

Joint Stock Company Conexus Baltic Grid

Annual Report 2017

Prepared in accordance with the requirements of the International Financial Reporting Standards
approved in the European Union

Translation from Latvian original

- RIGA 2018 -

CONTENTS

Information about the Company	3
Management report.....	5
Key financial and operational indicators	5
Business environment	5
Segment operating results.....	6
Events after the end of the reporting period	7
Further development.....	7
Statement of responsibility by the Board	8
Financial Statements	9
STATEMENT OF PROFIT OR LOSS.....	9
STATEMENT OF OTHER COMPREHENSIVE INCOME	9
BALANCE SHEET.....	10
STATEMENT OF CHANGES IN EQUITY	12
STATEMENT OF CASH FLOWS	13
NOTES TO THE FINANCIAL STATEMENTS	14

Information about the Company

Joint Stock Company "Conexus Baltiĉ Grid" (hereinafter referred to as the Company, or Conexus) is a unified natural gas transmission and storage operator in Latvia, which manages one of the most modern natural gas storage facilities in Europe – Inĉukalns Underground Gas Storage and the natural gas main transmission system that directly connects the Latvian natural gas market with Lithuania, Estonia and the Russian Northwest region.

Conexus offers clients the natural gas transmission and storage services in compliance with tariffs laid down by the Public Utilities Commission.

Conexus was established on 22 December 2016, when Joint Stock Company "Latvijas Gāze" was reorganized and, consequently, transmission and storage was handed over to Conexus.

Our objectives

- to promote the wider use of natural gas as a product, while at the same time ensuring the necessary technical requirements as well as the efficient use of technologies in changing market conditions;
- to provide customers with the opportunity to purchase storage and transmission services in an easily accessible and transparent manner;
- to become a leader in the Baltic region in provision of the gas supply system balancing service.

Our mission

- to provide stable and secure natural gas supply and effective market functioning in the Baltic Sea Region.

Our vision

- to become the main natural gas source in the Baltic region during the heating season by cooperating in the development of transmission infrastructure and using the underground gas storage facilities.

Our values

- safe and friendly working environment, high professional and ethical standards, and teamwork geared towards customers - our core value.

Sustainability

- we are a socially responsible company that ensures employee career development opportunities and overall industry growth, creating sustainable employment and added economic viability, while considering the issues arising from the environmental impact of technological processes.

Company	JSC Conexus Baltic Grid
Registration number	40203041605
Registration date and place	Riga, 2 January 2017
Address	Aristida Briāna Street 6 Riga, LV – 1001 Latvia www.conexus.lv
Main shareholders	Joint stock company "Augstsprieguma tīkls" (34.36 %) PJSC "Gazprom" (34.10 %) Marguerite Gas I S.à r.l. (29.06 %)
Financial statements period	4 January 2017 - 31 December 2017

Council

Term of office – from 3 January, 2018

Kaspars Āboliņš Viljams Pīrsons	Chairman of the Council Deputy Chairman of the Council
Ilze Bērziņa Sanita Greize Ilmārs Šņucins Gijoms Rivrons Franks Zīberts	Member of the Council Member of the Council Member of the Council Member of the Council Member of the Council

Oļegs Ivanovs Jeļena Mihailova Gijoms Rivrons Viktors Valovs Franks Zīberts	Member of the Council Member of the Council Member of the Council Member of the Council Member of the Council
--	---

Structure of the Council from 16 November 2017 to 30 December 2017

Structure of the Council from 22 December 2016 to 15 August 2017

Kirils Seježnovs Juris Savickis	Chairman of the Council Deputy Chairman of the Council
Olivers Gīze	Deputy Chairman of the Council
Nikolajs Dubiks Hanss Pēters Florens Vitālijs Hatjkovs Oļegs Ivanovs Nikolass Merigo Kuks Jeļena Mihailova Gijoms Rivrons Jorgs Tumats	Member of the Council Member of the Council Member of the Council Member of the Council Member of the Council Member of the Council Member of the Council Member of the Council

Kirils Seježnovs Juris Savickis	Chairman of the Council Deputy Chairman of the Council
Viljams Pīrsons	Deputy Chairman of the Council
Nikoajs Dubiks Olivers Gīze Vitālijs Hatjkovs Kristians Jancens Oļegs Ivanovs Jeļena Mihailova Gijoms Rivrons Franks Zīberts	Member of the Council Member of the Council Member of the Council Member of the Council Member of the Council Member of the Council Member of the Council Member of the Council

Structure of the Council from 31 December 2017 to 3 January 2018

Structure of the Council from 15 August 2017 to 16 November 2017

Kirils Seježnovs Juris Savickis	Chairman of the Council Deputy Chairman of the Council
Viljams Pīrsons	Deputy Chairman of the Council
Olivers Gīze Vitālijs Hatjkovs Kristians Jancens	Member of the Council Member of the Council Member of the Council

Viljams Pīrsons Kaspars Āboliņš	Chairman of the Council Deputy Chairman of the Council
Gatis Junghāns Gijoms Rivrons Bens de Vēle Franks Zīberts Imants Zviedris	Member of the Council Member of the Council Member of the Council Member of the Council Member of the Council

Management Board

(term of office – from 31 December, 2017)

Zane Kotāne	Chairperson of the Board
Gints Freibergs	Member of the Board
Mārtiņš Gode	Member of the Board

Members of the Board in office from 22 December, 2016 till 30 December, 2017:

Aigars Kalvītis	Chairman of the Board
Sebastians Grēblinghofs	Deputy chairman of the Board
Deniss Jemeljanovs	Deputy chairman of the Board
Zane Kotāne	Member of the Board
Gints Freibergs	Member of the Board

Management report

Key financial and operational indicators

Conexus has successfully completed the first year of operation as a single transmission and storage operator. In the period commencing 04.01.2017 to 31.12.2017 Conexus provided a continuous supply of natural gas and transmitted flows for the needs of Latvia, Lithuania, Estonia and Russia. Notably, 88 % of the total transmitted flows were intended for the needs of the Latvian market.

All income of Conexus is derived from regulated services applying storage services tariffs approved in 2008 and transmission service tariffs approved on 30 May 2017. The net turnover of the reporting period comprises EUR51,444 thousand, and profit - EUR17,021 thousand.

Key financial indicators	31.12.2017
	EUR'000
Net turnover	51,444
EBITDA	24,963
EBITDA, %	49%
Net profit	17,021
Net profitability, %	33%

EBITDA – profit before income tax, interest, depreciation and amortisation

Key performance indicators	31.12.2017
Transmitted natural gas, thousand MWh	26,468
Active natural gas in Inčukalns PGK, thousand MWh	11,806
Total length of main gas lines, km	1,188
Number of employees, average	356

Business environment

On 5 January 2017, the Public Utilities Commission (hereinafter referred to as the PUC the Company 20 year licences for the rights and obligations to engage in commercial activities of natural gas transmission in the Republic of Latvia and natural gas storage in the Inčukalns Underground Gas Storage.

