annual leave	691 249	674 228
Non-Financial accrued liabilities	**2 240 605**	**2 227 829**
Accrued liabilities for invoices not received*	15 433 492	14 723
Accrued liabilities for the audit of the annual report	22 300	18 300
Financial accrued liabilities	**15 455 792**	**33 023**
Accrued liabilities total	**17 696 397**	**2 260 852**

* According to the information received from the Polish operator "GAZ-System" A.S., investments in the construction of a cross-border gas interconnector have been made, but documents justifying the payments have not yet been received. Thus, in the financial accounting as of 31.12.2023 Polish-Lithuanian interconnector GIPL is recognised in the costs of intangible assets under development (Note 8) and accrued liabilities in the amount of planned co-financing of EUR 14 700 000.

23. CORPORATE INCOME TAX

	31.12.2023	31.12.2022
	EUR	EUR
Shareholders' decision on dividends to be paid	8 355 079	9 548 661
Profit to be distributed (period after 31.12.2017.)	8 355 079	9 548 661
Calculated corporate income tax	2 088 770	2 387 165
Tax relief applied on previously declared provisions	**2 088 770**	**2 387 165**

In 2023, the amount of dividends declared to Conexus' shareholders was EUR 8 355 079 or EUR 0.21 per share. In 2022, the amount of dividends declared to Conexus' shareholders was EUR 9 548 661 or EUR 0.24 per share.

24. CASH AND CASH EQUIVALENTSI

	31.12.2023	31.12.2022
	EUR	EUR
Cash at bank	12 953 450	10 967 116
Total cash and cash equivalents	**12 953 450**	**10 967 116**

25. RELATED PARTY TRANSACTIONS

Related parties include Conexus' shareholders, members of the Supervisory Council and Management Board, their close family members, and companies in which they exercise control or significant influence; Parent company AS "Augstsprieguma tīkls", its members of the Supervisory Council and Management Board, Audit Committee Officers, their close family members, and companies in which they exercise control or significant influence. As all shares of the Parent company are 100 % owned by the Republic of Latvia, state-controlled companies are also considered related parties.

Conexus has no ordinary service transactions with the Government of Latvia, including ministries and state agencies, as well as no transactions with state-controlled companies, which are considered as other related parties, except for AS "Augstsprieguma tīkls" (Parent company) and AS "Latvenergo" (Other related parties).

Transactions with AS "Latvenergo", according to the principle of fair competition, include storage and transmission services, but do not include individually significant transactions.

Related party transactions	2023 or 31.12.2023	2022 or 31.12.2022
	EUR	EUR
Income from related parties:		
AS "Latvenergo"	26 320 745	22 060 969
Purchases of goods and services from related parties:		
AS "Latvenergo"	3 542 946	5 408 435
AS "Augstsprieguma tīkls"	694	473
Balances at the end of the year arising from sales/ purchases of goods and services:		
Receivables from contracts with customers		
AS "Latvenergo"	4 590 132	3 781 454
Trade payables		
AS "Latvenergo"	344 466	1 565 086
AS "Augstsprieguma tīkls"	-	-

Information on dividends paid to shareholders is disclosed in Note 23.

Conexus' management remuneration is disclosed in Note 5.

26. COMMITMENTS AND CONTINGENCIES

As of 31 December 2023, Conexus has concluded, but not yet completed long-term asset construction contracts amounted EUR 43 335 131 (31.12.2022: EUR 34 910 221).

The financial covenants specified in the existing agreements of Conexus during the reporting period have been complied with, information on financial covenants is disclosed in the section on Capital risk management in Note 28.

27. REMUNERATION TO A COMMERCIAL COMPANY OF SWORN AUDITORS

Remuneration to a commercial company of sworn auditors	**31.12.2023**	**31.12.2022**
	EUR	EUR
Audit of financial statements	21 000	24 000
Review of sustainability report	5 300	5 300
	26 300	**29 300**

28. 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: capital 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	**31.12.2023**	**31.12.2022**
Financial assets at amortised cost	EUR	EUR
Receivables from contracts with customers	11 555 119	10 237 306
Other receivables	20 400	12 253
Cash and cash equivalents	12 953 450	10 967 116
Total financial assets at amortised cost	**24 528 969**	**21 216 675**
Financial liabilities at amortised cost		
Borrowings from credit institutions	79 543 677	82 429 949
Trade payables	5 781 591	7 411 426
Other liabilities and accrued liabilities	16 010 238	564 578
Lease liabilities	478 002	484 422
Total financial liabilities at amortised cost	**101 813 508**	**90 890 374**

LIQUIDITY RISK

Liquidity risk is associated with the ability of Conexus 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 Conexus' cash and cash equivalents as well as unused lines of credit granted by credit institutions.

At the end of 2023, Conexus has available and unused credit lines amounting to EUR 65 000 thousand, which provides a significant liquidity reserve. At the end of the reporting period, committed long-term loan agreements amounting to EUR 45 000 thousand (31.12.2022: EUR 55 000 thousand) are available to Conexus, with expected withdrawal during 2024.

