# Joint Stock Company
# Conexus Baltic Grid

## Unaudited financial statements for 2020

Prepared in accordance with the International Financial

Reporting Standards as adopted by the European Union

RIGA 2021

## CONTENTS

## Information on Company

| | |
|---|---|
| Company | Joint Stock Company (JSC) 'Conexus Baltic Grid' |
| Registration number | 40203041605 |
| LEI code | 485100YDVP9E8GT6PJ90 |
| Registration date and place | Riga, 2 January 2017 |
| Address | Stigu Street 14<br>Riga, LV – 1021<br>Latvia<br>www.conexus.lv |
| Main shareholders | JSC "Augstsprieguma tīkls" (68,46 %)<br>MM Infrastructure Investments Europe Limited (29,06 %) |
| Financial statements period | 1 January 2020 – 31 December 2020 |

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

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

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

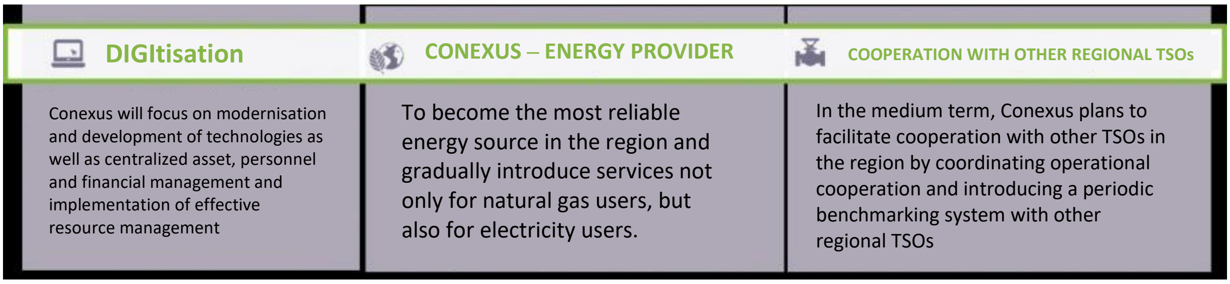
We are a socially responsible company that enables the growth of its employees and contributes to the overall development of the industry by providing sustainable employment and added value, while taking care of the impact of our production processes on the environment.

## Conexus vision, mission and values


## Goals of Conexus

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

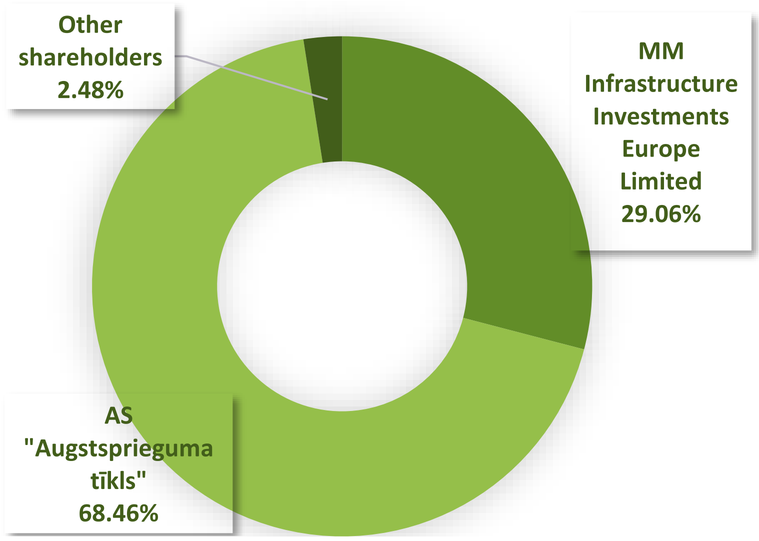

In addition to its strategic goals, Conexus has identified three developmental motives that spread across all medium-term activities planned. These motives add to the strategic goals, facilitate their implementation and are determined as follow:



## Shareholders

Conexus is a closed-emission joint stock company with 100% registered shares. The total number of shares is 39 786 089, with a nominal value of EUR 1.00. The total number of shareholders exceeds 4.8 thousand. 97,52% of the total number of shares belong to two largest shareholders - JSC „Augstsprieguma tīkls" (68,46 %), MM Infrastructure Investments Europe Limited (29,06 %).

Shareholders as of 31 December 2020:




### Change of Shareholders

- On April 1, Nasdaq CSD informed that on 1 April 2020 changes were made in the shareholders' registry: change of ownership of 29,06 % (11'560'645 closed share issue shares) of the Company's share capital. The transferor of the shares is Marguerite Gas I S.àr.l., the acquirer of the shares is MM Infrastructure Investments Europe Limited (Reg. No 12279235);
- On July 21 changes were made in the shareholders' registry: change of ownership of 34,10 % of the Company's share capital. The transferor of the shares is PJSC "Gazprom" (reg. No. 7736050003, Russian Federation), the acquirer of the shares is JSC "Augstsprieguma tīkls" (reg. No. 40003575567, Republic of Latvia). Thus, JSC "Augstsprieguma tīkls" currently holds 68,46% of the total share capital paid by the Company;
- With change of shareholders, PUC finished the evaluation of Conexus compliance with independence requirements and declared Conexus an independent system operator.

## The council

| Term of office untill April 2020 | | Term of office from 30 April 2020 until 29 April 2023 | |
|---|---|---|---|
| **Kaspars Āboliņš** | Chairman of the Council (In Council from 3 January 2018 until 30 April 2020) | **Ilmārs Šņucins** | Chairman of the Council (In Council since 3 January 2018) |
| **William Pierson** | Deputy Chairman of the Council (In Council from 15 August 2017 until 1 April 2020) | **Tomohide Goto** | Deputy Chairman of the Council (In Council since 30 April 2020) |
| **Ilze Bērziņa** | Member of the Council (In Council from 3 January 2018 until 30 April 2020) | **Ippei Kojima** | Member of the Council (In Council since 30 April 2020) |
| **Sanita Greize** | Member of the Council (In Council from 3 January 2018 until 30 April 2020) | **Jun Matsumoto** | Member of the Council (In Council since 30 April 2020) |
| **Guillaume Rivron** | Member of the Council (In Council from 22 December 2016 until 1 April 2020) | **Ilze Aleksandroviča** | Member of the Council (In Council since 30 April 2020) |
| **Martins Sičelkovs** | Member of the Council (In Council from 27 April 2018 until 1 April 2020) | **Zane Āboliņa** | Member of the Council (In Council since 30 April 2020) |
| **Ilmārs Šņucins** | Member of the Council (In Council since 3 January 2018) | **Normunds Šuksts** | Member of the Council (In Council since 30 April 2020) |

## The Board

**Zane Kotāne** Chairwoman of the Board - Term of office from 31 December 2017 until 26 June 2020

**Jānis Eisaks** Chairman of the Board - Term of office from 27 June 2020 until 10 November 2020

**Uldis Bariss** Chairman of the Board - Term of office from 11 November 2020 until 15 November 2023

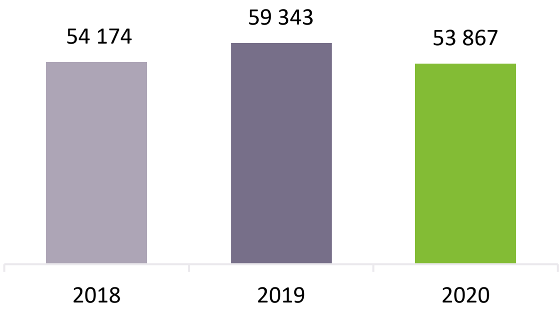
Term of office from 31 December 2017 until 31 December 2020 and from 1 January 2021 until 31 December 2023.