The Company business activities are carried out in two large segments, which are the regulated types of activities, and offers services in accordance with the tariffs approved by the PUC as follows:

- Transmission segment: transporting of natural gas through 1188 km long system of gas mains and transmitting of natural gas to the local gas distribution system and the near abroad countries through 40 gas regulating stations;
- Storage segment natural gas injection, storage and pumping out done in the Inčukalns Underground Gas Storage (hereinafter referred to as the IPGK, the Storage), providing natural gas traders the possibility to store natural gas in volume of up to 2.3 billion cubic meters (24,219,000 MWh). The prospective volume of the Storage fully covers the consumer demands and likewise ensures energy security and gas supply stability during the heating season within entire Baltic region.

In 2017, the most significant news in the Latvian natural gas sector was the natural gas market opening on 3 April 2017, as a result whereof legal persons were enabled to commence purchases of the natural

gas in the market from any trader for an agreed price, while households will be able to purchase natural gas also at the regulated price up to the beginning of 2019. In 2017, the regulatory environment experienced a number of significant changes, eg.:

- On 28 March 2017, the Cabinet of Ministers adopted amendments to the Regulation No. 312 as of 19 April 2011, on the basis whereof the provision and storage of natural gas reserves for protected users was entrusted to the transmission system operator;
- On 3 April 2017, the derogation laid down in Article 49(1) of Directive 2009/73/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in natural gas and repealing Directive 2003/55/EC became invalid and the EU third energy package in the field of natural gas entered into force;
- On 13 April 2017, the PUC approved the natural gas transmission system usage rules, which include conditions of tariff application until the entry into force of the new transmission system service tariffs;
- On 13 April 2017, the PUC approved the Inčukalns underground gas storage usage rules, which include conditions of tariff application until the entry into force of the new transmission system service tariffs;

On the basis of changes in the regulatory environment:

- As of 3 April 2017, Latvia introduced the input/output capacity reservation system and made the transition from the accounting of natural gas in cubic metres to the accounting in units of energy;
- On 30 May 2017, the PUC approved the natural gas transmission system service tariffs that entered into force on 1 July 2017;
- As of 1 July 2017, the operator, in cooperation with neighbouring operators, introduced the indirect allocation of the capacity in cross-border interconnection points with Lithuania and Estonia;
- In July 2017, the operator conducted the auction on provision of the natural gas availability in the interconnection of the transmission system with the storage in 2017-2018.
- On 24 August 2017, the PUC laid down the rate of the return on capital in amount of 4.70% for drafting a project of the natural gas transmission system and storage services tariff, whose entry into force is scheduled for 2018;
- On 22 November 2017, the operator submitted to the PUC for approval a new Inčukalns underground gas storage tariff project, which provides for implementation of new storage products and tariff setting principles;
- On 21 December 2017, the operator submitted to the PUC for approval of a new natural gas transmission system tariff project, which provides for implementation of new transmission system products and inclusion of the expenses relating to auction on provision of the natural gas availability in the interconnection of the transmission system with the Storage into the transmission system tariffs.

Segment operating results

The operation of the Company is divided into two basic segments: gas transmission (includes natural gas transportation by high pressure pipelines, to deliver it to the storage, to other countries, to the distribution system or directly to users) and gas storage (natural gas storage in the Inčukalns underground gas storage). The information included in the operating segments coincides with the information used by the person responsible for operational decision-making.

The transmission segment gains revenue from both the natural gas consumption in Latvia and the international natural gas transport as well as from natural gas movement when injecting into or pumping out the natural gas from IPGK. In the reporting period, the transmission segment income composed 27.234 million EUR and EBIDTA reached 11.141 million EUR, which ensures 44.6% of the Company's total EBITDA. The transmission segment profit reached 4.493 million EUR. The transmission segment is the largest segment in the volume of assets. In 2017, the assets of the segment composed 182.9 million EUR or 52.9% of the total volume of the Company assets.

In the reporting period, the storage segment operated with income in amount of 24.210 million EUR which ensured EBIDTA in amount of 13.822 million EUR and revenue in amount of 12.528 million EUR. In 2017, the assets of the segment composed 162.2 million EUR or 47.1% of the total volume of the Company assets.

Events after the end of the reporting period

On 7 February 2018, the PUC approved amendments to decision No 1/7 "Methodology for calculation of natural gas storage service tariff" adopted by the Public Utilities Commission on 16 March 2017; the amendments provide for substantial changes in the principles of determination of the Regulated Asset Base (RAB).

Further development

On 10 January 2018, Conexus SPRK submitted the certification application with the attached information volume to certify the conformity of system (transmission) operator to the requirements prescribed in the Energy Law section 114 part two paragraph 1 and 2.

In 2018, the tax reform planned in Latvia will affect the Company's financial activities. The most significant changes that will apply to the activities of the Company are related to the changes in the procedure regarding calculation of the corporate income tax. Latvia plans to join the countries where reinvested profits are not taxed but the tax is due from the distributable profit. Similarly, the costs subject to the corporate income tax at the moment of their payment are changed. In addition, the minimum salary in the country was increased, which required the Company to review the employee remuneration and change the rates related to the personnel taxes.

The Energy Law provides that the system operator shall be liable for the energy transmission system operation, servicing, safety, system management and development in the licence operation area, connection to other systems, as well as for the long-term capability of the system to ensure energy transmission according to the demand. In order to ensure the stability of the natural gas transmission system and the capacity availability according to the demand, in 2018, the Company will organize an auction on ensuring of the required input capacity in the transmission system interconnection with the Storage in the winter season.

In 2018, new transmission system capacity reservation products and tariffs will be introduced. The main reason of the tariff revision is the necessity to cover the costs of the auction conducted in 2017.

In 2018, new storage products and tariffs will be introduced; the project of tariffs is submitted to the PUC according to the Methodology for Calculation of Natural Gas Storage Service Tariff. The previous tariff project for storage operation segment was approved in 2008.

Zane Kotāne
Chairperson of the Board

Mārtiņš Gode
Member of the Board

Gints Freibergs
Member of the Board

Statement of Board's responsibility

The Board of the Joint Stock Company "Conexus Baltic Grid" (hereinafter – the Company) is responsible for the preparation of the Company's financial statements.

The financial statements for 2017 have been prepared in accordance with the International Financial Reporting Standards adopted by the European Union and provide a true and fair view of the Company's financial position, operational results and cash flows.