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

31.12.2023	Carrying value	Contractual cash flow	1 – 3 months	3 months – 1 year	1 – 5 years	> 5 gadi
	EUR	EUR	EUR	EUR	EUR	EUR
Borrowings from credit institutions	79 543 677	88 832 528	4 494 899	11 782 660	51 165 568	21 389 401
Trade payables, accrued liabilities	21 791 829	21 791 829	21 791 829	-	-	-
Lease liabilities	478 002	994 560	6 801	20 403	108 816	858 540
Financial liabilities	**101 813 508**	**111 618 917**	**26 293 529**	**11 803 063**	**51 274 384**	**22 247 941**

31.12.2022	Carrying value	Contractual cash flow	1 – 3 months	3 months – 1 year	1 – 5 years	> 5 years
	EUR	EUR	EUR	EUR	EUR	EUR
Borrowings from credit institutions	82 429 949	94 837 865	4 294 830	10 876 192	54 551 740	25 115 102
Trade payables, accrued liabilities	7 976 003	7 976 003	7 976 003	-	-	-
Lease liabilities	484 422	943 076	6 801	20 403	108 816	807 056
Financial liabilities	**90 890 374**	**103 756 944**	**12 277 634**	**10 896 595**	**54 660 556**	**25 922 158**

FUNDING RISK

Interest rate risk

Interest rate risk arises because Conexus uses borrowed funds. Interest rate risk for Conexus arises from borrowings with a floating interest rate (hereinafter referred to as the reference interest rate) consisting of three, six or 12-month EURIBOR plus interest rate, with the risk that Conexus' financial costs will increase significantly when the reference rate surges.

Interest rate risk is managed by entering into interest rate swaps (IRSs), in which floating interest rates are exchanged for fixed interest rates, or by obtaining new fixed rate borrowings or by issuing bonds as fixed rate instruments. At the end of the reporting period, Conexus had no interest rate swaps (IRS) or bonds issued as fixed rate instruments. 35 % of Conexus' received and unpaid long-term loans have a fixed interest rate.

Conexus' financial risk management policy requires the level, amount and maturity of interest rate risk management to be assessed in accordance with the approved Conexus service tariff cycles.

If the base borrowing rate (EURIBOR) increased by 0.25 %, Conexus interest expenses on loans would increase by EUR 124 thousand (2022: EUR 118 thousand). If the base borrowing rate (EURIBOR) increased by 0.50 %, interest expenses on loans would increase by EUR 249 thousand (31.12.2022: EUR 235 thousand).

Refinancing risk

Refinancing risk may arise from external macroeconomic and political circumstances, the onset of a financial crisis, or a significant deterioration in Conexus' operations and financial indicators.

To hedge refinancing risk, Conexus diversifies its loan portfolio by setting limits for key financial indicators (limit values) and ensuring their monitoring by the source of borrowing - not more than 80 per cent from one credit institution. At the same time, Conexus 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 Conexus' other lenders to demand early repayment of their loans.

In order to prevent the risk of early repayment of the debt, Conexus regularly performs calculations and analyses the indicators (covenants) laid down in the loan agreements and pays special attention to timely prevention the occurrence of defaults on payments. Conexus maintains relations with its lenders on a regular basis, informing them in a timely manner of changes affecting Conexus' 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, receivables from contracts with customers and other financial receivables.

Conexus is exposed to a significant concentration of credit risk on receivables from contracts with customers, as credit risk is shared among the 10 largest customers, whose liabilities accounted for 86 % of Conexus' total receivables from contracts with customers (31.12.2022: 90 %). Conexus considers that receivables from customers are highly recoverable.

The maximum credit risk exposure related to financial assets comprises of carrying amounts of cash and cash equivalents (Note 26), receivables from contracts with customers and other receivables (Note 14, 15).

Assessment of maximum possible exposure to credit risk	31.12.2023	31.12.2022
	EUR	EUR
Receivables from contracts with customers	11 555 119	10 237 307
Other current financial receivables	20 400	12 253
Cash and cash equivalents	12 953 450	10 967 116
Total	**24 528 969**	**21 216 676**

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 Conexus, the Company requires security (a security deposit, bank guarantee). One of such guarantees is security deposits – their amount at the end of the year is EUR 6 112 857 (2022: EUR 8 580 382) (Note 13).

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 execution of financial transactions for operations, Conexus may also invest in credit institutions with a credit rating of at least BBB- or Baa3. Based on these considerations, cash and cash equivalents can be described as follows (categorized by long-term rating):

Moody's credit rating	31.12.2023	31.12.2022
	EUR	EUR
Aa3	12 950 436	10 964 963
Baa2	1 055	1 121
Baa1	1 959	1 032
Total cash	**12 953 450**	**10 967 116**

At 31 December 2023 and 31 December 2022, 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 to the aim of ensuring the sustainable operations of Conexus, maintaining an optimal capital structure, and thus reducing the cost of capital. Conexus takes a balanced approach to risk in relation to its creditworthiness and capital structure.

Conexus regularly manages capital risk, based on the calculation and analysis of capital ratio. Capital ratio is calculated by dividing the amount of equity by total assets. Capital ratio must be maintained at the level of at least 50 percent. Capital ratio at 31 December 2023 is 70 %.

