

**Joint Stock Company  
Conexus Baltic Grid**

**Condensed interim unaudited financial statements  
for the 9-month period ended 30 September 2019**

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

RIGA 2019

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## Information on Company

Company	Joint Stock Company (JSC) 'Conexus Baltic Grid'	
Registration number	40203041605	
Registration date and place	Riga, 2 January 2017	
Address	Stigu Street 14 Riga, LV – 1021 Latvia <a href="http://www.conexus.lv">www.conexus.lv</a>	
Main shareholders	JSC "Augstsprieguma tīkls"	(34.36 %)
	PJSC "Gazprom"	(34.10 %)
	Marguerite Gas I S.à r.l.	(29.06 %)
Financial statements period	1 January 2019 – 30 September 2019	

Joint stock company (AS) 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 rates 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




VISION (Who we want to become?)	MISSION (Why we exist?)	VALUES (What is important to us?)
 <p>Become the most trusted energy source in the region.</p>	 <p>Promote a sustainable regional energy market by ensuring a reliable operation of natural gas transmission and storage system</p>	<ul style="list-style-type: none"> <li> Secure system operation</li> <li> Professional and united team</li> <li> Flexibility and openness through competent solutions</li> <li> Sustainable development</li> </ul>

## Conexus objectives

The key mid-term (2019—2023) objectives of Conexus are related to three areas: **market development, provision of infrastructure** and **operational development**. The strategic objectives have been set in line with the Conexus values, the company's vision and its mission: supporting sustainable operation of the energy market in the region, ensuring reliable operation of the natural gas transmission and storage system.



Alongside strategic objectives, Conexus has defined three development guidelines closely related to all the planned mid-term activities. These development guidelines complement the strategic objectives and contribute to their implementation:

 <b>DIGITALIZATION</b>	 <b>CONEXUS – ENERGY COMPANY</b>  <b>TOGETHER WITH OTHER REGIONAL TSOS</b>	
<p>Operations of Conexus will be focused on technological advancements, improvement, decentralised management of assets, staff and finances, as well as introduction of effective resource management model.</p>	<p>The vision of Conexus is to become the most reliable source of energy in the region, as a result of which Conexus is planning to introduce services not only to the natural gas users, but also to electricity users.</p>	<p>In the medium term, Conexus intends to promote cooperation with other transmission system operators in the region by coordinating routine cooperation and implementing a periodic comparative analysis system with other TSOs in the region.</p>

## Council

Term of office since 3 January 2018

<b>Kaspars Āboliņš</b>	Chairman of the Council
<b>William Michael Pierson</b>	Deputy Chairman of the Council
<b>Ilze Bērziņa</b>	Member of the Council
<b>Sanita Greize</b>	Member of the Council
<b>Ilmārs Šņucins</b>	Member of the Council
<b>Guillaume Rivron</b>	Member of the Council
<b>Martin Sichelkow</b>	Member of the Council (since 27 April 2018)