The financial statements were approved by the Board of the JSC "Conexus Baltic Grid" on 9 March, 2018 and they are signed on behalf of the Board by:

Zane Kotāne
Chairperson of the Board

Mārtiņš Gode
Member of the Board

Gints Freibergs
Member of the Board

Financial Statements

STATEMENT OF PROFIT OR LOSS

	Note	04.01.2017 - 31.12.2017
		EUR'000
Revenue	1	51 444
Other income	2	641
Materials and services	3	(13 681)
Personnel expenses	4	(9 393)
Depreciation, amortisation and impairment of property, plant and equipment	7,8	(18 544)
Other operating expenses	5	(4 047)
Operating profit		6 420
Financial expenses, net		(225)
Profit before taxes		6 195
Corporate income tax	6	10 826
Profit for the period		17 021

STATEMENT OF OTHER COMPREHENSIVE INCOME

	Note	04.01.2017 - 31.12.2017
		EUR'000
Profit for the period		17 021
Other comprehensive income – items that will not be reclassified to profit or loss in subsequent periods		
Deferred income tax	6	18 757
Remeasurement of post-employment benefits	14	593
Total net income recognised as other comprehensive income		19 350
Total comprehensive income for the period		36 371

The accompanying notes on pages 14 to 36 form an integral part of these financial statements.

The financial statements were approved by the Board of the JSC "Conexus Baltic Grid" on 9 March, 2018 and they are signed on behalf of the Board by:

Zane Kotāne
Chairperson of the Board

Mārtiņš Gode
Member of the Board

Gints Freibergs
Member of the Board

BALANCE SHEET

	Note	31.12.2017
ASSETS		EUR'000
Non-current assets		
Intangible assets	7	1 038
Property, plant and equipment	8	333 883
Non-current prepaid costs	9	1 513
Total non-current assets:		336 434
Current assets		
Inventories	10	2 277
Advances for inventories		12
Trade receivables		5 959
Other current assets	11	420
Cash and cash equivalents		17 886
Total current assets:		26 554
TOTAL ASSETS:		362 988

The accompanying notes on pages 14 to 36 form an integral part of these financial statements.

The financial statements were approved by the Board of the JSC "Conexus Baltic Grid" on 9 March, 2018 and they are signed on behalf of the Board by:

Zane Kotāne
Chairperson of the Board

Mārtiņš Gode
Member of the Board

Gints Freibergs
Member of the Board

BALANCE SHEET (continued)

	Note	31.12.2017
LIABILITIES AND SHAREHOLDERS' EQUITY		EUR'000
Shareholders' equity:		
Share capital	17	39 786
Treasury shares	17	(39)
Reserves	12	153 004
Retained earnings		117 666
Total shareholders' equity:		310 417
Non-current liabilities		
Deferred income	13	8 068
Employee benefit obligations	14	1 040
Borrowings	15	28 875
Total non-current liabilities:		37 983
Current liabilities		
Borrowings	15	3 500
Trade payables		2 814
Corporate income tax	6,8	1 103
Other liabilities	16	6 707
Deferred income	13	327
Advances from customers		137
Total current liabilities:		14 588
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY:		362 988

The accompanying notes on pages 14 to 36 form an integral part of these financial statements.

The financial statements were approved by the Board of the JSC "Conexus Baltic Grid" on 9 March, 2018 and they are signed on behalf of the Board by:

Zane Kotāne
Chairperson of the Board

Mārtiņš Gode
Member of the Board

Gints Freibergs
Member of the Board

STATEMENT OF CHANGES IN EQUITY

	Share capital	Treasury shares	Reserves	Retained earnings	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
As at 4 January, 2017	-	-	-	-	-
Transferred as a result of reorganisation	39 786	-	234 299	-	274 085
Transfer of revaluation reserve	-	-	(100 645)	100 645	-
Acquisition of treasury shares	-	(39)	-	-	(39)
Other comprehensive income:					
Other comprehensive income	-	-	19 350	-	19 350
Profit for the period	-	-	-	17 021	17 021
Total other comprehensive income	-	-	19 350	17 021	36 371
31 December, 2017	39 786	(39)	153 004	117 666	310 417

The accompanying notes on pages 14 to 36 form an integral part of these financial statements.

The financial statements were approved by the Board of the JSC "Conexus Baltic Grid" on 9 March, 2018 and they are signed on behalf of the Board by:

Zane Kotāne
Chairperson of the Board

Mārtiņš Gode
Member of the Board

Gints Freibergs
Member of the Board

STATEMENT OF CASH FLOWS

	Note	04.01.2017 - 31.12.2017
Cash flows from operating activities		EUR'000
Profit before corporate income tax		6 195
<i>Adjustments:</i>		
- depreciation of property, plant and equipment	8	17 881
- amortisation of intangible assets	7	663
- loss on disposal of plant, property and equipment		(181)
- provisions		77
- participation in the transnational cross-border project	9	100
- amortisation of EU grants	13	(267)
- interest expenses		206
<i>Change in operating assets and liabilities net of effects of reorganisation:</i>		
- increase in debtors		(7 298)
- increase in advances for inventories		(12)
- increase in inventories		(61)
- increase in creditors		9 252
Net cash inflow from operating activities		26 555
Cash flow from investing activities		
Payments for property, plant and equipment		(16 587)
Payments for intangible assets		(373)
Proceeds from sale of property, plant and equipment		517
Participation in the transnational cross-border project	9	(1 713)
Net cash outflow from investing activities		(18 156)
Cash flow from financing activities		
Interest paid		(206)
Repayment of borrowings		(2 625)
Cash received in reorganisation	20	12 297
EU grants received	13	60
Acquisition of treasury shares	17	(39)
Net cash inflow from financing activities		9 487
Net cash flow		17 886
Cash and cash equivalents at the beginning of the reporting period		-
Cash and cash equivalents at the end of the reporting period		17 886

The accompanying notes on pages 14 to 36 form an integral part of these financial statements.

The financial statements were approved by the Board of the JSC "Conexus Baltic Grid" on 9 March, 2018 and they are signed on behalf of the Board by:

Zane Kotāne
Chairperson of the Board

Mārtiņš Gode
Member of the Board

Gints Freibergs
Member of the Board

NOTES TO THE FINANCIAL STATEMENTS

NOTES TO THE STATEMENT OF PROFIT OR LOSS

1. Revenue

	04.01.2017 - 31.12.2017
	EUR'000
Revenue from transmission services	27 234
Revenue from storage services	24 210
	51 444

2. Other income

	04.01.2017 - 31.12.2017
	EUR'000
Income from EU grants	268
Other income	190
Net gain on sale of property, plant and equipment	183
	641

3. Materials and services

	04.01.2017 - 31.12.2017
	EUR'000
Natural gas	3 627
Materials	1 334
Maintenance of transmission and storage infrastructure	8 292
Maintenance of transport and machinery	176
Maintenance of IT infrastructure	252
	13 681

4. Personnel expenses

	04.01.2017 - 31.12.2017
	EUR'000
Salary	7 271
State social insurance contributions	1 672
Life, health and pension insurance	412
Other personnel costs	38
	9 393
Including for members of the Council and the Board	
- Salary	1 013
- State social insurance contributions	201
- Life, health and pension insurance	100
- Other personnel costs	9
	1 323
Average number of employees	356