Conexus regularly calculates and analyses debt ratio. 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. Debt ratio at 31 December 2023 is 1.3.

Debt service coverage ratio (DSCR) is determined by dividing EBITDA for the last 12 months by the amount of commitment payments (principal, interest or other payments related to loans, loans, financial leasing or other commercially similar transactions). The value of this coefficient should not be less than 1.2x. Debt service coverage ratio (DSCR) indicator at 31 December 2023 is 3.3.

The financial covenants specified in the existing Conexus' borrowing agreements with credit institutions during the reporting period and at the time of approval of the report have been complied with. Actual ratios of the financial covenants:

Financial covenants	31.12.2023	31.12.2022
Equity ratio > 50 %	70 %	72 %
Net borrowings / EBITDA < 5	1.3	2.7
Debt service coverage ratio (DSCR) > 1.2	3.3	2.9

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

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 significant 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 active 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 by the fair value hierarchy levels:

	Level	31.12.2023	31.12.2022
		EUR	EUR
Assets			
Receivables from contracts with customers	3.	11 555 119	10 237 306
Other receivables	3.	20 400	12 253
Cash and cash equivalents	2.	12 953 450	10 967 116
Liabilities			
Borrowings from credit institutions	3.	79 543 677	82 429 949
Trade payables	3.	5 781 591	7 411 426
Other liabilities and accrued liabilities	3.	16 010 238	564 578
Lease liabilities	3.	478 002	484 422

Assets and liabilities measured at fair value

The carrying amounts of liquid and short-term (with a maturity of less than three months) financial instruments, such as cash and cash equivalents, short-term receivables from contracts with customers 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 (incl. a fixed loan rate) applied to borrowings from banks largely 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, machinery and 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 directly observable for the respective type of assets.

The revaluation of fixed assets was performed with the help of an independent expert and using the amortized replacement cost method. Under this method, the initial value of the assets is determined according to the current prices and requirements and the materials used. The main assumptions in the revaluation process relate to the cost of materials used and the average construction cost at the time of the revaluation. Data on the construction of similar facilities in recent years available to Conexus are also used to determine the values. If the average construction costs in the country increase or the cost of materials used increases significantly, the value of the assets will also increase. If construction costs fall or material costs fall, the value of the assets will also fall.

In addition to the initial value, the accumulated depreciation of each asset was determined, taking into account the physical, functional and technical depreciation of the asset as the main factors. If the revalued assets are used significantly differently or are functionally depreciated, the value of the revalued assets may decrease or increase significantly.

When an item of property, plant and equipment is revalued in accordance with IAS 16, the carrying amount of the asset is adjusted for the revalued amount. In recognizing the results of revaluation of property, plant and equipment, the initial value and residual value of the property, plant and equipment are replaced by revalued amounts. The accumulated depreciation on a disproportionate basis at the revaluation date is adjusted to equal the difference between the initial carrying amount of the asset and the remaining carrying amount of the asset, after deducting any accumulated impairment losses.

The average increase in construction costs was determined on the basis of various sources, including projects implemented by Conexus, comparative indicators of equivalent market participants, data of the Central Statistical Bureau (hereinafter - CSB). Changes in material, labour and machinery costs were taken into account. The average cost increase was calculated taking into account the impact percentage of each calculation model. Overall, the average cost increase applied in the revaluation of gas pipelines compared to the valuation performed in 2016 was 19 %. The increase in the value of wells was determined by analysing the information provided by Conexus on well reconstruction works and CSB information (2017-2019). The prudency principle has been observed in the calculations, applying the increase of the CSB average construction costs (materials, labour, machinery) in 2017-2019, i.e., ~ 12 %.

In order to determine whether the fair value of groups of PPE differs from the financial carrying amount at the end of the reporting year, the Company performed an internal assessment of the fair value of assets as of December 31, 2023 for those groups of PPE that were valued at revalued value and showed signs of impairment. According to paragraph 62 of IFRS 13 “Fair Value Measurement,” the Company assessed that the most appropriate valuation method is the income approach.More information on the revaluation of property, plant and equipment is disclosed in the Note 9.

29. ACCOUNTING POLICIES

BASIS OF PREPARATION

The financial statements of Conexus have been prepared in accordance with IFRS Accounting standarts as adopted by the European Union. The general accounting and measurement principles set out in this section have been applied consistently for all periods covered by the financial statements.

The financial statements have been prepared on a going concern basis. As at 31 December 2023, Conexus’ liabilities exceed its current assets by EUR 6 854 thousand (2021: EUR 6 380 thousand). Conexus’ management considers that Conexus will have no liquidity problems and will be able to settle with creditors within the set deadlines, since at the end of the reporting year, Conexus’ total borrowing amount is EUR 79 544 thousand, bank credit lines are unused. In total, bank credit lines of EUR 65 000 thousand are available at Conexus, which provides a significant liquidity reserve. The terms of credit line agreements are up to 1 year.

At the end of the reporting period, Conexus has signed long-term loan agreements in the amount of EUR 45 000 thousand with expected withdrawal during 2024. More information on liquidity ratios is disclosed in Note 28 under section on Liquidity risk.