**Gints Freibergs** Member of the Board

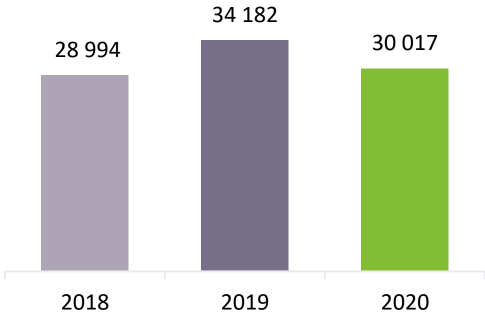
**Mārtiņš Gode** Member of the Board

## Key performance indicators

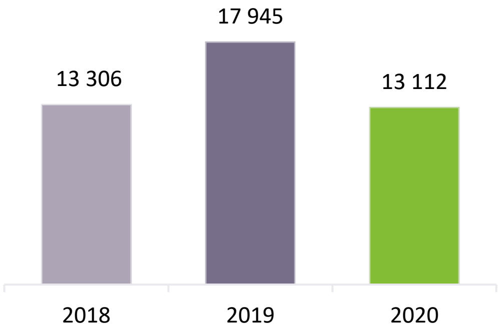
**Net turnover,** '000 EUR



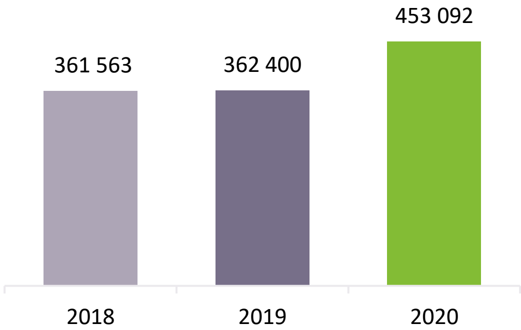

**EBITDA,** '000 EUR



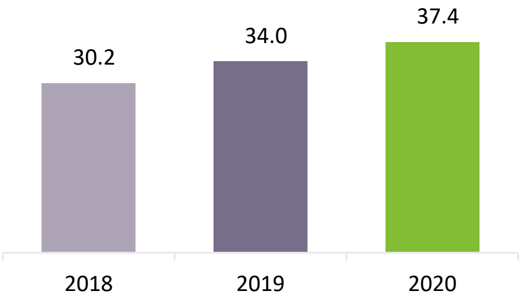

**Net profit,** '000 EUR



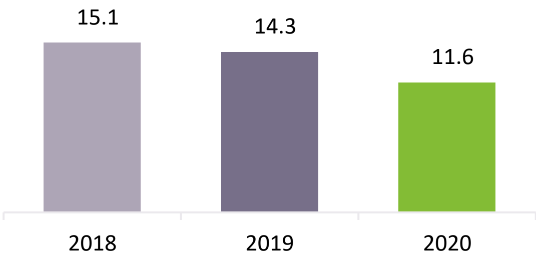

**Assets,** '000 EUR



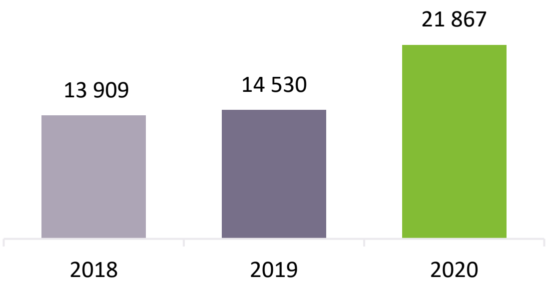

**Natural gas transmitted,** TWh



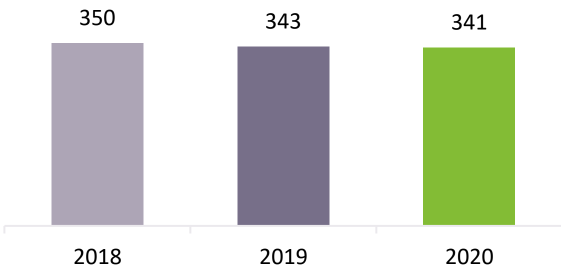

**Natural gas transmitted for consumption in Latvia,** TWh




**Capital investments,** '000 EUR




**Average number of employees**



## Management report

Year 2020 was challenging for Latvian as well as for overall world economy due to Covid-19 pandemic which not only significantly impacted each person's everyday life, but also caused serious changes to the economic situation in the world. Additionally, the abnormally warm weather during winter months was also a challenge for the energy sector, having a significant impact on the natural gas demand and consequently on Companies' financial results.

Despite the declared state of emergency in relation to Covid-19, Conexus provided safe and uninterrupted operation of transmission system and Inčukalns UGS, and an uninterrupted natural gas supply for the consumption of Latvia, Lithuania, Estonia, Finland and Russia. Total volume of gas transmitted reached 37,4 TWh, which is 10% more than in prior year.

| **Main operating indicators** | **2020** | **2019** |
|---|---|---|
| Natural gas transmitted, TWh | 37.4 | 33.9 |
| Reserved capacity, TWh | 21.5 | 18.5 |
| Total amount of natural gas stored in Inčukalns UGS, TWh | 17.2 | 14.9 |
| Natural gas for consumption in Latvia, TWh | 11.6 | 14.3 |
| Total length of main gas pipelines, km | 1 188 | 1 188 |
| Average number of employees | 341 | 343 |

On 1 January 2020 the common market area, which unites gas transmission system operators in Finland, Latvia and Estonia - "Gasgrid Finland Oy", Conexus and JSC "Elering", began operating, demonstrating the ability of several countries to cooperate. The single entry tariff area consists of two balancing zones, Estonia-Latvia and Finland. With establishment of the unified market area on 1 January 2020, the interest to use Inčukalns UGS has increased, as demonstrated by market participants' interest in storage reservations for the following injection season – capacity reservations by market participants significantly exceeded the available capacity of 21,5 TWh for 2020/2021, which is 16% more reserved capacity than last year. Increased interest from natural gas traders led to higher inflows into the single entry tariff area and increased revenues for transmission operators.

During the reporting period, the Company's net turnover was EUR 53.9 million, which is 9% less than in prior year. The Company's operating result is net profit of EUR 13.1 million and EBITDA reached EUR 30 million. The Company's financial results were affected by the abnormally warm weather during winter months, which decreased demand for gas transmission services for consumption in Latvia by 19%, reaching 11,6 TWh.

| **Conexus financial indicators** | **31.12.2020** | 31.12.2019 | +/- | % |
|---|---|---|---|---|
| | EUR'000 | EUR'000 | | |
| **Net turnover** | **53 867** | **59 343** | **(5 476)** | **-9%** |
| EBITDA | 30 017 | 34 182 | (4 165) | -12% |
| **Net profit** | **13 112** | **17 945** | **(4 833)** | **-27%** |
| Segment assets | 437 928 | 340 896 | 97 032 | 28% |
| Cash and cash equivalents | 15 164 | 21 504 | (6 341) | -29% |
| Total assets | 453 092 | 362 400 | 90 692 | 25% |
| Approved regulated asset base | 322 444 | 322 444 | - | 0% |
| Net debt* | 22 881 | 20 041 | 2 840 | 14% |
| Investments | 21 867 | 14 530 | 7 337 | 50% |

*Net debt includes guarantee received from bank.

| Conexus financial coefficients | 31.12.2020 | 31.12.2019 |
|---|---|---|
| EBITDA profitability | 56% | 58% |
| Net profitability | 24% | 30% |
| Return on equity ratio (ROE) | 3,52% | 6% |
| Shareholders' equity ratio (>50%) | 89% | 87% |
| Net debt to EBITDA ratio (< 2) | 0.76 | 0.59 |

During the reporting period, for the third time Conexus arranged an auction for storage of active natural gas and availability thereof in Inčukalns UGS during the season 2020/2021, which is required to ensure the Latvian natural gas supply during an energy crisis or in case of national threats, in accordance with Regulation No. 312 "Procedures for the Supply of Energy Users and Sale of Heating Fuel During Declared Energy Crisis and in Case of Endangerment to the State" adopted by the Cabinet of Ministers on 19 April 2011. The received bids exceeded the required auction volume approximately two times compared to 2019, thereby significantly reducing the total costs of the auction. The auction costs are included in the tariff, therefore this resulted in a 4,9% reduction of the tariff for exit point for the supply of Latvian consumers from 1 October 2020 until 30 September 2021. Auction costs constitute part of expenses included into transmission tariff, therefore, by reduction of those the tariff changes.

## Main events

**Regulatory activities**

- Since 1 January, single transmission entry tariff system entered into force, significantly reducing the administrative burden for the users. A transparent and simple tariff system was established, which will positively affect the usage of the natural gas infrastructure in the long term. The revenue incurred on external borders of the common market area are split among three countries, which affirms the common goal of all common market member states to strengthen the energetic security of the region;
- On 12 March 2020, PUC approved amendments in usage regulations of Inčukalns UGS and made a decision on Conexus natural gas storage tariffs application procedure for the 2020/2021 storage cycle, approving the following tariff values (VAT excl.):
    - minimum value of market product tariff - 0.92000 EUR/MWh;
    - virtual counterflow product tariff – 0.32200 EUR/MWh;
    - maximum value of bundled capacity product – 1.37918 EUR/MWh;
    - two-years bundled capacity product tariff – 2.84741 EUR/MWh.
- On October 1, the Public Utilities Commission (PUC) approved new rules for the use of Inčukalns underground gas storage. The regulatory changes have been made in relation to the increased storage role in natural gas supply throughout the Baltic region. Main changes were as follows:
    - The new rules determine that for booking products of storage capacity — bundled capacity product, two-year bundled capacity product and interruptible capacity product —an auction procedure is to be used, providing for the setting of a single premium. The auctions have a specific timetable – from mid-March to mid-August;
    - The interruptible capacity product that replaces the market product is intended for cases when capacity of all the available bundled capacity product and the two-year bundled capacity product is not auctioned in the first two rounds of auctions;
    - The new stock transfer product aims to stimulate users to remove as much natural gas as possible from storage by the end of the withdrawal season to ensure the storage operations are sustainable.

- In October 2020, a natural gas storage tariff project was submitted to the Regulator for the next regulatory period of 5 years (from 1 May 2021 until 30 April 2025). It is planned that after approval by the Regulator, the new tariffs will come into force as the new 2021/2022 storage cycle commences.

**Legal events**

- On 18 September 2018 Conexus filed an application to the District administrative court against the decision No. 69 of the Regulator council "On JSC "Conexus Baltic Grid" natural gas transmission system tariffs" dated 18 June 2018, in relation to expenses not being included in the transmission system tariff project and issuance of a new administrative act, intending to include the excluded expenses in tariff project in the next period. With the decision of the District administrative dated on 7 April 2020 the application was rejected. Conexus submitted an appeal in cassation to the Department of Administrative Cases of the Senate on 7 May 2020. The cassation appeal has been accepted, but the date of the hearing is not known at this time;
- On 28 September 2020 Conexus filed an application to the Administrative District Court regarding cancellation of the PUC Council's decision No 109 dated 20 August 2020 on the capital rate of return for the calculation of the tariff project for natural gas transmission system, natural gas distribution system and natural gas storage services. Hearing date is scheduled for 10 March 2021.

**Other activities**

- In 2020, an asset revaluation was carried out in accordance with the International Financial Reporting Standards, with a view to ensuring that the carrying amount does not differ significantly from the fair values of the assets. The following groups of fixed assets were subject to revaluation: buildings, technological equipment and machinery, excluding land, cushion gas in the underground gas storage, natural gas in the pipelines of the transmission system and emergency spare parts;
- Conexus successfully adapted its activities to the emergency conditions created by Covid-19 virus, thanks to the digitalisation activities carried out in recent years. Despite the difficult conditions at global and national level, the Company was able to ensure safe operation of infrastructure and access to natural gas transmission and storage services;
- Dividends paid to shareholders for 2019 in amount of EUR 16 312 thousand or EUR 0.41 per share.

## Results of segments' operations

### *Transmission*

The natural gas transmission segment provides transportation of natural gas through high-pressure pipelines to supply it to Inčukalns UGS, to other countries and to the distribution system.