5. Other operating expenses

	04.01.2017 - 31.12.2017
	EUR'000
Premises and territory maintenance and other services	1 326
Taxes and duties	1 204
Office and other administrative costs	1 517
	4 047

6. Corporate income tax

	04.01.2017 31.12.2017
	EUR'000
Corporate income tax	(1 103)
De-recognition of deferred tax liabilities	11 929
	10 826

Movement in the deferred tax liabilities	04.01.2017 - 31.12.2017
	EUR'000
Deferred tax balance as at 04.01.2017	-
Transferred as a result of reorganisation (Note 20)	30 686
De-recognition of deferred tax liability through the profit or loss	(11 929)
De-recognition of deferred tax liability through other comprehensive income	(18 757)
Deferred tax balance as at 31.12.2017	-

Based on the provisions on the new Corporate income tax law published on 1 August 2017, corporate income tax levied on the undistributed profit is 0%, starting from 1 January 2018. Deferred tax assets and liabilities, therefore, are not recognised as at 31 December 2017 as no timing differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements will arise. In accordance with the provisions of IAS 12 "Income tax", JSC Conexus Baltic Grid derecognised deferred tax liability as income in the statement of profit or loss, and for the deferred tax liability balance related to the revaluation surplus – through other comprehensive income.

 **NOTES TO THE BALANCE SHEET**

7. Intangible assets

	EUR'000
Cost	
04.01.2017	-
Transferred as a result of reorganisation (Note 20)	5 352
Additions	373
Disposals	(13)
31.12.2017	5 712
Amortisation	
04.01.2017	-
Transferred as a result of reorganisation (Note 20)	4 017
Amortisation charge	663
Disposals	(6)
31.12.2017	4 674
Net book value as at 04.01.2017	-
Net book value as at 31.12.2017	1 038

The intangible assets include fully depreciated intangible assets with a total cost of EUR 2,843 thousand. Most of intangible assets of the Company represent software for operations of operating segments.

8. Property, plant and equipment

	Land and buildings	Machinery and equipment	Other fixed assets	Spare parts emergency reserve	Assets under construction	TOTAL
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Cost or revalued amount						
04.01.2017	-	-	-	-	-	-
Reorganisation (Note 20)	635 266	105 659	4 331	-	12 419	757 675
Additions	-	-	-	-	16 587	16 587
Reclassified	4 830	5 630	588	1 608	(9 717)	2 939
Disposals	(716)	(630)	(110)	-	-	(1 456)
Transferred	7	(720)	713	-	-	-
31.12.2017	639 387	109 939	5 522	1 608	19 289	775 745
Depreciation						
04.01.2017	-	-	-	-	-	-
Reorganisation (Note 20)	366 126	55 994	2 988	-	-	425 108
Depreciation charge	11 786	5 704	391	-	-	17 881
Revalued	-	(10)	-	-	-	(10)
Disposals	(526)	(499)	(92)	-	-	(1 117)
Reclassified	7	(362)	355	-	-	-
31.12.2017	377 393	60 827	3 642	-	-	441 862
Net book value as at 31.12.2017	261 994	49 112	1 880	1 608	19 289	333 883

The fixed assets include fully depreciated fixed assets with a total historical cost of EUR 8 016 thousand.

The latest revaluation of the buildings, structures, machinery and equipment was done in 2016, before the reorganisation of JSC "Latvijas gāze". The balances of revalued assets were transferred to the Company as a result of reorganisation, at predecessor amounts. The revaluation was performed by an independent external expert using the depreciated replacement cost method.

The following table summarises values of the revalued assets as if they were carried at the historical cost.

Cost	31.12.2017
	EUR'000
Buildings and structures	130 882
Machinery and equipment	43 677

9. Prepaid expenses

	31.12.2017
	EUR'000
Opening balance as at 04.01.2017	-
Payment made	1 713
Amortised in the profit or loss	(100)
	1 613
<i>Including: current part (Note 11)</i>	<i>100</i>
<i>non-current part</i>	<i>1 513</i>

In accordance with the Regulator's Decision No 97 (prot. No16, p.4) "On the distribution of investment costs for the common interest project "Klaipėdos - Kiemenai pipeline capacity increase in Lithuania """, a payment was made to AB" Amber Grid ".

10. Inventories

	31.12.2017
	EUR'000
Materials and spare parts	1 366
Natural gas	980
Provisions for impairment of slow-moving inventories	(69)
	2 277

Provisions for impairment of slow-moving inventories	04.01.2017 - 31.12.2017
	EUR'000
04.01.2017	-
Transferred as a result of reorganisation	86
Reversal recognised in profit or loss	(17)
31.12.2017	69

11. Other current assets

	31.12.2017
	EUR'000
Prepaid expenses	245
Other debtors	175
	420

12. Reserves

	31.12.2017
	EUR'000
Property, plant and equipment revaluation reserve	127 967
Post-employment benefit revaluation reserve	390
Reorganisation reserve (Note 20)	24 647
	153 004

Movement in revaluation reserves	PPE revaluation reserve	Post-employment Revaluation reserve
	EUR'000	EUR'000
Opening balance 04.01.2017	-	-
Transferred as a result of reorganisation (Note 20)	209 855	(203)
Remeasurments due to changes in actuarial assumptions	-	593
Disposed revalued assets	(56)	-
Transfer of depreciation of revaluation surplus (transferred in reorganisation) to retained earnings	(75 432)	-
Transfer of depreciation of revaluation surplus charged for the period to retained earnings	(6 400)	-
Balance 31.12.2017	127 967	390

Revaluation reserve cannot be distributed in dividends nor can it be capitalised.

13. Deferred income

	31.12.2017
	EUR'000
Non-current part	8 068
Current part	327
	8 395

Movement of deferred income	04.01.2017 - 31.12.2017
	EUR'000
04.01.2017	-
Transferred as a result of reorganisation (Note 20)	8 602
EU funds received in 2017	60
Amortised in profit or loss (Note 2)	(267)
Carried forward as at 31.12.2017	8 395

14. Employee benefit liabilities

	31.12.2017
	EUR'000
Post-employment benefit liabilities	927
Other employment benefits	113
	1 040

	04.01.2017 - 31.12.2017
Obligations at the beginning of the reporting period	-
Transferred as a result of reorganisation (Note 20)	1 539
Recognised in profit or loss statement	154
Paid	(60)
Revaluations due to changes in actuarial assumptions - in equity	(593)
Obligations at the end of the reporting period	1 040

Assumptions used in the calculations of obligations	31.12.2017	Liabilities transferred as a result of reorganisation
Discount rate, %	0.205%	0.24%
Employee rotation rate,%	3.09%	3.40%
Employee retirement age, years	63	62.75
Wage growth,%	3.00%	4.00%
Contributions to private pension fund,%	5.00%	5.00%
Compulsory social security contributions (employees), %	23.59%	23.59%
Compulsory social security contributions (retired), %	20.57%	19.90%