Assets and liabilities in the financial statements are measured at amortised cost. Some groups of fixed assets are recognised at revalued amounts. The statement of cash flows has been prepared in accordance with the indirect method. Financial statements of Conexus are presented in EUR.

While preparing Conexus’ financial statements in conformity with IFRS, financial statement line items are valued as accurately as possible based on the management information about current events and actions, as well as based on estimates and assumptions. The areas involving a higher degree of judgement or complexity are disclosed in the notes.

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 effective on the date of the relevant transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate effective on the last day of the reporting year. Foreign currency gains and losses are recognised in the income statement for the respective period.

SIGNIFICANT ESTIMATES AND JUDGMENTS

Preparation of the financial statements of Conexus in conformity with IFRS, requires using significant estimates and assumptions that affect the value of the assets and liabilities within financial statements and the presentation of contingent assets and liabilities, as well as the revenue and expenses of the reporting year. While such estimates are based on the most reliable information available to Conexus' management on the relevant events and activities, actual results may differ from these estimates and assumptions about the outcome of future events.

Management has identified the following areas as subject to a higher degree of judgement or complexity or areas for which the assumptions and estimates applied are material in the context of the financial statements.

Estimates related to property, plant and equipment and intangible assets

Useful life

Conexus makes estimates of useful life of property, plant and equipment and intangible assets and their residual value. These estimates are derived from past experience and industry practice. The estimated useful life is assessed at the end of each reporting year. Past experience has shown that the actual useful life of property, plant and equipment and intangible assets sometimes is longer than estimated.

Taking into account Annex 3 to the Decision of the PUC No. 1/12 of 29 August 2022 "Methodology for accounting and calculation of capital costs", in 2022 the classification of fixed asset groups and the useful lives determined for them were revised in the financial accounting, based on the established classification of natural gas transmission and storage assets and minimum useful lives. The useful life was not revised for those fixed assets whose useful life exceeds the minimum period specified in the PUC and for fixed assets that are fully depreciated in the financial accounts as of 31.12.2021, or for which replacement or renewal is planned in the near future (within five years).

The period of useful life and classification on 1 January 2022 were revised for 660 property, plant and equipment items. Total reduction of the calculated depreciation in the profit and loss account is EUR 261 899, of which decrease in depreciation of buildings and structures EUR 222 349, decrease in depreciation of technological equipment EUR 135 820, increase in depreciation of other fixed assets EUR 96 270. Changes in the period of useful life and classification causes changes in the depreciation from 1.5 % to 2.8 % for the following years, and it considered as not significant.

The values of fully depreciated fixed assets are disclosed in Note 9. The assessment of the impact of the expected change in useful life is not accurately estimated and therefore the impact of the sensitivity analysis of changes in depreciation rates on subsequent periods is not disclosed.

Recoverable value

Impairment of Conexus' property, plant and equipment is assessed whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If necessary, assets are written down to their recoverable amount. In assessing impairment, management uses various estimates for cash flows arising from the use of assets, maintenance and repairs of property, plant and equipment, as well as for inflation and interest rate increases. Estimates are based on the methodology for calculation of tariffs for natural gas storage and transmission system service approved by the Council of the PUC. No impairment of property, plant and equipment was recognised in the reporting year.

Revaluation

The revaluation of Conexus' property, plant and equipment is carried out by independent, external, certified experts and using the amortised replacement cost method. Under this method, the initial value of assets is determined according to the prices and requirements and the materials used, as well as the accumulated depreciation of each asset is derived. The main assumptions in the revaluation process relate to the cost of materials used and average construction prices at the time of the revaluation.

In order to determine whether the fair value of groups of PPE corresponds to the carrying amount at the end of the reporting year, the Company performed an internal assessment of the fair value of assets as of December 31, 2023 for those groups of PPE that were valued at revalued value and showed signs of impairment. According to paragraph 62 of IFRS 13 "Fair Value Measurement," the Company assessed that the most appropriate valuation method is the income approach.

More information on the revaluation of property, plant and equipment is disclosed in chapter Assets measured at fair value and in the Note 9.

Recognition and measurement of provisions

Conexus has made provisions for post-employment benefits. The extent and timing of the fulfilment of these obligations are uncertain. Certain assumptions and estimates, including expected future costs, inflation rates and cost timelines, are used to determine the present value of these provisions. Actual costs may differ from established provisions due to changes in legal provisions, as well as costs covered by third parties. In order to assess provisions for post-employment benefits, the probability of termination of employment in different age groups of employees is estimated, based on past experience as well as different assumptions about variable demographic and financial factors (including the expected increase in wages and salaries and certain changes in the amount of benefits). Probability and other factors are determined on the basis of previous experience (Note 18).

Recognition of balancing income

Conexus has assessed that, in the performance of the balancing administration functions, it acts as an agent (Note 2). Indicators that Conexus acts as an agent are as follows:

- Conexus has no control over the services before handing them over to customers;
- Conexus is required to invoice clients for services provided and charge a fee, but is not entitled to revenue for these services;
- Conexus does not have the right to determine the price of the services either directly or indirectly.