The transmission segment generates revenue from sales of capacity both for natural gas consumption in Latvia and for international transportation of natural gas. The revenue of the transmission segment during the reporting period was EUR 32,1 million and EBITDA reached EUR 16,6 million, representing 55,% of the Company's total EBITDA. Profit of the transmission segment amounted to EUR 6,8 million, 27% less than last year due to decrease in the volume of gas transmitted for consumption in Latvia, as well as tariff changes due to lower costs of an auction for natural gas supplies included in tariffs.

| **Transmission** | **2020 / 31.12.2020** | 2019 / 31.12.2019 |
|---|---|---|
| | EUR'000 | EUR'000 |
| **Net sales** | **32 072** | **36 424** |
| EBITDA | 16 640 | 18 963 |
| **Segment Net Profit** | **6 829** | **9 287** |
| Segment assets | 232 042 | 178 197 |
| Depreciation and amortisation | 9 706 | 9 578 |
| Acquisition of fixed assets and intangible assets | 8 788 | 7 051 |
| Regulated asset base | 171 820 | 171 820 |

Starting from 2020, the Transmission segment demonstrated here includes also results of operations of common market area, that is not included in the transmission service tariff calculation. In 2020, common market area-related EBITDA was EUR 33 thousand, depreciation EUR 30 thousand, and net profit EUR 0 thousand.

The Company's activities are regulated, and the regulatory periods differ from the financial year. In accordance with current tariff methodologies, depending on changes in actual costs and consumption of natural gas, tariff cycles may generate differences between income and expenses that will give rise to liabilities or assets in subsequent tariff cycles.

In the transmission segment, such differences may arise from differences in actual consumption versus that planned for the purpose of tariffs (revenue adjustment). At the end of the reporting period of 2020, the transmission segment actual revenue is by EUR 3 440 thousand lower than those in the approved tariff project and allowed revenues of next transmission tariff period will be increased by this unearned revenue amount.

The transmission segment's assets at the end of the reporting period amounted to EUR 232 million, which comprised 53% of the total assets of the Company. During the reporting period, capital investments were made in amount of EUR 8,9 million. Largest investments during 2020:

- Within the framework of the European project of common interest "Enhancement of Latvia - Lithuania Interconnection" (ELLI), the Company invested a total of EUR 1,7 million in several sub-projects during 2020.
  During the reporting period 6 activities out of 17 planned activities have been completed:
  - Evaluation of transmission gas pipeline (TGP) system for enhancing the operating pressure to 50 bar;
  - Reconstruction of TGP Vireši-Tallinn valve unit T5 and T6;
  - Reconstruction of TGP branch to gas regulation station (GRS) Valmiera-1;
  - Reconstruction of TGP Vireši-Tallina connection valve;
  - Reconstruction of valve No. 1Pl to GRS Palsmane;
  - Reconstruction of connection valve No. Iz-427;
  - Necessary diagnostics and repairs of existing transmission gas pipelines.

  Development of construction projects was completed for 5 activities:
  - Replacement of TGP branch to GRS Ezerciems;
  - Replacement of TGP Rīga-Inčukalns UGS phases at Inčukalns UGS connection valve;
  - Replacement of TGP Rīga-Inčukalns UGS phases at GRS Rīga-1;
  - Replacement of TGP branch to GRS Krimulda;
  - Reconstruction of TGP Rīga-Paņeveža connection valve.

Works have been commenced on development of reconstruction projects for TGP branches to gas regulation stations Vangaži, Zaķumuiža, Daugmale and Baldone.

- TGP Pleskava-Rīga repairs were made in amount of EUR 1,7 million, eliminating 154 faults in total;
- EUR 2,9 million invested into reconstruction of 8,1 km long TGP branch to GRS Sloka.

In December 2020, the first direct connection to the gas transmission system has been completed, which is scheduled to commence operation in the near future. Such direct connection solutions are of particular interest for industrial sector customers located far from the urban gas distribution networks, with a gas consumption of at least 1000-1500 m3 per hour. Great interest in direct connections is expressed by both producers of compressed natural gas and producers of biomethane, knowing that the natural gas transmission system is technologically prepared to provide such a service to green energy producers.

*Storage*

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

Storage revenue in 2020 reached EUR 21,8 million (5% more than a year earlier) due to periodization of storage reservation. The amount of revenue generated by the storage segment ensured EBITDA of EUR 13,4 million and profit of EUR 6,3 million.

| **Storage** | **2020 / 31.12.2020** | **2019 / 31.12.2019** |
|---|---|---|
| | EUR'000 | EUR'000 |
| **Net sales** | **21 795** | **22 919** |
| EBITDA | 13 376 | 15 218 |
| **Segment Net Profit** | **6 283** | **8 658** |
| Segment assets | 205 886 | 162 699 |
| Depreciation and amortisation | 7 030 | 6 502 |
| Acquisition of fixed assets and intangible assets | 13 079 | 7 479 |
| Regulated asset base | 150 624 | 150 624 |

Storage segment’s assets at the end of the reporting period were EUR 206 million, comprising 47% of the total assets. During 2020, capital investments were made in amount of EUR 13 million, which was EUR 5,6 million more than in prior year. Largest investments were made within the major project of common interest 8.2.4 “Enhancement of Inčukalns UGS”:

- Necessary construction permits were obtained and project development works are continuing in relation to enhancement of gas collection point No 3. The project’s goal is to reconstruct the technologically outdated gas collection point in order to decrease its impact on the environment and to provide an opportunity to manage the technological processes remotely from the Inčukalns UGS dispatch room. Gas collection point enhancement related investments are planned in amount of EUR 32,3 million, thus making it one of largest sub-projects of the Inčukalns UGS enhancement project;
- For the improvement of surface equipment, a contract for development and supervision of a building project has been concluded during 2020, as well as a construction design documentation was prepared which resulted in obtaining two construction permits in order

to fulfil the gas collection point No. 3 construction in two stages. Also, a contract for supply of core technological equipment has been concluded;

- As part of renovation of 36 wells, during 2020 6 wells were accepted into use, making a total of 9 wells completed to date. Total invested during 2020 reached EUR 7,3 million;
- As part of renovation of existing gas conveying devices (GCD), the necessary equipment has been delivered to ensure the modernisation of GCD No. 3 at compressor workshop No. 1. Total invested during 2020 reached EUR 2,4 million;
- Construction design documentation was prepared for installation of a new GCD at compressor workshop, and a building permit was obtained. Also a tender has been announced for purchase of a GCD set.

**Further development**

- In 2021, active work will continue on the project “Enhancement of Inčukalns UGS”, during which it is planned to significantly improve the technical infrastructure and equipment safety, for the purpose of the Inčukalns UGS retaining its functionality after increase of pressure within the Baltic transmission network;
- Work will continue on the increase of Latvia-Lithuania transmission gas pipe capacity with the aim of facilitate access to the Klaipēda liquid gas terminal, Latvia’s Inčukalns UGS and Poland-Lithuania’s gas interconnection, which is planned to be put into operation in 2023;
- Conexus continues to evaluate possibilities of producing biomethane in Latvia and the most effective ways of using it in the Conexus transmission pipeline network. As part of this activity, on 27 July 2020 Conexus organised a “Green vision” seminar, with participants from Ministry of Economics, Ministry of Finance, World Energy Council Latvian Member Committee and AST. After the seminar, on 5 August 2020 Conexus organised “Green vision” session for Conexus Council members. As a result, a report was devised on evaluation of available options for development of Conexus’ sustainable business operations;
- As per the European green deal to make Europe climate neutral by 2050, Conexus has joined the European Clean Hydrogen Alliance the aim of which is to expand the hydrogen technologies and develop a viable investment program with specific projects aimed also at decarbonization of different industries. Considering the European green deal, the demand for gas of fossil origin in chemically connected energy carriers could reduce after 2030 therefore it is important to reprofile the current gas infrastructure elements of Europe thus ensuring an infrastructure for cross-border bulk transportation of hydrogen and extending efficient and sustainable inclusion of renewable energy in economy;
- At the end of 2020, Conexus received a building permit for construction of a new office building at Stigu street 14 in Riga. This project was designed with the aim of reducing fragmentation of employee locations and to create a new office building instead of several separate buildings in various locations.

## Subsequent events

No significant subsequent events have occurred since the last day of the reporting period that would materially influence the Company’s financial statements as at 31 December 2020.

## Proposed distribution of the profit

The decision on the distribution of profit and the amount of dividends is made by the shareholders' meeting of JSC Conexus Baltic Grid. The profit of JSC Conexus Baltic Grid for 2020 is EUR 13 112 thousand.

## Abbreviations and formulas

MWh = megawatt-hours

TWh = terawatt-hours

EUR/MWh/d/g = Euro for megawatt-hour per day/ per year

EBITDA = earnings before interest, taxation, depreciation & amortisation

RAB = regulated asset base

Net debt = loans minus cash and cash equivalents

EBITDA profitability = EBITDA/income

Net profitability = net profit/income

Return on equity ratio (ROE) = net profit (over the reporting period)/equity average value

Shareholders' equity = equity/total assets

Net debt to EBITDA ratio = net debt/EBITDA (over 12 months period)

## **Statement of the Board's responsibility**

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

The unaudited financial statements of the Company for 2020 were prepared in accordance with the International Financial Reporting Standards as adopted by the European Union, providing true and fair view of the financial position of the Company, its operational results and cash flow.