Assumptions used in the calculations of obligations	Changes in assumptions	Impact on obligations due to change in assumptions	31.12.2017
Discount rate	+0.5%	Savings reduced by	4.91%
Employee rotation rate	+0.5%	Savings reduced by	0.16%
Employee retirement age	+1 year	Savings reduced by	1.94%
Wage growth	+0.5%	Savings increased by	4.70%
Contributions to private pension fund	+0.5%	Savings increased by	0.39%
Compulsory social security contributions	+0.5%	Savings increased by	0.39%

Assumptions used in the calculations of obligations	Changes in assumptions	Impact on obligations due to change in assumptions	31.12.2017
Discount rate	-0.5%	Savings increased by	5.41%
Employee rotation rate	-0.5%	Savings increased by	0.16%
Employee retirement age	-1 year	Savings increased by	1.29%
Wage growth	-0.5%	Savings reduced by	4.32%
Contributions to private pension fund	-0.5%	Savings reduced by	0.39%
Compulsory social security contributions	-0.5%	Savings reduced by	0.39%

15. Borrowings

	31.12.2017
	EUR'000
Borrowings from credit institutions – non-current part	28 875
Borrowings from credit institutions – current part	3 500
	32 375

The Company has a valid loan agreement with OP Corporate Bank plc, Latvian branch with maturity on 30 November 2021 and interest rate of 0.60% plus 6M EURIBOR.

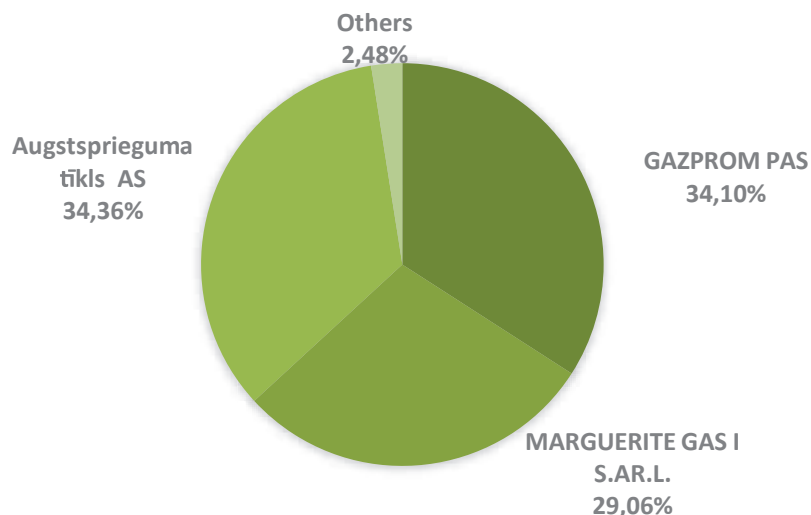
16. Other liabilities

	31.12.2017
	EUR'000
Accrued costs for services of providing natural gas availability	4 040
Accrued bonuses	772
Accrued vacation costs	515
Social insurance contributions	382
Value added tax	339
Salaries	281
Personal income tax	231
Other non-current liabilities	85
Natural resource tax	62
	6 707

17. Share capital

Conexus Baltic Grid is a Closed- End 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 the three largest shareholders.

In 2017, Conexus's shareholder structure has changed. On 15 December 2017, the Latvian electricity transmission system operator AS Augstsprieguma tīkls (hereinafter referred to as AST) concluded a deal with the German energy company Uniper Ruhrgas International GmbH (hereinafter referred to as Uniper) for the acquisition of 18.31% stake in its natural gas transmission and storage system operator. On 19 December 2017, AST concluded a deal with SIA "ITERA Latvija" for the acquisition of its 16.05% stake in the natural gas transmission and storage system operator, the Joint Stock Company Conexus Baltic Grid. As such, AST is the largest shareholder of JSC Conexus Baltic Grid, owning 34.36% of the shares.



The Company redeemed shares amounting to EUR 39 thousand in accordance with the provisions laid down in Article 353 (1), (2), (3) of the Commercial Code, from shareholders who voted against the approval of the statutes on 22 December 2016 at the constituent meeting of the JSC Conexus Baltic Grid.

18. Taxes

	Atlikums 04.01.2017	Calculated	Paid	Liabilities 31.12.2017
	EUR'000	EUR'000	EUR'000	EUR'000
Corporate income tax	-	1 103	-	1 103
Value added tax	-	6 049	(5 710)	339
Social insurance contributions	-	2 508	(2 126)	382
Personal income tax	-	1 457	(1 226)	231
Natural resource tax	-	213	(151)	62
Real estate tax	-	887	(887)	-
	-	12 217	(10 100)	2 117

19. Related party transactions

No individual entity exercises control over the Company. The Company has following transactions with entities disclosed below, which own or owned more than 20% of the shares that deemed to provide a significant influence over the Company.

Income or expenses	04.01.2017 - 31.12.2017
	EUR'000
Income form the provision of services	
PJSC "Gazprom"	26
	26
Expenses on purchase of services from the companies controlled by related companies	
Companies controlled by PJSC "Gazprom"	85
	85

Related party payables and receivables	31.12.2017
	EUR'000
Companies controlled by PJSC "Gazprom"	20
	20

Reorganisation Balance Sheet

As a result of the reorganization of JSC "Latvijas Gāze" into two separate entities, assets and liabilities related to the natural gas transmission and storage activities were transferred to JSC "Conexus Baltic Grid".

	04.01.2017
	EUR'000
ASSETS	
Non-current assets	
Intangible assets	1 335
Plant, property and equipment	332 567
Total non-current assets	333 902
Current assets	
Inventories	5 138
Other current assets	18
Cash and cash equivalents	12 297
Total current assets	17 453
TOTAL ASSETS	351 355
LIABILITIES AND SHAREHOLDERS' EQUITY	
Shareholders' equity	
Share capital	39 786
Property, plant and equipment revaluation reserve	209 855
Post-employment benefit revaluation reserve	(203)
Reorganisation reserve	24 647
Total shareholders' equity	274 085
Non-current liabilities	
Deferred income	8 335
Employee benefit liabilities	1 539
Borrowings	32 375
Deferred income tax	30 686
Total non-current liabilities	72 935
Current liabilities	
Borrowings	2 625
Other liabilities	1 443
Deferred income	267
Total current liabilities	4 335
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	351 355

Capital commitments

The Company has planned to spend 14 387 thousand EUR for capital expenditures for property, plant and equipment and intangible assets in the subsequent year, including:

- Contracted for, but not yet delivered: 9 437 thousand EUR
- Authorised, but not yet contracted for: 4 950 thousand EUR.

Events after the balance sheet date

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 2017.

Profit distribution proposed by the Board

The Board proposes to distribute the profit for the period 17 020 587 EUR as follows:

- Dividends to shareholders (81.8%): 13 925 131 EUR;
- Dividends per share (EUR/1share): 0.35 EUR;
- transferred to Retained earnings: 3 095 456 EUR.