NON-FINANCIAL ASSETS AND LIABILITIES

INTANGIBLE ASSETS

Identifiable non-monetary assets that have no physical form and which Conexus uses to provide services or for own operational needs, are recognised as intangible assets. Conexus' intangible assets mainly consist of software licences and software and co-financed projects. Co-financed projects of common interest are recognized according to IFRIC 12. More information on the recognition of co-payments in intangible investments is disclosed in the Note 8.

Intangible assets are carried at their historical cost less accumulated amortisation and impairment loss.

Intangible assets are amortised on a straight-line basis over their estimated useful lives. The useful life of intangible assets is 5 – 20 years.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment refers to tangible assets that are intended to be used over more than one period to provide services and goods or for own operating use. Conexus' main property, plant and equipment groups are land, buildings, structures, machinery and equipment, other property and equipment, wells, gas compression units, and automatic equipment control systems. Property, plant and equipment also includes cushion gas in the collector layer of the Inčukalns UGS and the transmission gas pipelines, emergency spare parts and costs of unfinished construction objects.

Buildings, structures, machinery and equipment, wells, gas compression units, and automatic equipment control systems are stated in the financial statements at revalued amounts. 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 property, plant and equipment items, including land, cushion gas in the Inčukalns UGS facility, technological natural gas in the transmission gas pipelines and the emergency reserve for fixed assets spare parts are accounted for at historical cost.

Property, plant and equipment item is recognised as an asset if it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. Property, plant and equipment items are stated in financial statements at cost or revalued amounts 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 construction 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 as "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. Once the property, plant and equipment item is written-off, corresponding amount of revaluation reserve is transferred from reserves to 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 transferred to retained earnings.

From the date the asset is ready for its intended use, it is depreciated over its estimated useful life in order to reduce its cost or revalued amount to its residual value.

Where the carrying amount of an item of PPE exceeds its recoverable amount, the asset is written down immediately to its recoverable amount. Impairment of asset is recognised in the income statement of the period, except for revalued fixed assets, for which the revaluation reserve is written down first. 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, cushion gas in Inčukalns UGS collector layer and transmission pipelines, spare parts for emergencies and construction in progress.

Emergency spare parts are the minimum amount of spare parts required to be stored in the warehouse, approved by the Conexus' Management Board, to ensure that Conexus is ready to locate accidents or prevent their consequences, as well as to carry out urgent repairs. The balance of emergency spare parts is reviewed once a year and if necessary reclassification to or from inventory is made.

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	**20-150**
- Monolithic buildings with a reinforced concrete or concrete frame*	150
- Brick, reinforced concrete	100
- Brick, reinforced concrete	60-80
- Brick, reinforced concrete	20-30
Brick, reinforced concrete	**15-65**
- Brick, reinforced concrete	60-65
- Brick, reinforced concrete	20-30
- Groundings	150
Machinery and equipment	**5-35**
- Pressure regulation stations	35
- Gas compression units	25-30
- Transport and machinery, cathodic protection station	5-20
Other PPE	**3-15**
- Machine tools	15
- Furniture, computer equipment, communication equipment	3-10
- Tools	3-7

LEASES

At the time of concluding the agreement, Conexus assesses whether the agreement is a lease or includes a lease. A contract is a lease or includes a lease if the contract grants control of the use of an identifiable asset for a specified period in exchange for consideration. Leases and right-of-use assets are recognized for all long-term leases that meet the criteria in IFRS 16. The rights-of-use asset is recognized as a separate item in long-term investments, see Note 12. Low value or short-term leases are not recognized as lease assets and liabilities under the exemption.

Lease liabilities are reassessed if there is a change in future lease payments due to a change in the rate used to determine these payments, if there is a change in the estimated amount of the lease payments, or if the lease is extended or terminated. When a lease liability is remeasured, an adjustment is made to the carrying amount of the corresponding right-of-use asset.

The right-of-use assets are initially measured at the present value of the lease payments and the initial direct costs associated with the lease. Lease payments are discounted using the interest rate implied by the Conexus' lease. If this rate cannot be readily determined, Conexus uses its comparable interest rate.

Subsequent to initial recognition, right-of-use assets are measured using the cost model. Under the cost model, right-of-use assets are measured at cost less accumulated depreciation and accumulated impairment losses. Assets are depreciated using the straight-line method from the inception date of the lease to the end of their lease term. The period of use is estimated according to the term of the contract - 70 years for construction rights and 36 years for land lease.

Lease liabilities are measured at the present value of future lease payments that are discounted with interest rate implied by the Conexus' lease. If this rate cannot be readily determined, Conexus uses its comparable interest rate. 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 statement of financial position, 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.

During the reporting period, Conexus did not use exemptions for short-term and low-value leases, as such lease agreements were not concluded 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 of inventory determined over the course of Conexus' operations, less variable selling costs.

Inventories are expensed in the income statement in the period in which they are consumed.

Inventories of materials and spare parts included in inventories are valued at weighted average prices, except for natural gas, which is accounted for according to the FIFO method. In cases where the net realisable value of inventories is lower than their cost price, provisions are made for these inventories to reduce their value to net realisable value.