The unaudited financial statements are approved on 17 February 2020 by the Company's Board and signed by:

| (signature*) | (signature*) | (signature*) |
|---|---|---|
| Uldis Bariss<br>Chairman of the Board | Gints Freibergs<br>Member of the Board | Mārtiņš Gode<br>Member of the Board |

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

# Financial statements

## PROFIT OR LOSS STATEMENT

| | Note | 2020 | 2019 |
|---|---|---|---|
| | | EUR | EUR |
| Revenue | 2 | 53 867 296 | 59 342 937 |
| Other income | 3 | 1 352 349 | 1 349 467 |
| Cost of materials and services | 4 | (8 345 208) | (11 457 572) |
| Personnel expenses | 5 | (12 067 353) | (10 532 297) |
| Depreciation, amortization and impairment of property, plant and equipment | 7,8 | (16 736 387) | (16 045 167) |
| Other operating expenses | 6 | (4 790 359) | (4 521 619) |
| **Gross profit** | | **13 280 338** | **18 135 749** |
| Financial expenses, net | | (168 532) | (191 151) |
| **Profit before taxation** | | **13 111 806** | **17 944 598** |
| Corporate income tax | | - | - |
| **Profit for the reporting year** | | **13 111 806** | **17 944 598** |

## STATEMENT OF OTHER COMPREHENSIVE INCOME

| | Note | 2020 | 2019 |
|---|---|---|---|
| | | EUR | EUR |
| **Profit for the reporting year** | | **13 111 806** | **17 944 598** |
| **Other comprehensive income** | | | |
| Property, plant and equipment revaluation | | 92 100 425 | - |
| Remeasurement of post-employment benefits due to changes in actuary's assumptions | 17 | 26 238 | (56 104) |
| *Other comprehensive income* | | *92 126 663* | *(56 104)* |
| **Total comprehensive income** | | **105 238 469** | **17 888 494** |

*The accompanying notes on pages 20 to 46 form an integral part of these financial statements.*

| (signature*) | (signature*) | (signature*) |
|---|---|---|
| Uldis Bariss<br>Chairman of the Board | Gints Freibergs<br>Member of the Board | Mārtiņš Gode<br>Member of the Board |

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## STATEMENT OF FINANCIAL POSITION

| | Note | 31.12.2020 | 31.12.2019 |
|---|---|---|---|
| **ASSETS** | | EUR | EUR |
| **Non-current assets** | | | |
| Intangible assets | 7 | 1 872 671 | 1 645 745 |
| Property, plant and equipment | 8 | 424 022 779 | 327 279 632 |
| Non-current prepaid costs | 14 | 1 209 438 | 1 310 224 |
| Right-of-use assets | 10 | 503 584 | 532 734 |
| **Total non-current assets:** | | **427 608 472** | **330 768 335** |
| **Current assets** | | | |
| Inventories | 11 | 3 021 003 | 3 384 361 |
| Advances paid for inventories | | - | 32 884 |
| Trade receivables | 12 | 6 855 249 | 6 258 202 |
| Other receivables | 13 | 93 002 | 138 167 |
| Current prepaid costs | 14 | 350 493 | 313 804 |
| Cash and cash equivalents | | 15 163 736 | 21 504 400 |
| **Total current assets:** | | **25 483 483** | **31 631 818** |
| **TOTAL ASSETS:** | | **453 091 955** | **362 400 153** |

*The accompanying notes on pages 20 to 46 form an integral part of these financial statements.*

| (signature*) | (signature*) | (signature*) |
|---|---|---|
| Uldis Bariss<br>Chairman of the Board | Gints Freibergs<br>Member of the Board | Mārtiņš Gode<br>Member of the Board |

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## STATEMENT OF FINANCIAL POSITION (continued)

| | Note | 31.12.2020 | 31.12.2019 |
|---|---|---|---|
| **LIABILITIES AND SHAREHOLDERS` EQUITY** | | EUR | EUR |
| **Shareholders` equity:** | | | |
| Share capital | | 39 786 089 | 39 786 089 |
| Treasury shares | | (34 678) | (36 471) |
| Reserves | 15 | 224 758 592 | 140 629 827 |
| Retained earnings | | 140 138 666 | 135 341 259 |
| *Retained earnings* | | *127 026 860* | *117 396 661* |
| *Profit for the reporting year* | | *13 111 806* | *17 944 598* |
| **Total shareholders' equity:** | | **404 648 669** | **315 720 704** |
| **Non-current liabilities** | | | |
| Deferred income | 16 | 10 781 736 | 11 124 975 |
| Employee benefit liabilities | 17 | 1 028 494 | 1 114 516 |
| Loans from credit institutions | 18 | - | 21 875 000 |
| Non-current lease liabilities | 10 | 453 852 | 452 827 |
| **Total non-current liabilities:** | | **12 264 082** | **34 567 318** |
| **Short-term liabilities** | | | |
| Borrowings | 18 | 21 875 000 | 3 500 000 |
| Accounts payable to suppliers and contractors | | 7 637 032 | 2 326 667 |
| Other liabilities | 19 | 1 787 955 | 5 363 108 |
| Provisions and accrued liabilities | 20 | 2 912 784 | - |
| Deferred income | 16 | 1 252 930 | 307 496 |
| Customer advances | | 653 285 | 524 232 |
| Current lease liabilities | 10 | 60 218 | 90 628 |
| **Total current liabilities:** | | **36 179 204** | **12 112 131** |
| **TOTAL LIABILITIES AND SHAREHOLDERS’ EQUITY** | | **453 091 955** | **362 400 153** |

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## STATEMENT OF CHANGES IN EQUITY

| | Share capital | Treasury shares | Reserves | Retained earnings | Total |
|---|---|---|---|---|---|
| | EUR | EUR | EUR | EUR | EUR |
| **As at 1 January 2019** | 39 786 089 | (37 783) | 146 914 425 | 123 103 994 | 309 766 725 |
| Dividends | - | 1 312 | - | (11 935 827) | (11 934 515) |
| Decrease of the revaluation reserve | - | - | (6 228 494) | 6 228 494 | - |
| *Other comprehensive income:* | | | | | |
| Other comprehensive income | - | - | (56 104) | - | (56 104) |
| Profit for the reporting year | - | - | - | 17 944 598 | 17 944 598 |
| *Total other comprehensive income:* | - | - | *(56 104)* | *17 944 598* | *17 888 494* |
| **As at 31 December 2019** | **39 786 089** | **(36 471)** | **140 629 827** | **135 341 259** | **315 720 704** |
| As at 1 January 2020 | 39 786 089 | (36 471) | 140 629 827 | 135 341 259 | 315 720 704 |
| Dividends | - | 1 793 | - | (16 312 297) | (16 310 504) |
| Decrease of the revaluation reserve | - | - | (7 997 898) | 7 997 898 | - |
| *Other comprehensive income:* | | | | | |
| Increase of the revaluation reserve | - | - | 92 100 425 | - | 92 100 425 |
| *Other comprehensive income:* | | | | | - |
| Other comprehensive income | - | - | 26 238 | - | 26 238 |
| Profit for the reporting year | - | - | - | 13 111 806 | 13 111 806 |
| *Total other comprehensive income* | - | - | *26 238* | *13 111 806* | *13 138 044* |
| **As at 31 December 2020** | **39 786 089** | **(34 678)** | **224 758 592** | **140 138 666** | **404 648 669** |

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## STATEMENT OF CASH FLOWS

| | Note | 2020 | 2019 |
|---|---|---|---|
| **Cash flows from operating activities** | | EUR | EUR |
| **Profit before taxes** | | **13 111 806** | **17 944 598** |
| *Adjustments for:* | | | |
| - depreciation | 8 | 16 191 661 | 15 671 608 |
| - amortization of intangible assets | 7 | 544 726 | 373 559 |
| - loss from disposal of property, plant and equipment | | 631 746 | 246 874 |
| - amortization of the right of use assets | 10 | 86 547 | 34 663 |
| - change in provisions | 20 | (74 207) | (1 421 021) |
| - participation in the transnational cross-border project | 9 | 100 786 | 100 786 |
| - amortization of EU co-financing | 16 | (300 970) | (353 267) |
| - interest expenses | | 169 875 | 190 960 |
| *Change in operating assets and liabilities:* | | | |
| - (increase)/decrease in debtors | | (588 571) | 519 537 |
| - decrease/(increase) in inventories | | 384 428 | (1 204 202) |
| - increase /(decrease) in creditors | | 5 272 964 | (4 173 695) |
| Corporate income tax paid | | - | - |
| **Net cash flows from operating activities** | | **35 530 791** | **27 930 400** |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | 8 | (21 095 066) | (13 500 279) |
| Purchase of intangible assets | 7 | (771 934) | (1 029 605) |
| Income from the sale of property, plant and equipment | | 64 499 | 1 954 023 |
| **Net cash flows from investing activities** | | **(21 802 501)** | **(12 575 861)** |
| **Cash flows from financing activities** | | | |
| Interest paid | | (144 939) | (190 960) |
| Repayment of borrowings | 18 | (3 500 000) | (3 500 000) |
| EU co-financing received | 16 | - | 3 682 771 |
| Lease payments | 10 | (111 718) | (22 706) |
| Dividends paid | | (16 312 297) | (11 887 327) |
| **Net cash flows from financing activities** | | **(20 068 954)** | **(11 918 222)** |
| **Net cash flows** | | **(6 340 664)** | **3 436 317** |
| **Cash and cash equivalents at the beginning of the reporting year** | | **21 504 400** | **18 068 083** |
| **Cash and cash equivalents at the end of the reporting year** | | **15 163 736** | **21 504 400** |

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|---|---|---|
| Uldis Bariss | Gints Freibergs | Mārtiņš Gode |
| Chairman of the Board | Member of the Board | Member of the Board |

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# NOTES TO THE FINANCIAL STATEMENTS

- Notes to the statement of profit or loss

## 1. Segment information

All revenues are generated by Conexus from regulated services applying the tariffs established by the Regulator.

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

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

The transmission segment generates revenue from both natural gas consumption in Latvia and from international transportation of natural gas. The revenue of the transmission segment during the reporting period was EUR 32 million and EBITDA reached EUR 17 million, representing 55,4% of the Company's total EBITDA. Profit of the transmission segment amounted to EUR 7 million (26% less than last year due to decreased volume of transported natural gas for Latvian consumption).

| **Gas transmission** | **2020 / 31.12.2020** | **2019 / 31.12.2019** |
|---|---|---|
| | EUR | EUR |
| **Net sales** | **32 072 101** | **36 424 089** |
| EBITDA | 16 640 442 | 18 963 084 |
| **Segment net profit** | **6 828 524** | **9 286 575** |
| Segment assets | 232 042 020 | 178 196 754 |
| Depreciation and amortization | 9 706 022 | 9 577 524 |
| Acquisition of fixed and intangible assets | 8 788 117 | 7 050 930 |
| Regulated asset base in the approved draft tariffs | 171 820 000 | 171 820 000 |

Storage revenue in 2020 reached EUR 22 million, (5% less than a year earlier) related to the accrual of storage reservations. The amount of revenue generated by the storage segment ensured EBITDA of EUR 13 million and profit of EUR 6 million.

| **Gas storage** | **2020 / 31.12.2020** | **2019 / 31.12.2019** |
|---|---|---|
| | EUR | EUR |
| **Net sales** | 21 795 195 | 22 918 848 |
| EBITDA | 13 376 283 | 15 218 495 |
| **Segment net profit** | **6 283 282** | **8 658 023** |
| Segment assets | 205 886 199 | 162 699 000 |
| Depreciation and amortization | 7 030 365 | 6 502 306 |
| Acquisition of fixed and intangible assets | 13 078 884 | 7 478 937 |
| Regulated asset base | 150 624 000 | 150 624 000 |

## 2. Revenue

| | 2020 | 2019 |
|---|---|---|
| | EUR | EUR |
| Revenue from transmission services | 32 072 101 | 36 424 089 |
| Revenue from storage services | 21 795 195 | 22 918 848 |
| | **53 867 296** | **59 342 937** |

All revenue is generated in Latvia.