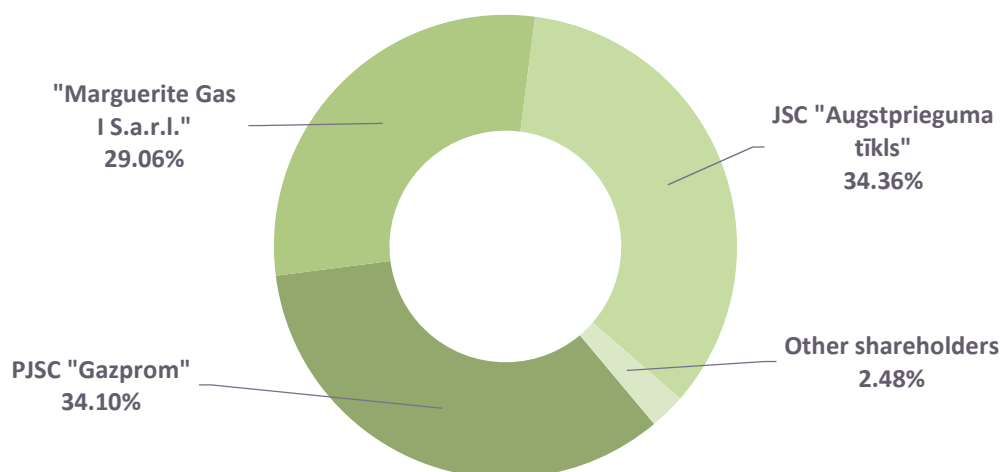
## Board of Directors

Term of office since 31 December 2017

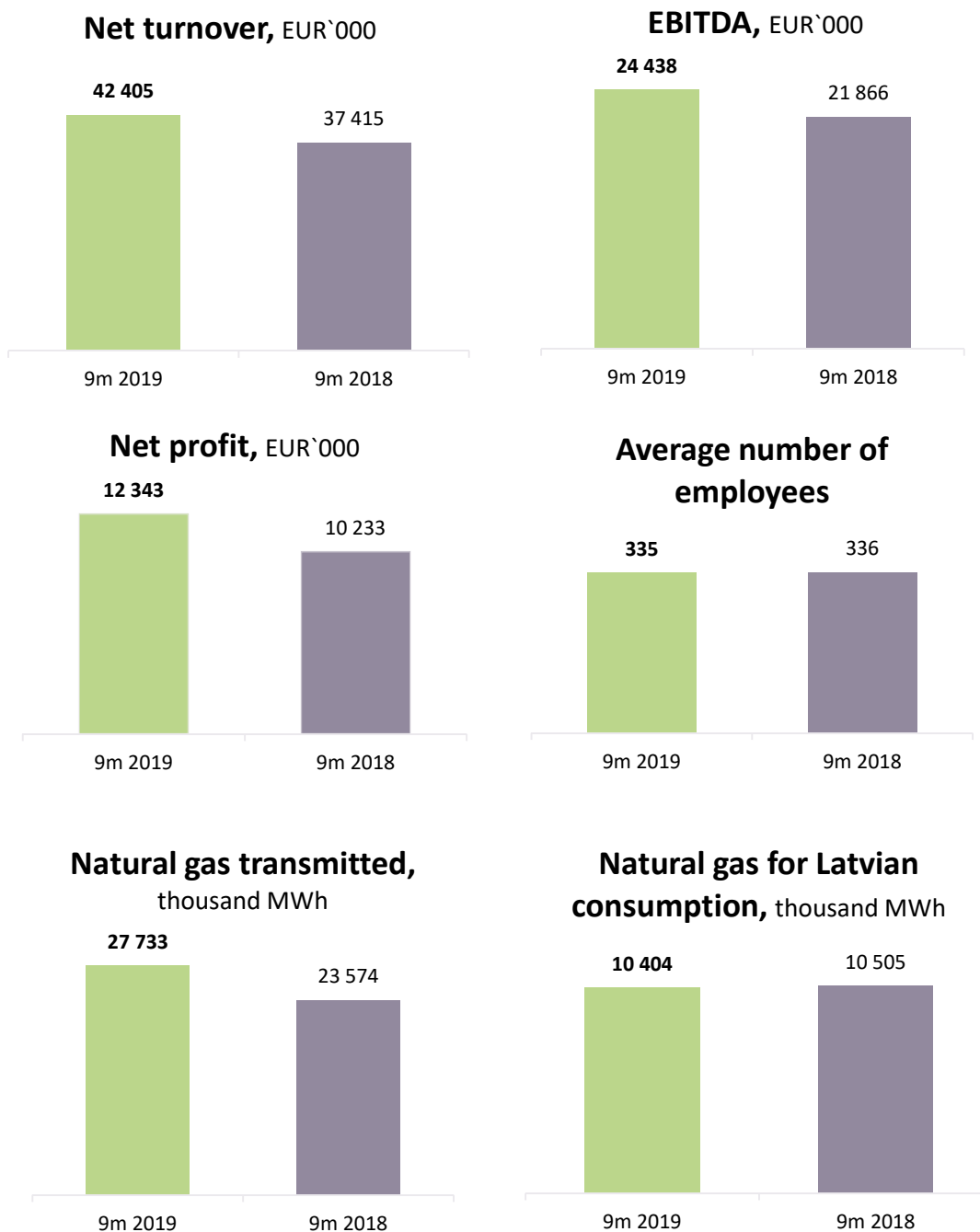
<b>Zane Kotāne</b>	Chairwoman of the Board
<b>Gints Freibergs</b>	Member of the Board
<b>Mārtiņš Gode</b>	Member of the Board

## Shareholders

The Company is a private stock company whose shares are 100% bearer shares. The total number of shares is 39,786,089, with a par value of 1.00 EUR. The total number of shareholders exceeds 4.8 thousand. 97.52% of the total number of shares belongs to the three top shareholders.