PROVISIONS

Provisions are recognised when as a result of past events Conexus 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 when the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at their 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 insurance and pension contributions

State social insurance mandatory contributions to the state-funded pension scheme are paid by Conexus 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 plan. 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 costs.

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.

DEFERRED EXPENSES

Deferred expenses are costs incurred before the annual reporting date but are attributable to future reporting periods.

Non-current deferred expenses 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.

Recognition period is determined for all non-current deferred expenses and they are recognised in the income statement on a straight-line basis in line with their economic nature. Those deferred expenses that are to be recognised in the income statement over a period of 12 months are presented in financial statements as current assets, while the remaining amount is presented under non-current assets.

ACCRUED INCOME

Accrued income includes the right to be reimbursed for services rendered that have not yet been invoiced at the reporting date. These rights are recognized in the balances of receivables from contracts with customers.

Accrued income is the clearly known amount of the settlement obligation (contract assets) that is settled between the buyer and the customer.

Accrued income refers to 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 the issuance of supporting document (invoice) has not yet come at the balance sheet date. 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 in reporting period for services to be rendered by Conexus in subsequent periods. Amounts presented under deferred income are recognised in the income statement in the period in which the performance obligations are met.

Deferred income from contracts with customers

In accordance with IFRS 15, Conexus recognizes the payments received for reserved capacity services as short-term deferred income. At the date of the service, Conexus recognizes receivables and income and at the same time reduces deferred income.

Asset - related grants

Conexus initially recognizes asset-related European Union funding for long-term investments as part of long-term deferred income, in accordance with IAS 20. Financing subsequently is recognized as income in the income statement over the useful life of the related item of property, plant and equipment.

Financial instruments

Conexus' financial instruments consist of financial assets (financial assets at amortized cost) and financial liabilities (financial liabilities at amortized cost).

The classification of debt instruments depends on Conexus' business model for management of financial assets, as well as whether the contractual cash flows consist solely of payments of principal and interest (SPPI). If a debt instrument is being held to collect cash flows, it can be carried at amortised cost subject to meeting the SPPI requirements. Financial assets, the cash flows from which do not meet the SPPI requirements, must be measured at fair value through profit or loss (FVTPL) (e.g., derivative financial instruments).

FINANCIAL ASSETS AND LIABILITIES

Financial assets are recognized when Conexus becomes a party to the transaction and meets the conditions of the transaction, i.e., on the trade date. Financial instruments are initially recognized at fair value. For financial assets and financial liabilities at amortized cost, the fair value at initial recognition is adjusted for transaction costs that are directly attributable to the financial instrument.

Financial assets include receivables, and cash and cash equivalents, 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. The classification depends on the purpose for which the financial asset was acquired.

Financial assets are derecognised when the contractual obligations for the cash flows from the financial asset are extinguished or when Conexus transfers the financial asset to another party or transfers significant risks and rewards of ownership of the asset. Purchases and sales of financial assets in the ordinary course of business are accounted for on the trade date, i.e., the date on which Conexus decides to buy or sell the asset. Short-term receivables are not discounted.

Borrowings, payables to suppliers and other creditors are included in financial liabilities. Financial liabilities at amortized cost are initially recognized at fair value less transaction costs. In subsequent periods, financial liabilities at amortized cost are carried at amortized cost using the effective interest method. Financial liabilities at amortized cost are classified as current liabilities if the payment term is one year or less. If the payment term is longer than one year, they are presented as long-term liabilities.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

When the contractual cash flows of financial liabilities are substantially modified, such a modification is treated as a derecognition of the original liabilities and a recognition of new financial liabilities, with the difference in respective carrying amounts recognised in the income statement.

Financial liabilities are considered “substantially modified” when the net present value of the cash flows under the new terms, including any fees received net of any fees paid and discounted using the original effective interest rate, differs by at least 10 percent from the present value of the remaining cash flows under the original terms.

Receivables from contracts with customers and other debtors

Receivables from contracts with customers and other debtors are financial assets with fixed or determinable payment schedule that are not quoted in an active market. Current receivables from contracts with customers are not discounted. Receivables from contracts with customers are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method and subtracting expected credit loss. To measure receivables from contracts with customers, 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 receivables from contracts with customers and contract assets and recognises lifetime expected credit 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 Conexus accounts with the bank.

If Conexus’ 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 Conexus’ bank account at the end of the reporting period, the credit line used is recognised in full under liabilities as loans from credit institutions.

While cash also is subject to the expected credit loss requirements of IFRS 9, the identified expected credit loss was immaterial, considering also the fact that almost all of cash is held in financial institutions with the credit rating grade of the institution or its parent bank at investment grade credit rating (mostly ‘A level’ credit rating, Stage 1 (see Note 28).

Share capital and dividends

Conexus is a closed joint stock company with 100 % registered shares. The shares constitute the share capital and are fully paid. The total number of shares is 39 786 089, with a nominal value of EUR 1.00, one share grants its holder one vote at the General Meeting of Shareholders. The total number of shareholders exceeds 4.8 thousand. 97.52 % of the total number of shares belong to two largest shareholders - AS „Augstsprieguma tīkls” (68.46 %) and MM Infrastructure Investments Europe Limited (29.06 %). 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 shareholder approves the amount of dividends and the procedure for payment.