## 3. Other income

| | 2020 | 2019 |
|---|---|---|
| | EUR | EUR |
| Net result from balancing | - | 891 861 |
| Income from EU financing | 300 970 | 353 267 |
| Other income | 1 051 379 | 104 339 |
| | **1 352 349** | **1 349 467** |

## 4. Materials and services

| | 2020 | 2019 |
|---|---|---|
| | EUR | EUR |
| Maintenance of transmission and storage infrastructure | 5 595 961 | 8 948 963 |
| Cost of materials | 1 081 903 | 1 422 966 |
| Natural gas expenses | 783 784 | 464 664 |
| Maintenance of IT infrastructure | 656 975 | 443 923 |
| Maintenance of transport and machinery | 226 585 | 177 056 |
| | **8 345 208** | **11 457 572** |

## 5. Personnel expenses

| | 2020 | 2019 |
|---|---|---|
| | EUR | EUR |
| Salary | 9 261 571 | 8 069 356 |
| Compulsory state social security contributions | 2 285 894 | 1 980 451 |
| Life, health and pension insurance | 505 388 | 468 751 |
| Other personnel costs | 14 500 | 13 739 |
| | **12 067 353** | **10 532 297** |
| Including for members of the Council and the Board | | |
| - Salary | 672 908 | 616 630 |
| - Compulsory state social security contributions | 149 544 | 135 235 |
| - Life, health and pension insurance | 47 625 | 41 865 |
| - Other personnel costs | 3 000 | 8 139 |
| | **873 077** | **801 869** |
| Average number of employees | **341** | **343** |

## 6. Other operating expenses

| | 2020 | 2019 |
|---|---|---|
| | EUR | EUR |
| Premises and territory maintenance and other services | 1 378 990 | 1 367 535 |
| Office and other administrative costs | 1 399 667 | 1 501 663 |
| Taxes and duties | 1 346 092 | 1 370 884 |
| Net loss from disposals of property, plant and equipment | 567 248 | 34 663 |
| Amortization of the right-of-use assets | 98 362 | 246 874 |
| | **4 790 359** | **4 521 619** |

- Notes to the balance sheet

## 7. Intangible assets

| Intangible assets | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Historical cost | EUR | EUR |
| **Beginning of the period** | **6 988 487** | **5 958 882** |
| Additions | 771 934 | 1 029 605 |
| Disposals | (55 068) | - |
| **End of the period** | **7 705 353** | **6 988 487** |
| Accumulated amortization | | |
| **Beginning of the period** | **5 342 742** | **4 969 183** |
| Amortization for the reporting period | 544 726 | 373 559 |
| Disposals | (54 786) | - |
| **End of the period** | **5 832 682** | **5 342 742** |
| **Balance as at 31.12.2019** | **1 645 745** | **989 699** |
| **Balance as at 31.12.2020** | **1 872 671** | **1 645 745** |

Intangible assets as at 31.12.2020 include fully depreciated intangible assets with a total cost of EUR 4 419 426 (as at 31.12.2019: EUR 4 367 295).
Intangible assets are primarily comprised of software for the purposes of operating segments.

## 8. Property, plant and equipment

| | Land and buildings | Machinery and equipment | Other property and equipment | Spare parts emergency reserve | Assets under construction | TOTAL |
|---|---|---|---|---|---|---|
| | EUR | EUR | EUR | EUR | EUR | EUR |
| Historical cost or revalued amount | | | | | | |
| **31.12.2018** | **650 638 943** | **120 701 589** | **6 231 404** | **1 434 542** | **7 833 173** | **786 839 651** |
| Additions | - | 177 869 | 746 030 | - | 12 576 380 | **13 500 279** |
| Reclassified | 9 208 232 | 6 543 665 | - | - | (15 751 897) | **-** |
| Disposals | (3 225 756) | (266 209) | (317 014) | - | - | **(3 808 979)** |
| Transferred | - | - | - | (29 815) | - | **(29 815)** |
| **31.12.2019** | **656 621 419** | **127 156 914** | **6 660 420** | **1 404 727** | **4 657 656** | **796 501 136** |
| Accumulated depreciation | | | | | | |
| **31.12.2018** | **387 129 269** | **63 980 363** | **4 048 594** | **-** | **-** | **455 158 226** |
| Calculated | 11 201 381 | 3 959 475 | 510 752 | - | - | **15 671 608** |
| Disposals | (1 245 015) | (207 036) | (156 279) | - | - | **(1 608 330)** |
| **31.12.2019** | **397 085 635** | **67 732 802** | **4 403 067** | **-** | **-** | **469 221 504** |
| **Balance as at 31.12.2019** | **259 535 784** | **59 424 112** | **2 257 353** | **1 404 727** | **4 657 656** | **327 279 632** |

## Property, plant and equipment (continued)

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

Property, plant and equipment as at 31.12.2020 include fully depreciated assets with a total cost of EUR 4 898 677 (as at 31.12.2019: EUR 16 202 195). The cadastre value of real estate amounts to EUR 63 558 370.

The revaluation of property, plant and equipment in 2020 was performed to ensure that the carrying amount does not differ significantly from the fair values of the assets. The following groups of fixed assets were subject to revaluation: buildings, structures, technological equipment and machinery, excluding land, cushion gas in the underground gas storage, natural gas in the pipelines of the transmission system. The accounting policy stipulates that the revaluation of fixed assets is performed regularly, but not less than once every three or five years. Evaluating the information on construction costs and market prices, the Company's management decided to revalue the assets as of January 1, 2020.

The revaluation was performed by independent certified assessors to determine the value: initial value, accumulated depreciation and residual value for each group of fixed assets. The method used in the revaluation, was based on the average construction and acquisition costs in Latvia.

As a result of revaluation, the residual value of revalued assets as at January 1, 2020 was increased by EUR 92 311 666. The revaluation reserve was increased by EUR 92 100 425, the effect on the income statement is revenue EUR 211 241.

During the revaluation, estimates of the useful life of fixed assets were made and based on experience and industry practice, it was prolonged to the following groups of fixed assets: natural gas pipelines, gas bores, gas regulation equipment and specialized technological equipment.

The following table summarises values for the revalued assets as if they were carried at the historical cost. The following groups of PPEs will be subject to revaluation: buildings, structures, technological equipment and machinery, excluding land, cushion gas in the underground gas storage, natural gas in the pipelines of the transmission system and emergency spare parts.

| **Cost** | **31.12.2020** | **31.12.2019** |
|---|---|---|
| | EUR | EUR |
| Buildings and structures | 152 720 246 | 148 061 023 |
| Equipment and machinery | 54 719 982 | 55 218 145 |

## 9.Co-financed projects

In accordance with Regulator's Decision No 97 (minutes No 16, p.4) "On the distribution of investment costs for the common interest project "Klaipedos - Kiemenai pipeline capacity increase in Lithuania", a payment EUR 1 713 370 was made to AB Amber Grid. Deferred expenses will be included in the costs of the return on investment until 2033.

| | **31.12.2020** | **31.12.2019** |
|---|---|---|
| | EUR | EUR |
| **Opening balance** | 1 411 010 | 1 511 796 |
| Amortised in profit or loss | (100 786) | (100 786) |
| **Transferred to future periods** | **1 310 224** | **1 411 010** |
| *incl. current part (see Note 14)* | 100 786 | 100 786 |
| *long term* | 1 209 438 | 1 310 224 |

The list of projects of common interest attached to Regulation (EU) No 347/2013 of the European Parliament and of the Council of 17 April 2013 includes 8.5 Gas Interconnection Poland–Lithuania (GIPL).

It is stated in Decision No. 01/2014 of the Agency for the Cooperation of Energy Regulators (ACER) 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 that lump-sum payments shall be provided by the Member States to which the project provides a significant net positive impact to the operator of the Member State deemed to have a net negative effect from the implementation of the project. Compensation of EUR 29,4 million is payable as a lump-sum payment in a single transfer after the GIPL project is put into operation.

On 11 May 2018, the Company signed an inter-operator agreement (Agreement) with GAZ System, AB Amber Grid and Elering AS concerning sharing costs of the GIPL project. Under the Agreement, the Company is required to provide a financial security (guarantee) to secure performance of liabilities.

Currently, as required by the Agreement the Company has issued a guarantee in favour of GAZ-SYSTEM S.A. to secure fulfilment of liabilities of EUR 16 170 000 expiring on 16 May 2021.