## Main operating indicators



## Management report

### Executive summary

- ◆ In the first nine months of 2019, the Company provided a continuous supply of natural gas for the needs of Latvia, Lithuania, Estonia and Russia. During the reporting period, the injection of gas was started sooner than last year - on 1 May, thus increasing the volume of gas transmitted by 18% in comparison to the same period in 2018 and allowing it to reach 27.7 TWh. This proves the trustworthiness and ability of the Company to fulfil the maximum gas demand;
- ◆ In the reporting period, the net turnover of the Company was 42 405 thousand EUR, which is 13% more than the year before. The Company generated profits in amount of 12 343 thousand EUR, with an EBITDA of 24 439 thousand EUR. The financial indicators of the Company were positively affected by the higher volume of gas transmitted in May, June and August, as well as higher reserved capacities of the storage facility;
- ◆ On 30 April 2019 the Inčukalns UGS withdrawal season ended, during which the market participants withdrew 10.8 TWh of natural gas from the storage facility;
- ◆ In 2019 the Company is continuing active work on the unified natural gas market for Estonia, Latvia and Finland;
- ◆ In accordance with Cabinet Regulations, the Company fully provides the necessary capacity for withdrawing natural gas from the storage facility during the next season organising an auction and fully or partially approving the offers received.

Conexus operating indicators		30.09.2019	30.09.2018	30.09.2017
Natural gas transmitted	thousand MWh	<b>27 733</b>	23 574	18 634
Active natural gas at Inčukalns UGS	thousand MWh	<b>17 376</b>	12 447	11 966
Natural gas for Latvian consumption	thousand MWh	<b>10 404</b>	10 505	9 283
Length of main pipelines	km	<b>1 188</b>	1 188	1 191
Number of employees	Average (based on working hours)	<b>335</b>	336	335

### Main activities

#### Filling of Inčukalns UGS

During the injection season 2019/2020, the booked capacity in Inčukalns UGS exceeded the initially forecasted capacity by 24.4%, reaching 18.54 TWh, thus reaching the maximum filling of the storage facility during this season.

#### New transmission tariffs in force since 1 July

The Regulator's council approved the new natural gas transmission tariffs in April which came into force on 1st July. It is planned that the new tariffs will remain in force until the launch of the unified natural gas market for Estonia, Latvia and Finland on 1 January 2020.

### **Demand assessment report for incremental capacity**

Commission Regulation (EU) 2017/459 of 16 March 2017 establishing a network code on capacity allocation mechanisms in gas transmission systems and repealing Regulation (EU) No 984/2013 (CAM NC amendment), applies as from the entry into force, on 6 April 2017 and introduces incremental capacity process. The incremental process starts with the demand assessment phase that begins with the market demand assessment by the Transmission System Operators (TSOs) after the annual yearly capacity auction. The Company this year (2019) assessed market demand for incremental capacity from 2nd July to 27th August.

### **Entry into force of the amendments to the Rules of Use of the Natural Gas Transmission System**

On 15<sup>th</sup> August 2019, the amendments of the Rules of Use of the Natural Gas Transmission System (hereinafter - Rules), as approved on 25th July 2019 by the decision 1/11 of the Board of PUC, entered into force.

Amendments set the obligation to the system user to submit nomination for the exit point for the supply of consumers of Latvia. Such obligation is the first step towards harmonisation of the national Rules with the principles of the common balancing zone of Estonia and Latvia, which will become effective from the 1st January 2020.

Amendments also foresee the rights of the network user to transfer its balance responsibility to other network user and accept such, and obligation to provide in advance information on transfer/acceptance of balance responsibility to the transmission system operator. Using such mechanism of aggregation of multiple network users' balance portfolios, network user who acquired such extended balance responsibility will be able to optimise total imbalance position and imbalance costs using the inherent unpredictability of individual balance portfolios.