Corporate income tax

The corporate income 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, no corporate income tax is to be paid. The calculated corporate income tax on conditionally distributed profits, in accordance with the requirements of IFRS, is classified as other operating expenses.

Borrowings

The borrowings are initially recognised at fair value less transaction costs incurred. In subsequent periods, the borrowings are carried at amortised cost using the effective interest method.

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, cancelled or expires.

Conexus' borrowings include a fixed and a variable rate component. Once a year, Conexus assesses changes in the fixed part of a credit institution's borrowing rate in accordance with the current market situation.

General and specific borrowing costs that relate directly to the acquisition or construction of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their expected use or sale, are added to the cost of constructing or acquiring those assets until they are actually ready for their expected use.

REVENUE

Conexus uses a five-step model to determine when and to what extent revenue should be recognized. The 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, reflecting the financial results of Conexus operations;
- when control of the goods or services is transferred to the customer or;
- according to the agent's accounting principle.

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.

IFRS 15 requires recognition of an asset in respect of incremental costs incurred in obtaining contracts with customers and for which it is probable that they will be recovered. Due to specifics of operations of Conexus, no such expenses have occurred up to date.

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 applicable 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 term deposits is classified as other income. Interest income from cash – as financial income.

Other income

Other income from the rendering of services is recognised in the period in which they are rendered: REMIT services (The Regulation on Wholesale Energy Market Integrity and Transparency), platform maintenance.

Other income from the sale of materials is recognised when the buyer has accepted them: sale of used computer equipment, sale of used metal products.

Contractual penalties are calculated according to the concluded service contracts with suppliers. Contractual penalties 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.

Balancing income

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.

Income 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. Expense from balancing is recognised for each reporting month when a positive imbalance occurs.

In the financial statements, income from balancing is reported under Revenue at net value (less costs for periods when the balance is positive). The net result of balancing represents the amount of administrative costs.

In order to comply with the principle of profit neutrality, Conexus calculates a neutrality fee. The neutrality charge is a charge that the transmission system operator pays to or receives from transmission system users in connection with the balancing of the transmission system. This charge consists of the difference between the transmission system operator's costs and the revenue from balancing activities.

Neutrality charges can be both positive and negative. In the event of a negative neutrality charge, the transmission system operator pays the neutrality charge to the transmission system users. In the event of a positive neutrality charge, the transmission system operator receives a neutrality charge from transmission system users. Common Regulations for the Natural Gas Balancing of Transmission System issued by PUC determines, that the purpose of neutrality charge is to ensure TSO`s financial neutrality.

Conexus, in the performance of the functions of balancing administration, acts as an agent. Indicators that Conexus acts as an agent are as follows:

- Conexus has no control over the services before handing them over to customers;
- Conexus is required to invoice clients for services provided and charge a fee, but is not entitled to revenue for these services;
- Conexus does not have the right to determine the price of the services either directly or indirectly.

Evaluating the available information, Conexus considers itself to be an agent in these transactions, therefore the balancing income is recognized in the income statement on a net basis using the agent's accounting policy (Note 2).

RECOGNITION OF COSTS

Costs are recognized on an accrual basis. The calculation of costs for the year takes into account all expected costs and contingent liabilities incurred in the year or in prior years, even if they became known between the balance sheet date and the date of the financial statements, regardless of the date of receipt of the invoices, because Conexus Transactions are accounted for and presented in the financial statements based on their economic substance and substance, and not merely their legal form. Maintenance and operating costs and other operating expenses recognized in the income statement are disclosed in the notes to the financial statements in more detail.

Long - term and short - term liabilities

Conexus payables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method. Liabilities to suppliers and contractors are reflected in the financial statements in accordance with the supporting documents and entries in the accounting records of invoices received from Conexus suppliers but not paid at the end of the reporting period.

Accrued liabilities

Accrued liabilities incurred during the reporting year, if the amount of these expenses or the date of payment during the reporting period is clearly known, but for which no invoices have been received from suppliers, are included in the item "Accrued liabilities".

Accrued liabilities are recognized when the amount and maturity of the liabilities are relatively accurate and the degree of uncertainty is much lower than for the provisions. Accrued liabilities are recognized: for services for which, due to the terms of the supply, purchase or company contract or for other reasons, a proof of payment (invoice) has not yet been received at the balance sheet date. These commitment amounts shall be calculated on the basis of the prices quoted in the contract and the actual receipt of the goods or services; settlements for annual leave and bonuses for employees.

ADOPTION OF NEW STANDARDS, AMENDMENTS, AND INTERPRETATIONS

Standards or interpretations effective for the first time for the annual periods beginning 1 January 2022:

- Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting policies (effective for annual periods beginning on or after 1 January 2023). IAS 1 was amended to require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendment provided the definition of material accounting policy information. The amendment also clarified that accounting policy information is expected to be material if, without it, the users of the financial statements would be unable to understand other material information in the financial statements. The amendment provided illustrative examples of accounting policy information that is likely to be considered material to the entity's financial statements. Further, the amendment to IAS 1 clarified that immaterial accounting policy information need not be disclosed. However, if it is disclosed, it should not obscure material accounting policy information. To support this amendment, IFRS Practice Statement 2 "Making Materiality Judgements" was also amended to provide guidance on how to apply the concept of materiality to accounting policy disclosures.