Remuneration of the certified auditors' company

	04.01.2017 - 31.12.2017
	EUR'000
Statutory audit	32
Agreed upon procedures with regard to reorganisation balance sheet	7
	39

Financial risk management

Financial risk management

JSC Conexus Baltic Grid is subject to credit risk in respect of financial assets and liquidity risk in respect of financial liabilities. Operating transactions are mostly carried out in euro, hence there is no significant foreign exchange risk. JSC Conexus Baltic Grid uses a borrowing for general purposes, therefore there is an interest rate risk. The turnover risks are assessed as moderate, as JSC Conexus Baltic Grid operates pursuant to the regulated public services at approved tariffs.

The financial assets of JSC Conexus Baltic Grid include trade and other receivables, cash and cash equivalents. Financial liabilities include borrowings, debts to suppliers and other creditors. The amount of financial assets and liabilities is summarized in the table below:

Financial assets and liabilities	31.12.2017
	EUR'000
Trade receivables	5 959
Other receivables	175
Cash and cash equivalents	17 886
Financial assets (loans and receivables)	24 020
Borrowing	32 375
Trade payables	2 814
Other payables	4 040
Financial liabilities (other financial liabilities)	39 229

Liquidity risk

Liquidity risk is associated with ability of the Company to settle its obligations within agreed terms. JSC Conexus Baltic Grid follows prudent liquidity risk management. The availability of financial resources is planned to settle liabilities to creditors and shareholders using cash flow planning tools. The Company's Planning and Analysis Division, under the supervision of the responsible member of the board, generates annual, quarterly and monthly cash flows to determine the demand for operating cash flows. If necessary, Conexus Baltic Grid can leverage short-term credit lines if needed.

Term analysis of financial liabilities at 31.12.2017 based on their contractual cash flows:

	Carrying amount EUR'000	Contractual cash flows EUR'000	1 – 3 months EUR'000	3 - 12 months EUR'000	1 – 5 years 5 years EUR'000
Borrowings	32 375	32 988	923	2 764	29 301
Other liabilities	6 854	6 854	6 854	-	-
Financial liabilities	39 229	39 842	7 777	2 764	29 301

Market risk

Interest rate risk

The interest rate risk arises from the use of borrowed cash resources to ensure liquidity. Conexus Baltic Grid uses general borrowing to finance its operations.

The Company is exposed to the cash flow interest rate risk, as its short-term and long-term borrowings are at variable interest rate. Policy of the Company stipulates a provision that main part of its debts shall be variable. Other financial assets and liabilities have no fixed rate.

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

JSC Conexus Baltic Grid is exposed to credit risk, i.e., in case the counterparty fails to fulfill its contractual obligations, losses will occur. Credit risk is derived from cash and cash equivalents and from overdue accounts receivable. To restrict credit risk, JSC Conexus Baltic Grid uses security deposits. Credit risk management is conducted by the Commercial Division under the supervision of Chairman of the Board. Credit risk is related to the largest customers of JSC Conexus Baltic Grid.

As at 31.12.2017 the Company was not subject to significant credit risk related to its customers as there were no overdue debts and all trade receivables were collected during January 2018.

The management of credit risk associated with cash and cash equivalents is carried out by the Planning and Analysis Division under the supervision of a member of the Board and in accordance with the approved financial asset management policy. All credit institutions with which the Company is cooperating or plans to cooperate are assessed periodically, but not less than once a quarter, according to their financial and non-financial indicators. As a part of internal assessment, the Company also analyses the Moody's Investor Services credit rating of a particular credit institution or its ultimate

parent. Based on such assessment, outstanding cash and cash equivalents can be summarised as follows (grouped by long term rating):

Bank	Rating	31.12.2017 EUR'000
Swedbanka	Aa3*	17 836
Citadele banka	Ba2	50
Financial assets		17 886

* The Moody's rating for parent company Swedbank AB, such rating is not available for Swedbank AS.

Due to the low interest rates, on 31 December 2017, cash and cash equivalents consisted only of current account balances with credit institutions.

Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholder and benefits for other stakeholders and to maintain an optimal structure to reduce the cost of capital.

The Company performs management of the capital, based on proportion of borrowed capital against total capital. This indicator is calculated as proportion of total liabilities, less cash and cash equivalents, to the total capital of the Company. 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 mentioned proportion does not exceed 50%.

As at 31.12.2017 the proportion of borrowed capital to total capital was as follows:

	31.12.2017 EUR'000
Total liabilities	52 571
(Cash and cash equivalents)	(17 866)
(Deferred income – EU grants)	(8 395)
Net total liabilities	26 310
Total equity and liabilities	362 988
Borrowed capital proportion to total capital	7.25%

Fair value

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; unobservable inputs reflect 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 valuations 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 using 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 market illiquidity 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 Company considers that there is no significant difference between the cost and fair value.

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

	31.12.2017 EUR'000
Assets:	
Property, plant and equipment	310 081
Trade receivables	5 959
Other receivables	175
Cash and cash equivalents	17 886
Liabilities:	
Borrowings	32 375
Trade payables	2 814
Other payables	4 040

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 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 last revaluation was performed in 2016 while the relevant assets were still the part of JSC Latvijas gāze. 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 is a repeated revaluation, and used revaluation method was not changed.

The revaluation was performed by an external expert using the depreciated 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 1,188 km. In case of an increase in the average construction cost in the country or significant 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. As key factors here the asset's physical, functional and technical depreciation are being taken into account. 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 2017 and has not identified significant changes as compared to 2016 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.

Accounting policies

Basis of preparation

The financial statements of JSC Conexus Baltic Grid are prepared in accordance with the International Reporting Standards (IFRS) as adopted for use in the European Union.

These financial statements cover the reporting period from 4 January 2017 to 31 December 2017. 4 January, 2017 is the date when the natural gas transmission and storage business was separated to the entity.

The financial statements are prepared on going concern basis. Assets and liabilities in the financial statements are measured under historical cost convention, as modified by revaluation of property, plant and equipment. Statement of cash flows has been prepared by presenting operating cash flows using the indirect method.

All amounts shown in these financial statements are presented in thousands of Euros (EUR), unless identified otherwise.

These are first financial statements prepared under IFRS. These financial statements were prepared using IFRS 1 – The first time adoption of IFRS, as described further in the Accounting policies note. The date of transition to IFRS is 4 January 2017.

JSC Conexus Baltic Grid as a legal entity was established as a result of reorganisation, while separating natural gas transmission and storage business activities from JSC "Latvijas gāze". Both companies were subject to the joint control of the same group of shareholders immediately before and after reorganisation. There is no guidance in IFRSs as to how to account for such reorganisations. The management has determined to account for the reorganisation under joint control, using the predecessor method. Consequently, in the process of reorganization, the assets and liabilities transferred to JSC Conexus Baltic Grid were recognised at their predecessor amounts, that is, at the carrying amounts as those transferred assets and liabilities were presented in the financial reporting of JSC Latvijas gāze at the moment of reorganisation.