## 10. Lease

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| | EUR | EUR |
| **Right-of-use assets** | | |
| **Opening balance** | 532 734 | - |
| Initially recognized on 1 January 2019 | - | 431 303 |
| Recognised changes in lease contracts | 57 397 | 136 094 |
| Depreciation recognised in the statement of profit or loss | (86 547) | (34 663) |
| **Balance as at 31.12.2020** | **503 584** | **532 734** |
| **Lease liability** | | |
| **Opening balance** | 543 455 | **-** |
| Initially recognized on 1 January 2019 | - | 431 303 |
| Recognised changes in lease contracts | 57 397 | 136 094 |
| Recognised decrease in lease liabilities | (111 718) | (44 057) |
| Recognised lease interest expense | 24 936 | 20 115 |
| **Balance as at 31.12.2020** | **514 070** | **543 455** |
| incl. Non-current lease liabilities | 453 852 | 452 827 |
| Current lease liabilities | 60 218 | 90 628 |

## 11. Inventories

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| | EUR | EUR |
| Materials and spare parts | 1 623 448 | 1 658 262 |
| Natural gas | 1 477 709 | 1 794 438 |
| Write-off of inventory value to net realisable value | (80 154) | (68 339) |
| | **3 021 003** | **3 384 361** |

| **Write-off of inventory value to net realisable value** | **31.12.2020** | **31.12.2019** |
|---|---|---|
| | EUR | EUR |
| **Write-offs at the beginning of the period** | (68 339) | (68 339) |
| Write-offs during period | (11 815) | - |
| **Write-offs at the end of the period** | **(80 154)** | **(68 339)** |

## 12. Trade receivables

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| | EUR | EUR |
| Receivables for natural gas transporting | 4 625 819 | 4 052 071 |
| Receivables for natural gas storage | 2 009 978 | 2 204 346 |
| Receivables for balancing operations | 218 523 | - |
| Receivables for penalties | 929 | 1 785 |
| | **6 855 249** | **6 258 202** |
| Incl. Deferred income | | |
| For natural gas transporting | 2 335 550 | 2 160 402 |
| For natural gas storage | 1 571 515 | 1 332 219 |
| For balancing operations | 111 273 | 124 511 |
| | **4 018 338** | **3 617 132** |

The items represent clearly known amounts to be settled with clients in relation to transportation, storage, and balancing operations of natural gas of the Company in the reporting year with regard to which the due date for issuing the payment supporting document (invoice) as set in the agreement has not arrived at the reporting date.

## 13. Other receivables

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| | EUR | EUR |
| Other receivables | 75 445 | 116 993 |
| Other prepaid expenses | 16 708 | 14 516 |
| Advances to the SRS deposited funds account | 849 | 6 658 |
| | **93 002** | **138 167** |

## 14. Prepaid expenses

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| | EUR | EUR |
| **Non-current part** | | |
| Participation in the transnational cross-border project | 1 209 438 | 1 310 224 |
| **Total non-current part** | **1 209 438** | **1 310 224** |
| **Current part** | | |
| Participation in the transnational cross-border project | 100 786 | 100 786 |
| IT expenses | 162 095 | 108 505 |
| Expenses of insurance | 66 537 | 57 153 |
| Expenses of transport | 11 408 | 34 950 |
| Other prepaid expenses | 9 667 | 12 410 |
| **Total current part** | **350 493** | **313 804** |
| **Total prepaid expenses** | **1 559 931** | **1 624 028** |

## 15. Reserves

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| | EUR | EUR |
| Property, plant and equipment revaluation reserve | 199 783 256 | 115 680 729 |
| Reorganisation reserve | 24 647 260 | 24 647 260 |
| Post-employment benefit revaluation reserve | 328 076 | 301 838 |
| | **224 758 592** | **140 629 827** |

| **Movement in revaluation reserves** | **Property, plant and equipment revaluation reserve** | **Post-employment benefit revaluation reserve** |
|---|---|---|
| **Balance as at 31.12.2018** | **121 909 223** | **357 942** |
| Reassessment of actuarial assumptions | - | (56 104) |
| Disposed revalued items of PPE | (565 740) | - |
| Transfer of accumulated depreciation of the revaluation reserve (transferred in reorganisation) to retained earnings | (5 662 754) | - |
| **Balance as at 31.12.2019** | **115 680 729** | **301 838** |
| Reassessment of actuarial assumptions | - | 26 238 |
| Increase in revaluation reserve | 92 100 425 | - |
| Disposed revalued assets | (347 390) | - |
| Transfer of depreciation of revaluation surplus charged for the period to retained earnings | (7 650 508) | - |
| **Balance as at 31.12.2020** | **199 783 256** | **328 076** |

## 16. Deferred income

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| | EUR | EUR |
| Non-current part | 10 781 736 | 11 124 975 |
| Current part | 1 252 930 | 307 496 |
| | **12 034 666** | **11 432 471** |

| **Movement of deferred income** | **31.12.2020** | **31.12.2019** |
|---|---|---|
| | EUR | EUR |
| Opening balance | 11 432 471 | 8 102 967 |
| EU co-funding received | - | 3 682 771 |
| Recognized in deferred income | 903 165 | - |
| Transferred to revenue for the period (see Note 3) | (300 970) | (353 267) |
| **Transferred to future periods** | **12 034 666** | **11 432 471** |

In May 2019, the European Commission approved 50% co-financing of the project of common European interest No. 8.2.4. "Enhancement of Inčukalns underground gas storage operations”. In 2019 the project received EUR 2,9 million. In December 2019, an agreement was concluded on the conclusion of the European project of common interest No 8.2.1. “Improving Latvian-Lithuanian interconnection” co-financing at 50% of the total cost of the project. In 2019 the project received EUR 751 thousand.

Projects completed in 2019 EUR 3 938 250 (EU co-financing 1 969 125 EUR), projects completed in 2020 EUR 3 300 953 (EU co-financing 1 650 477 EUR).

## 17. Employee benefit obligations

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| | EUR | EUR |
| Post-employment benefit liabilities | 925 691 | 1 016 180 |
| Other employment benefits | 102 803 | 98 336 |
| | **1 028 494** | **1 114 516** |

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| Obligations at the beginning of the reporting period | 1 114 516 | 1 060 622 |
| Recognised in profit or loss | 92 947 | 84 484 |
| Paid | (152 731) | (86 694) |
| Revaluations due to changes in actuarial assumptions - in equity | (26 238) | 56 104 |
| **Obligations at the end of the reporting period** | **1 028 494** | **1 114 516** |

| **Assumptions used in the calculations of obligations** | **2020** | **2019** |
|---|---|---|
| Discount rate, % | -0,13% | 0,43% |
| Employee rotation rate, % | 4,59% | 4,39% |
| Employee retirement age, years | 65.0 | 64,9 |
| Wage growth, % | 3,00% | 3,00% |
| Contribution into private pension fund, % | 5,00% | 5,00% |
| Compulsory social security contributions (employees), % | 23,59% | 24,09% |
| Compulsory social security contributions (retired), % | 20,77% | 21,31% |

| **Assumptions used in the calculations of obligations** | **Changes in assumptions** | **Impact on obligations due to changes in assumptions** | **2020** | **2019** |
|---|---|---|---|---|
| Discount rate | +0,5% | Savings reduced by | -4,88% | –4,39% |
| Employee rotation rate | +0,5% | Savings reduced by | -5,37% | –4,82% |
| Employee retirement age | +1 gads | Savings reduced by | -5,47% | –5,88% |
| Wage growth | +0,5% | Savings increased by | 5,00% | 4,52% |
| Contribution into private pension fund | +0,5% | Savings increased by | 0,39% | 0,39% |
| Social contributions (employees) | +0,5% | Savings increased by | 0,39% | 0,39% |
| **Assumptions used in the calculations of obligations** | **Changes in assumptions** | **Impact on obligations due to changes in assumptions** | **2020** | **2019** |
| Discount rate | -0,5% | Savings reduced by | 5,38% | 4,81% |
| Employee rotation rate | -0,5% | Savings reduced by | 5,90% | 5,27% |
| Employee retirement age | -1 gads | Savings reduced by | 5,58% | 5,91% |
| Wage growth | -0,5% | Savings increased by | -4,59% | –4,16% |
| Contribution into private pension fund | -0,5% | Savings increased by | -0,39% | –0,39% |
| Social contributions (employees) | -0,5% | Savings increased by | -0,39% | –0,39% |

## 18. Borrowings

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| | EUR | EUR |
| Borrowings from credit institutions | - | 21 875 000 |
| Short-term loans from credit institutions | 21 875 000 | 3 500 000 |
| | **21 875 000** | **25 375 000** |

The Company has a loan agreement with maturity on 30 November 2021. The loan has an interest rate of 0,60% plus 6M EURIBOR. The loan is not secured by collateral.

## 19. Other liabilities

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| | EUR | EUR |
| Value added tax | 611 962 | - |
| Staff remuneration | 382 599 | 359 431 |
| Social contributions | 267 146 | 219 660 |
| Personal income tax | 131 367 | 113 358 |
| Dividends undistributed from prior years | 190 355 | 121 302 |
| Other non-current liabilities | 157 740 | 42 222 |
| Corporate income tax from theoretically distributed profit | 3 539 | 28 015 |
| Natural resources tax | 43 237 | 24 916 |
| Real estate tax | 10 | 54 |
| | **1 787 955** | **908 958** |

## 20. Provisions and accrued liabilities

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| | EUR | EUR |
| Provisions for annual performance bonuses | 1 739 250 | 1 224 881 |
| Accrued liabilities for unreceived invoices | 640 973 | 2 841 694 |
| Accrued unused vacation costs | 516 421 | 375 135 |
| Accrued liabilities for annual audit | 16 140 | 12 440 |
| | **2 912 784** | **4 454 150** |
| ***incl. Financial liabilities*** | **657 112** | **2 841 694** |
| | | |
| Provisions for slow-moving inventories | 80 154 | 68 339 |
| Provisions for employee benefit liabilities | 1 028 494 | 1 114 516 |
| | **1 108 648** | **1 182 855** |

| Movement of provisions | Post-employment and other employee benefits | Provisions for slow-moving inventories | Provisions to maintain minimum amount of natural gas in the pipelines |
|---|---|---|---|
| **Balance as at 31.12.2018** | **1 060 622** | **68 878** | **1 420 481** |
| Provisions increase | 53 894 | - | - |
| Provisions decrease | - | (540) | (1 420 481) |
| **Balance as at 31.12.2019** | **1 114 516** | **68 339** | **-** |

| | | | |
|---|---|---|---|
| Provisions increase | - | 11 815 | - |
| Provisions decrease | (86 022) | - | - |
| **Balance as at 31.12.2020** | **1 028 494** | **80 154** | **-** |