- Amendments to IAS 8: Definition of Accounting Estimates (effective for annual periods beginning on or after 1 January 2023). The amendment to IAS 8 clarified how companies should distinguish changes in accounting policies from changes in accounting estimates.

Deferred tax related to assets and liabilities arising from a single transaction – Amendments to IAS 12 (effective for annual periods beginning on or after 1 January 2023). The amendments to IAS 12 specify how to account for deferred tax on transactions such as leases and decommissioning obligations. In specified circumstances, entities are exempt from recognising deferred tax when they recognise assets or liabilities for the first time. Previously, there had been some uncertainty about whether the exemption applied to transactions such as leases and decommissioning obligations – transactions for which both an asset and a liability are recognised. The amendments clarify that the exemption does not apply and that entities are required to recognise deferred tax on such transactions. The amendments require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences.

- Amendments to IAS 12 Income taxes: International Tax Reform - Pillar Two Model Rules (effective for annual periods beginning on or after 1 January 2023). In May 2023 the International Accounting Standards Board IASB issued narrow-scope amendments to IAS 12 "Income Taxes". This amendment was introduced in response to the imminent implementation of the Pillar Two model rules released by the Organisation for Economic Co-operation and Development's (OECD) as a result of international tax reform. The amendments provide a temporary exception from the requirement to recognise and disclose deferred taxes arising from enacted or substantively enacted tax law that implements the Pillar Two model rules. In accordance with IASB effective date, the companies may apply the exception immediately, but disclosure requirements are required for annual periods commencing on or after 1 January 2023.

The management considers that the introduction of new standards, amendments and interpretations have no impact on Conexus' financial statements.

Standards or interpretations effective for the first time for the annual periods beginning after 1 January 2024 or not yet adopted by the EU:

- Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback (effective for annual periods beginning on or after 1 January 2024). The amendments relate to the sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale. The amendments require the seller-lessee to subsequently measure liabilities arising from the transaction and in a way that it does not recognise any gain or loss related to the right of use that it retained. This means deferral of such a gain even if the obligation is to make variable payments that do not depend on an index or a rate.

- Classification of liabilities as current or non-current – Amendments to IAS 1 (effective for annual periods beginning on or after 1 January 2024). These amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer requires such a right to be unconditional. The October 2022 amendment established that loan covenants to be complied with after the reporting date do not affect the classification of debt as current or non-current at the reporting date. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. A liability is classified as current if a condition is breached at or before the reporting date even if a waiver of that condition is obtained from the lender after the end of the reporting period. Conversely, a loan is classified as non-current if a loan covenant is breached only after the reporting date. In addition, the amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. "Settlement" is defined as the extinguishment of a liability with cash, other resources embodying economic benefits or an entity's own equity instruments. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument.

- Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures: Supplier Finance Arrangements (effective for annual periods beginning on or after 1 January 2024, not yet endorsed by the EU). In response to concerns of the users of financial statements about inadequate or misleading disclosure of financing arrangements, in May 2023 the IASB issued amendments to IAS 7 and IFRS 7 to require disclosure about entity's supplier finance arrangements (SFAs). These amendments require the disclosures of the entity's supplier finance arrangements that would enable the users of financial statements to assess the effects of those arrangements on the entity's liabilities and cash flows and on the entity's exposure to liquidity risk. The purpose of the additional disclosure requirements is to enhance the transparency of the supplier finance arrangements. The amendments do not affect recognition or measurement principles but only disclosure requirements. The new disclosure requirements will be effective for the annual reporting periods beginning on or after 1 January 2024.

- Amendments to IAS 21 Lack of Exchangeability (effective for annual periods beginning on or after 1 January 2024, not yet endorsed by the EU). In August 2023 the IASB issued amendments to IAS 21 to help entities assess exchangeability between two currencies and determine the spot exchange rate, when exchangeability is lacking. An entity is impacted by the amendments when it has a transaction or an operation in a foreign currency that is not exchangeable into another currency at a measurement date for a specified purpose. The amendments to IAS 21 do not provide detailed requirements on how to estimate the spot exchange rate. Instead, they set out a framework under which an entity can determine the spot exchange rate at the measurement date. When applying the new requirements, it is not permitted to restate comparative information. It is required to translate the affected amounts at estimated spot exchange rates at the date of initial application, with an adjustment to retained earnings or to the reserve for cumulative translation differences.

Conexus is currently assessing the impact of the amendments on its financial statements.

30. SUBSEQUENT EVENTS

According to management's assessment, there are no subsequent circumstances or events since the last date of the reporting year until the signing of this report, which would have a significant effect on the financial position of Conexus as at 31 December 2023.

The financial statements have been prepared by:

AIJA MARTINSONE-STAĢE
Head of Financial Accounting Division

* THIS DOCUMENT IS SIGNED ELECTRONICALLY WITH A SECURE ELECTRONIC SIGNATURE AND CONTAINS A TIME-STAMP