IFRS does not provide rules for whether and how JSC Conexus Baltic Grid should present comparatives in its first financial statements in a reorganisation situation. The Management of the Company has chosen to use the "legal entity" approach, which means that JSC Conexus Baltic Grid began to account for its economic activities prospectively from its legal establishment and recognises the assets and liabilities received at the reorganisation on the date they were transferred, i.e. 04.01.2017. Consequently, no comparative figures are presented in these Financial Statements, as they do not exist.

Also, it should be noted that the natural gas transmission and storage business experienced significant changes in 2017 due to the liberalization of the gas market in Latvia, and the composition of the market players and service tariff calculations and the way they were applied for various services changed significantly. Consequently, the management concluded that the reporting period of 2017 when JSC Conexus Baltic Grid operated as an independent legal entity is not comparable to the operations during 2016 of the natural gas transmission and storage segments while they were still a part of JSC "Latvijas gāze".

The notes to the financial statements provide information about the assets and liabilities received as a result of the reorganization, therefore, users of these financial statements can gain an adequate picture of the effect of the reorganization on the financial position of the Company.

Predecessor method also provides that a company that takes over assets and liabilities at their predecessor amounts, will also take over the relevant financial accounting policies. JSC Latvijas Gāze prepared its financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union, and the balances presented in the reorganization were based on the requirements for recognition and measurement of IFRS.

Accounting policies and principles which are described below, have been consistently applied throughout the reporting period, except as follows. In the reporting period, the Company changed the classification of and accounting for in the following areas in comparison with the accounting policy that was used by JSC Latvijas Gāze before the Company's reorganization. The Company decided to classify as plant, property and equipment the spare parts that comprise the emergency reserve as well as the technological natural gas contained in the pipelines of the transmission system (line fill) necessary for ensuring efficient operation of the system. Previously these assets were accounted for as inventories. According to management, such a classification provides a more accurate representation of the nature of these items, taking into account the specifics of the industry. The reclassification was performed as of the date of reorganisation. The Company also decided to change the accounting policy for revaluation reserve, to transfer the difference between depreciation based

on the revalued carrying amount of the asset and depreciation based on the original cost from the revaluation reserve to retained earnings, as permitted by International Accounting Standard 16 "Property, Plant and Equipment". To accomplish retrospective application of this change, the revaluation surplus that according to the new policy should have been transferred to retained earnings in the previous periods, was reclassified at the date of reorganisation.

The impact of adoption of IFRS on the financial statements

These financial statements are the first financial statements prepared by the Company that comply with IFRS as adopted by the European Union. These financial statements include the opening balances of the assets and liabilities, as well as relevant equity items, which the Company received as a result of the reorganization from the JSC Latvijas Gāze at their predecessor amounts in JSC "Latvijas Gāze"'s financial statements prepared in accordance with IFRS as adopted in the European Union, adjusted by the change in accounting policies determined by the management, as mentioned above. Subject to certain exceptions, IFRS 1 requires retrospective application of the version of standards and interpretations effective for the year ended 31 December 2017. As the reorganisation occurred in 2017 when JSC Latvijas Gāze had already applied these versions of standards and interpretations, the Company continued to apply the IFRS policies as they were used in the financial statements of JSC Latvijas gāze. The Company's management concluded, that the Company complied with all mandatory exceptions under IFRS 1. The Company did not use any optional exemptions provided by IFRS 1.

Adoption of new and revised standards and interpretations

The following new and amended IFRS and interpretations became effective in 2017, but have no significant impact on the operations of JSC Conexus Baltic Grid and these financial statements:

Amendments to IAS 7 "Statement of Cash Flows" – Disclosure initiative (effective for annual periods beginning on or after 1 January 2017).

Certain new standards and interpretations have been published that become effective for the accounting periods beginning on 1 January 2018 or later periods or are not yet endorsed by the EU:

IFRS 9 "Financial instruments" (effective for annual periods beginning on or after 1 January 2018).

IFRS 15 "Revenue from Contracts with Customers" (effective for annual periods beginning on or after 1 January 2018).

IFRS 16 "Leases" (effective for annual periods beginning on or after 1 January 2019).

Amendments to IFRS 15 "Revenue from Contracts with Customers" (effective for annual periods beginning on or after 1 January 2018);

Annual improvements to IFRS's 2016. The amendments include changes that affect 3 standards, among them IFRS 1 "First-time Adoption of International Financial Reporting Standards" (effective for annual periods beginning on or after 1 January 2018, not yet endorsed in the EU);

IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (effective for annual periods beginning on or after 1 January 2018, not yet endorsed in the EU).

Annual improvements to IFRS's 2017 (effective for annual periods beginning on or after 1 January 2019, not yet endorsed in the EU). The amendments include changes that affect 4 standards, among them IAS 23 - "Borrowing costs".

The management of JSC Conexus Baltic Grid has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The Company anticipates that the adoption of all

other standards, revisions and interpretations will have no material impact on the financial statements of the Company in the period of initial application.

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 JSC Conexus Baltic Grid mainly consist of software licenses and patents.

Amortization 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 not differs materially 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-downs of impairment.

Assets purchased, but not yet ready for the intended use or under installation process are classified under Assets under construction. Subsequent costs are included in the asset's carrying amount based on asset recognition criteria. Fixed assets repairs and maintenance are charged to the profit or loss statement for the financial period when they are incurred.

Increase in the carrying amount arising on revaluation of property, plant and equipment are credited to reserves in shareholders' equity.

Revaluation reserve is reduced if the revalued asset is disposed of, eliminated or an increase in value is no longer warranted according to management's assessment. The revaluation surplus is transferred to the retained earnings on the retirement or disposal of the asset, as well as to the extent of the depreciation of revaluation surplus as the asset is used by the Company, calculated as the difference between the total depreciation charge applied to the revalued carrying amount of the asset and depreciation calculated based on the asset's initial cost value.

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 fixed assets, assets under construction, emergency reserve of spare parts as well as cushion gas and line fill.

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

	years
Buildings	20-100
Structures, including transmission network	20-60
Equipment and machinery	5-30
Other fixed assets	3-10

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains or losses on disposals are determined by comparing carrying amount with proceeds and are charged to the profit or loss during the period when they are incurred. On disposal of revalued asset, the amount included in the revaluation reserve is transferred to retained earnings.

Non-current prepaid expenses

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

Non-current prepaid expenses are subjected to amortisation determined based on their economic substance and are gradually recognized in the profit or loss. The amount that will be amortised during the next year is reported within current assets, and the remaining balance – within non-current assets.

Inventories

In the financial statements, inventories are recorded at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less completion and selling expenses.

The cost of natural gas, materials and spare parts is determined using the weighted average method. Cost of materials is expenses in the profit or loss when they have been consumed.