## 21. Taxes

| | Liabilities 31.12.2019 | Calculated | Paid | (Overpaid)/ Liabilities at 31.12.2020 |
|---|---|---|---|---|
| | EUR | EUR | EUR | EUR |
| Corporate income tax from theoretically distributed profit | 28 015 | 14 289 | (38 765) | 3 539 |
| Value added tax | (22 424) | 7 104 299 | (6 469 913) | 611 962 |
| Social contributions | 219 660 | 3 120 435 | (3 072 949) | 267 146 |
| Personal income tax | 113 358 | 1 609 584 | (1 591 575) | 131 367 |
| Natural resources tax | 24 916 | 277 103 | (258 782) | 43 237 |
| Excise tax | - | 4 424 | (4 424) | - |
| State fee for business risk | - | 1 479 | (1 479) | - |
| Public Utilities Commission fee | - | 108 348 | (108 348) | - |
| Real estate tax | 54 | 945 019 | (945 063) | 10 |
| | **363 579** | **13 184 980** | **(12 491 298)** | **1 057 261** |

## 22. Related party transactions

Related parties include the Company's Shareholders, members of the Supervisory Council, members of the Management Board, members of that person's family and companies in which they have significant influence or control over the reporting entity.

| Related party transactions | 31.12.2020 | 31.12.2019 |
|---|---|---|
| | EUR | EUR |
| Companies controlled by PJSC Gazprom | - | 239 966 |
| Companies controlled by AS "Augstsprieguma tīkls" | 593 | - |
| **Expenses on purchase of services from the companies controlled by related companies** | **593** | **239 966** |
| **Balance as at the ending of the period** | **-** | **-** |

On July 21, 2020, changes were made in the shareholders registry: change of ownership of 34,10 % of the Company's share capital. The transferor of the shares is PJSC "Gazprom", the acquirer of the shares is JSC "Augstsprieguma tīkls". Thus, JSC "Augstsprieguma tīkls" significantly increased its shareholding (currently holds 68,46% of the total share paid by the Company) and it has a decisive influence.

## 23. Other issues

Payments for long-term asset contracts. As of 31 December 2020, investment agreements contracted for, but not yet delivered: EUR 27 107 443.

## 24. Remuneration to the certified auditors' company

| Remuneration to the certified auditors' company | 31.12.2020 | 31.12.2019 |
|---|---|---|
| | EUR | EUR |
| Statutory audit | 23 700 | 18 900 |
| | **23 700** | **18 900** |

## 25. Financial risk management and fair value

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

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

The financial instruments held by Conexus are divided into the following categories:

| **Financial assets and liabilities** | **31.12.2020** | **31.12.2019** |
|---|---|---|
| | EUR | EUR |
| Trade receivables | 6 855 249 | 6 258 202 |
| Other receivables | 75 446 | 93 671 |
| Cash and cash equivalents | 15 163 736 | 21 504 400 |
| **Total financial assets** | **22 094 431** | **27 856 273** |
| Loans from credit institutions | 21 875 000 | 25 375 000 |
| Accounts payable to suppliers and contractors | 7 637 032 | 2 326 667 |
| Other liabilities | 657 112 | 2 841 694 |
| **Total financial liabilities** | **30 169 144** | **30 543 361** |

### *Liquidity risk*

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

Term analysis of financial liabilities based on their contractual cash flows, including interest payments:

| **31.12.2020** | **Carrying amount** | **Contractual cash flows** | **1 to 3 months** | **3 month – 1 year** | **1 – 5 years** |
|---|---|---|---|---|---|
| | EUR | EUR | EUR | EUR | EUR |
| Loans | 21 875 000 | 21 988 944 | 907 365 | 21 081 579 | - |
| Other liabilities | 8 293 546 | 8 293 546 | 8 293 546 | - | - |
| **Financial liabilities** | **30 168 546** | **30 282 490** | **9 200 911** | **21 081 579** | - |

| **31.12.2019** | **Carrying amount** | **Contractual cash flows** | **1 to 3 months** | **3 month – 1 year** | **1 – 5 years** |
|---|---|---|---|---|---|
| | EUR | EUR | EUR | EUR | EUR |
| Loans | 25 375 000 | 25 633 941 | 913 043 | 2 731 954 | 21 988 944 |
| Other liabilities | 5 168 224 | 5 168 224 | 5 168 224 | - | - |
| **Financial liabilities** | **30 543 224** | **30 802 165** | **6 081 267** | **2 731 954** | **21 988 944** |

### *Interest rate risk*

Interest rate risk arises from the use of borrowed cash resources to ensure liquidity. Company uses general borrowing to finance its operations. The Company is exposed to interest rate risk as the borrowing has variable interest rates. The Company's financial risk management policy stipulates that the interest rate of the largest portion of the borrowing is variable.

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

### *Credit risk*

The Company is exposed to credit risk, i.e., in case the counterparty fails to fulfil its contractual obligations, losses will incur. Credit risk is derived from cash and cash equivalents and from overdue accounts receivable. To restrict credit risk, the Company uses security deposits. As the end of reporting period the Company was not subject to significant credit risk related to its debtors as there were no overdue debts and all trade receivables were collected during January 2021.

Credit risk regarding financial resources with credit institutions is managed by balancing the placement of financial assets with at least two credit institutions. All credit institutions with which the Company is cooperating or plans to cooperate are assessed on the basis of credit rating established by an international credit rating agency – of at least BBB- or Baa3. Based on such assessment, outstanding cash and cash equivalents can be summarised as follows (grouped by long term rating):

| Bank | Rating | 31.12.2020 | 31.12.2019 |
|---|---|---|---|
| | | EUR | EUR |
| Swedbank* | Aa3* | 11 082 180 | 18 874 725 |
| OP Corporate bank plc Latvian branch | Aa3 | 696 523 | 694 928 |
| Citadele bank | Baa3 | 949 544 | 949 589 |
| SEB bank** | Aa2** | 935 582 | 985 158 |
| Luminor Bank AS Latvian branch*** | Baa1 | 1 499 907 | - |
| **Cash and cash equivalents:** | | **15 163 736** | **21 504 400** |

** The Moody's rating for the parent company Swedbank AB, such rating is not available for Swedbank AS.*
*** Credit rating for Skandinavska Enskilda Banken (SEB), Sweden.*
**** Credit rating for Luminor bank AS, Estonia.*
*As at 31 December 2020 and 31 December 2019, cash and cash equivalents consisted only of current account balances with credit institutions.*

### *Capital risk management*

The Company's objectives when managing capital risk are to safeguard the Company's ability to continue as a going concern, maintain an optimal structure to reduce the cost of capital. The Company performs management of the capital, based on the proportion of borrowed capital against total capital. Adequacy ratio of the shareholders' equity is calculated as the ratio of Conexus's total liabilities to its total capital. Liabilities include all long term and short-term liabilities, but total capital includes all liabilities of the Company and equity. This indicator is used to evaluate structure of the capital of the Company, as well as its solvency. Strategy of the company is to ensure that the mentioned proportion does not exceed 50%. As at 31.12.2020 and 31.12.2019 the proportion of borrowed capital to total capital was as follows:

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| | EUR | EUR |
| Total liabilities | 48 443 285 | 46 679 449 |
| (Cash and cash equivalents) | (15 163 736) | (21 504 400) |
| (Deferred income - EU co-financing) | (12 034 666) | (11 432 471) |
| Net total liabilities | 21 244 884 | 13 742 578 |
| Total equity and liabilities | 453 091 955 | 362 400 153 |
| **Borrowed capital proportion to total capital** | **4,69%** | **3,79%** |

### *Currency risk*

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

### *Carrying amount*

IFRS 13 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources. In case of unobservable inputs, the valuation method reflects the Company's market assumptions. This hierarchy requires the use of observable market data when available. The Company considers relevant and observable market prices in its revaluation, where possible.

The objective of the fair value measurement, even in inactive markets, is to arrive at the price at which an orderly transaction would take place between market participants to sell the asset or transfer the liability at the measurement date under current market conditions. In order to arrive at the fair value of a financial instrument different methods are used: quoted prices, valuation techniques incorporating observable data and valuation techniques based on internal models. These valuation methods are divided according to the fair value hierarchy in Level 1, Level 2 and Level 3. The level in the fair value hierarchy within which the fair value of a financial instrument is categorized shall be determined on the basis of the lowest level input that is significant to the fair value in its entirety.

The classification of financial instruments in the fair value hierarchy is a two-step process:

1. Classifying each input used to determine the fair value into one of the three levels;

2. Classifying the entire financial instrument based on the lowest level input that is significant to the fair value in its entirety.

*Quoted market prices – Level 1*

Valuations in Level 1 are determined by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted prices are readily available, and the prices represent actual and regularly occurring market transactions on an arm's length basis.

*Valuation techniques and observable inputs – Level 2*

Valuation techniques in Level 2 are models where all significant inputs are observable for the asset or liability, either directly or indirectly. Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (that is, as price) or indirectly (that is, derived from prices).

*Valuation technique using significant unobservable inputs – Level 3*

A valuation technique that incorporates significant inputs that are not based on observable market data (unobservable inputs) is classified in Level 3. Unobservable inputs are those not readily available in an active market due to non-liquid market or complexity of the product. Level 3 inputs are generally determined based on observable inputs of a similar nature, historic observations on the level of the input or analytical techniques.

The following financial assets and liabilities are included in Level 3:

| | 31.12.2020 | 31.12.2019 |
|---|---|---|
| | EUR | EUR |
| **Assets**: | | |
| Trade receivables | 6 855 249 | 6 258 202 |
| Other receivables | 75 446 | 93 671 |
| Cash and cash equivalents | 15 163 736 | 21 504 400 |
| **Liabilities**: | | |
| Loans | 21 875 000 | 25 375 000 |
| Trade payables | 7 637 032 | 2 326 667 |
| Other creditors | 1 387 807 | 3 385 088 |

*Assets and liabilities for which fair value is disclosed*

The carrying amount of liquid and short-term financial instruments (with maturity below 3 months), for example, cash and cash equivalents, short-term trade payables and trade receivables, corresponds to their fair value.

The carrying amount of borrowings from credit institutions is evaluated by discounting future cash flows and applying market interest rate. As interest rates applied on borrowings from credit institutions, are mainly floating and do not significantly differ from market rates, and the risk margin applicable to the Company has not changed significantly, the fair value of long-term liabilities approximates their net book value.

*Assets measured at fair value*

The Company's buildings, structures, including gas pipeline infrastructure, machinery and equipment are reported at revalued amounts which approximate their fair value. The revaluation was performed in 2020. Considering the unique nature and use of the assets, revaluation was based on Level 3 data, meaning that the data are not freely observable for relevant type of assets. This was a repeated revaluation (the previous revaluation was performed in 2016 while the relevant assets were still the part of JSC "Latvijas Gāze"), and the data level of used assumptions was not changed.

The revaluation was performed by an external expert using the amortised replacement cost method. According to this method, initial value of assets is determined according to the prices, requirements and applied materials at the time of the valuation. The revaluation was performed by an external expert using the amortised replacement cost method. According to this method, initial value of assets is determined according to the prices, requirements and applied materials at the time of the valuation. Key assumptions during revaluation process are associated with the materials cost and the cost of the average construction prices at the time of revaluation. For determination of values, data available to the Company about similar constructions of facilities in recent years is being used. A significant section of the revaluation consists of revaluation of underground gas pipelines. The total length of pipeline transmission system is 1188 km. In case of an increase in the average construction cost in the country or significantly increase the cost of materials, asset value will increase. If the cost of construction or materials decreases the value of the assets will decrease accordingly. Parallel to the initial value, accumulated depreciation is determined, taking into account the following key factors: the asset's physical, functional and technical depreciation. If revalued assets are used in a substantially different way, or they are functionally obsolete, revalued asset value may decrease significantly. The management has assessed the level of pipeline and general construction prices during 2020 and has not identified significant changes as compared to January 2020 when the revaluation was made. In the absence of other significant changes, the management concluded that the carrying amount of revalued property, plant and equipment does not differ materially from the amount which would be determined using fair value at the end of the reporting period.

## 26. Accounting Policies

*Basis of preparation*

The unaudited financial statements of Company are prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union. The financial statements cover the period from 1 January 2020 to 31 December 2020.

These financial statements have been approved by the Management Board on 17 February 2020 and will be approved by the shareholders of the Company. Shareholders have the power to reject the financial statements prepared and issued by the Company and the right to request that new financial statements be issued.

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

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

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

*Currency unit and revaluation of foreign currency*

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

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

*Significant estimates and judgements*

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

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

*Useful lives of property, plant and equipment*

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

### *Non-financial assets and liabilities*

#### *Intangible assets*

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

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

#### *Property, plant and equipment*

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

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

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

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

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

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

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

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

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

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

*Lease*

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

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

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

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

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

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

*Inventories*

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

The inventory of natural gas, materials and spare parts is measured using the weighted average price, except for the stock of natural gas, which is measured according to FIFO. Inventories expenses are recognised in profit or loss when they have been consumed.

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

*Provisions*

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

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

*Employee benefits*

The Company recognises provisions for employee benefits where contractually obliged or where there is a past practice that has created a constructive obligation.

*Social insurance and pension contributions*

The Company pays social security insurance contributions for state pension fund in compliance with the Latvian legislation. The Company also pays contributions to an external fixed-contribution private pension plan. The Company will have no legal or constructive obligations to pay further contributions if the statutory fund cannot settle their liabilities towards the Company's employees. The social insurance and pension contributions are recognised as an expense on an accrual basis and are included within personnel costs.

*Post-employment and other employee benefits*

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

The present value of the benefit obligation is determined by discounting the estimated future cash outflows using the market rates on government bonds. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income within equity in the period in which they arise.

*Employee benefit liabilities*

The Management's best estimates on the amount of employee benefit liabilities are based upon an assessment of the key financial and demographic assumptions with periodic advice from the actuaries.

The rate used to discount the liabilities of the scheme reflects the average profit rate of government bonds with initial maturity of 5Y and more, determined during the last two issues (source: State Treasury). Inflation rate is determined by reference to the data by the Central Statistics Bureau for the 12 months of the respective year, and reflects average consumer price change in %, as compared to the prior period.

Mortality assumptions are set upon actuarial advice in accordance with statistics published in 2015 (Central Statistics Bureau).

*Prepaid expenses*

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

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

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

*Accrued income*

Accrued income includes clearly known amounts to be settled with clients in relation to transportation, storage and balancing operations of natural gas of the Company in the reporting year with regard to which the due date for issuing the payment supporting document (invoice) as set in the agreement has not arrived at the reporting date. These amounts are calculated based on fees for services set in effective agreements.

*Deferred income*

Deferred income is recognised if payments are received by the Company in the reporting period for services to be provided in future periods (following the reporting period). Payments included under deferred income are recognised as revenue in the reporting period to which they relate.

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

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

*Contract assets*

Contract assets include the right to a consideration for transmission and storage services provided, which have not been invoiced at the reporting date. These rights are recognised under receivables.

*Contract liabilities*

Contract liabilities consist primarily of advances paid by customers, deferred income for transmission and storage services provided.

*Accrued liabilities*

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

Accrued liabilities are recognised:

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

*Financial assets*

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

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

*Accounts receivable*

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

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

*Cash and cash equivalents*

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

*Financial liabilities*

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

*Liabilities*

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

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

*Borrowings*

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

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

*Revenue*

IFRS 15, which was adopted by the Company in 2018, deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.

Entity adopts a five-step model to determine when to recognise revenue, and at what amount. The new model specifies that revenue should be recognised when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised:

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

IFRS 15 also establishes the principles that a Company shall apply to provide qualitative and quantitative disclosures which provide useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer.

The internal revenue recognition policies for the different types of contracts with customers have been analysed, identifying the performance obligations, the determination of the calendar of satisfaction of these obligations, transaction price and allocation thereof, in order to identify possible differences with respect to the revenue recognition model under the new standard. No significant differences between them have been detected. IFRS 15 requires the recognition of an asset for incremental costs incurred in obtaining such contracts with customers and which are expected to be recovered. The current practices applied by Conexus imply that there are no contract costs to be capitalized.

Revenues derived from contracts with customers must be recognised based on compliance with performance obligations with customers. Revenue reflects the transfer of goods or services to customers at an amount that reflects the consideration to which Company expects to be entitled in exchange for such goods or services. Based on this recognition model, sales are recognised when services are rendered to the customer and have been accepted by the customer, even if they have not been invoiced, and it is probable that the economic benefits associated with the transaction will flow to the Company. The specific accounting policies for the Company's main types of revenue are explained below.

*Revenue from transmission services*

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

*Revenue from storage*

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

*Interest income*

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

*Income from fines*

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

*Other income*

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

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

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

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

### *Corporate income tax*

On 1 January 2018 the Law on Enterprise Income Tax of the Republic of Latvia entered into force and set out a new regime for paying taxes. The tax rate is 20%, and the taxable base, determined by dividing the value of the amount taxable with corporate income tax by coefficient 0.8, includes:

- distributed profit (dividends calculated, payments equivalent to dividends, conditional dividends), and
- conditionally or theoretically distributed profit (non-operating expenses and other specific cases provided for by the law).

The new tax regime is not applicable to the distribution of dividends from profit accumulated to 31 December 2017 and taxed under the previous taxation regime. Corporate income tax calculated for conditionally distributed profit under IFRS is classified as other operating expenses.

As at 31 December 2020 the Company has provisions of EUR 1 039 986 and if certain legal conditions are fulfilled by this amount the Company will be able to reduce the CIT taxable base in future taxation periods.

The potential benefits described above as at 31 December 2020 that may arise from the potential possibility to decrease the amount of tax in the future are treated as contingent assets and are not recognised in the statement of financial position.

*Share capital and dividends*

The Company's share capital consists of ordinary voting shares. Share capital consists of ordinary shares. Nominal value of each share is EUR 1,00. The Company is owned by shareholders and it distributes dividends according to laws of the Republic of Latvia. Dividends are recognised as a liability in the Company's financial statements in the period in which the shareholders approves the amount of dividends.

*Standards issued or amended that affected financial year*

A number of new standards (or amendments) are effective from 1 January 2020 but they do not have a material effect on the Company's financial statements.

*Standards issued but not yet effective*

A number of new standards are effective for annual periods beginning after 1 January 2020 and earlier application is permitted; however, the Company has not early adopted the new or amended standards in preparing these financial statements.

*Onerous contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)*

The amendments specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous. The amendments apply for annual reporting periods beginning on or after 1 January 2022 to contracts existing at the date when the amendments are first applied. At the date of initial application, the cumulative effect of applying the amendments is recognised as an opening balance adjustment to retained earnings or other components of equity, as appropriate. The comparatives are not restated.

The Company has determined that all onerous contracts existing at 31 December 2020 will be completed before the amendments become effective.

*Other standards*

The following new and amended standards are not expected to have a significant impact on the Company's financial statements:

- Onerous contracts – Cost of Fulfilling a Contract (Amendments to IAS 37);
- COVID-19-Related Rent Concessions (Amendment to IFRS 16);
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16);
- Reference to Conceptual Framework (Amendments to IFRS 3);
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1);
- Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16);
- IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts.

The management of the Company made a decision not to adopt these standards and interpretations before they become effective. The management believes that the introduction of new standards, amendments and interpretations will not have significant impact on the Company's financial statements during the implementation year.

*Fair value measurement*

Fair value is a price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Company has an access at that date. The fair value of liabilities represents the risk of default. According to the Company's accounting policies and disclosure requirements fair value should be determined for both financial and non-financial assets and liabilities. When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible. Fair value is classified into different levels of the fair value hierarchy based on the inputs used in the measurement techniques:

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

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Company recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Fair values have been determined for measurement and disclosure purposes based on the below methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Cash and cash equivalents are included in Level 1. Cash and cash equivalents are financial assets with maturities below 3 months. The Company believes that the fair value of these financial assets matches their initial nominal value and the carrying amount at any future date.

The Company has no financial assets and liabilities categorised as Level 2.

Level 3 includes:

- Loans from credit institutions;
- Payables and receivables.

*Loans from credit institutions*

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

*Payables and receivables*

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

The financial statements were prepared by:

(signature*)

Aija Martinsone-Staģe
Head of Financial Accounting Division

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