Provisions are made for aging, slow-moving or damaged inventories. The provisioning amount is included in the profit or loss for the period. The amount of provisions required is periodically reviewed, but not less than once during the reporting period.

Trade receivables

Trade receivables are recognised initially at fair value and subsequently carried at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established for debts without security when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of trade receivables.

The amount of the allowance is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows. Changes in the allowances are included in the profit or loss statement. Present value of future cash flows is determined by using discounting with effective interest rate.

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 3 months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Dividends

Dividend distribution to the Company's shareholders is recognized as a liability in the in the period in which the dividends are approved by the Company's shareholders.

Trade and other payables

Creditors' liabilities in the financial statements are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method. Creditors' liabilities are classified according to the payment deadline. If the payment is due within 12 months, the creditors' liabilities are reported and current liabilities. Commitments for which the maturity exceeds 12 months after the balance sheet date of the reporting year are shown as non-current liabilities.

Provisions

Provisions for obligations are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and 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.

Vacation accruals

The amount of accrual for unused annual leave is determined by multiplying the average daily wage of employees for the last six months of the reporting year by the amount of accrued but unused annual leave at the end of the reporting year.

Borrowings and borrowing costs

Borrowings are initially recognized at fair value, net of transaction costs incurred. In subsequent periods, borrowings are recognized at amortized cost using the effective interest rate method. General and specific borrowing costs that are directly related to the acquisition or construction of non-current assets are accrued in the cost of constructing those assets until the assets are ready for their intended use.

In the financial statements, loans repayable within the 12 months after the balance sheet date are presented as current liabilities, loans that based on the contract can be deferred at least for more than 12 months after the balance sheet date, are reported as non-current liabilities.

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 JSC Conexus Baltic Grid and official currency in the Republic of Latvia. All transactions in foreign currencies are translated into euro at the exchange rate of the European Central Bank on the day of the relevant transactions. Monetary assets and liabilities denominated in foreign currencies are translated into euro at the exchange rate on the last day of the accounting year. Income or loss from revaluation of foreign currencies is included in the profit and loss for the relevant period.

Employee benefits

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

Bonuses

The Company recognises a liability and expense for bonuses based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments.

Social insurance and pension contributions

The Company pays social security contributions for state pension insurance to the state funded pension scheme in compliance with the Latvian legislation. The state funded pension scheme is a fixed-contribution pension plan whereby the Company has to make payments in an amount specified by law. The Company also pays contributions to an external fixed-contribution private pension plan. The Company does not incur legal or constructive obligations to pay further contributions if the state funded pension scheme or private pension plan is unable to meet its liabilities towards employees. The social security 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.

Taxation

Corporate income tax charge in the profit and loss account for 2017 is calculated in accordance with the Law on Corporate Income Tax, applying the 15 percent rate to taxable income.

The Company recognised deferred liability as a result of reorganisation, and the deferred tax balance taken over was calculated using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The principal temporary differences arose from different fixed asset depreciation rates, accrued costs and provisions which were deductible in the future taxation periods.

On 8 August 2017, a new Corporate Income Tax Law was adopted, which stipulates that from 1 January 2018, the corporate income tax is levied on profit that arose after 2017 if it is distributed. The new tax law does not include rules which result into timing differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Given the circumstances, there is no longer any reason for the existence of a deferred tax asset or liability at 31 December 2017, and the deferred tax liability recognised by the Company as a result of reorganisation was reduced to zero, including a reduction in that liability in the profit and loss account for the year 2017, except for the deferred tax recognised outside the profit or loss as the amount of this tax is allocated to the same item in shareholders' equity against which it was attributed when recognised, i.e., it was transferred to revaluation reserve.

From taxation year 2018, corporate income tax will be calculated on the basis of distributed profit (20/80 of the net amount payable to shareholders). Corporate tax on distributed profit will be recognized when the shareholders of the Company make a decision about profit distribution.

Other taxes are calculated and accounted for in accordance with the tax laws of the Republic of Latvia and are shown on the balance sheet as liabilities to the amounts payable to the state budget.

Grants

Grants relating to the purchase of specific assets are recorded as deferred income and are credited to the profit and loss account on a straight-line basis over the expected lives of the related assets. Grants granted to cover the expenses are recognised as an income in the same period when respective expenses have arisen if all conditions associated with the receipt of grant have been fulfilled. The Company has received grants from the EU as co-financing of capital investments.

Revenue

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of discounts, trade allowances and amounts collected on behalf of third parties. The Company recognises the revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity. The specific accounting policies for the Company's main types of revenue are explained below.

Transmission revenue

Transmission capacity product sales are regulated service provided by JSC Conexus Baltic Grid to the transmission system users at the approved rates. Short-term (quarterly, monthly, daily and current day's capacity) and long-term transmission capacity (annual capacity) products are offered. Revenue from the sales of transmission capacity products are recognised in the profit and loss on monthly basis in proportion to the period reserved by the user for the respective transmission power product.

Revenue from balancing

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

Revenue from storage

JSC Conexus Baltic Grid provides Inčukalns underground gas storage capacity services at approved storage tariffs to the users of the storage who have reserved natural gas storage capacity during the storage season. Revenue from the sale of storage capacity are recognized for each reporting month according to the storage tariff and in proportion to the remaining months until 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 and interest on cash balances is classified as Finance income.

Penalty income

Contractual penalties and penalties for late payments are recognised when it is certain that the economic benefits associated with the transaction will flow to the Company. Hence, recognition usually coincides with the receipt of penalty.

Other income

Income from the rendering of services are recognised when rendered. Income from sale of materials is recognised when the buyer has accepted them.

Critical accounting 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 life of property, plant and equipment

Amortization 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 life of revalued asset is estimated and usually – prolonged as compared to the previous estimate, as a result of technological improvements. This is compliant with the existing industry practice.

Revaluation of property, plant and equipment

JSC Conexus Baltic Gr accounting policy provides for a periodic revaluation of property, plant, and equipment if the purchase price and average construction costs have changed significantly. The replacement value and useful life of revalued fixed assets are determined independently by certified appraisers in accordance with the valuation standards for real estate.

The latest revaluation of the buildings, structures, machinery and equipment was performed in 2016, before the reorganisation of JSC "Latvijas gāze". The balances of revalued assets were transferred to the Company as a result of reorganisation, at predecessor amounts. The management has estimated that as at 31.12.2017 the carrying amount of the property, plant and equipment subjected to revaluation in 2016 is not materially different from their fair value.

Employee benefit obligations

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

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 at the latest two issues (source: State Treasury). Inflation rate is determined by reference to Central statistics bureau data on 12 months of respective year and reflects average consumer price change in %, as compared to the previous period.

Mortality assumptions are set upon actuarial advice in accordance with published statistics (Mortality information 2005, by Central statistics bureau).

A schedule showing the impact upon the liabilities of the scheme of any change in the assumption made is included in Note 14 to these financial statements.

Financial statements were prepared by:

Dace Freimane
Head of Financial Reporting