In addition, the amendments specify compliance criteria of the credit rating of the natural gas transmission system user and its affiliated company providing collateral. Rules now also foresee the rights of the affiliated company to issue guarantees for the proper performance of the collateral attributable to the natural gas transmission system user, as well as the right of the natural gas transmission system user to choose one or several types of collateral for the fulfilment of obligations.

### **Legal events**

On 18 September 2018 Conexus filed an application to the District administrative court against the decision of the Regulator council "On JSC "Conexus Baltic Grid" natural gas transmission system tariffs" dated 18 June 2018, in relation to expenses not included in the transmission system tariff project and issuance of a new administrative act, intending to include the excluded expenses in the tariff project in the next period. With the decision of the District administrative court dated 17 May 2019, the proceeding was closed and the Company's application dismissed. With the decision by Administrative cases department of the Senate dated 19 July 2019, the District administrative court's decision of 17 May 2019 was revoked and the case was referred for repeated review. The next review of the case is scheduled for January 2020.



On 6 June 2019 the Company's application for cancellation of the decision of the Regulator's Council No. 112 "On certification of the unified natural gas transmission and storage system operator" in relation to parts 1.1. and 1.2., dated 28 September 2018, was examined by the District Administrative Court. With the District Administrative Court ruling dated 2 September 2019, the application was declined. On 2 October 2019 Conexus filed a cassation complaint to the Department of Administrative Cases of the Senate.

### Financial indicators

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

The natural gas **transmission** segment involves the transportation of natural gas via high-pressure pipelines, to be delivered to Inčukalns UGS, other countries, and to the distribution system. The transmission system tariffs are approved by the Regulator.

The natural gas **storage** segment involves the storage of natural gas at Inčukalns UGS for the purposes of the heating season and the other needs of system users. The storage tariffs are also approved by the Regulator.

In the reporting period, the net turnover of the Company was 42 405 thousand EUR, which is 13% more than the year before. The Company generated profits in the amount of 12 343 thousand EUR, with an EBITDA of 24 438 thousand EUR. The financial indicators of the Company were positively affected by the higher volume of gas transmitted in May, June and August, as well as the higher reserved capacities of the storage facility.

Conexus financial indicators	30.09.2019	30.09.2018	+/-	%
	EUR'000	EUR'000		
<b>Net sales</b>	<b>42 405</b>	37 415	4 990	13%
<b>EBITDA</b>	<b>24 438</b>	21 866	2 572	12%
<b>Net profit</b>	<b>12 343</b>	10 233	2 110	21%
Asset segments	<b>338 785</b>	339 381	(596)	0%
Cash and its equivalents	<b>21 369</b>	12 831	8 538	67%
Total assets	<b>360 154</b>	352 212	7 942	2%
Regulated asset base	<b>322 444</b>	324 396	(1 952)	-1%
Net loans*	<b>21 051</b>	33 089	(12 038)	-36%
Investments	<b>9 145</b>	7 094	2 051	29%

\*Net loans include a guarantee from bank

### Financing and liquidity

The financial assets available to the Company are sufficient to cover its needs. As of 30 September 2019, the balance of the loan amounted to 26 250 thousand EUR, with a repayment period of 2.3 years, and an annual interest of 0.6% (0.6% + 6M EURIBOR; in the event of a negative rate,

EURIBOR=0). All the financial limitations specified in the current loan agreement of the Company were complied with during the reporting period.

Conexus financial coefficients	30.09.2019	30.09.2018	30.09.2017
EBITDA profitability	<b>58%</b>	58%	63%
Net profitability	<b>29%</b>	27%	53%
Return on equity ratio (ROE)	<b>4%</b>	3%	5.66%
Sufficiency of equity (>50%)	<b>86%</b>	87%	86%
Burden of liabilities (net loans/EBITDA) (<2)	<b>0.67</b>	1.27	0.80

### Abbreviations and formulas

MWh = megawatt-hours

TWh = terawatt-hours

EBITDA = earnings before interest, taxation, depreciation & amortisation

RAB = regulated asset base

Net loans = 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

Sufficiency of equity = equity/total assets

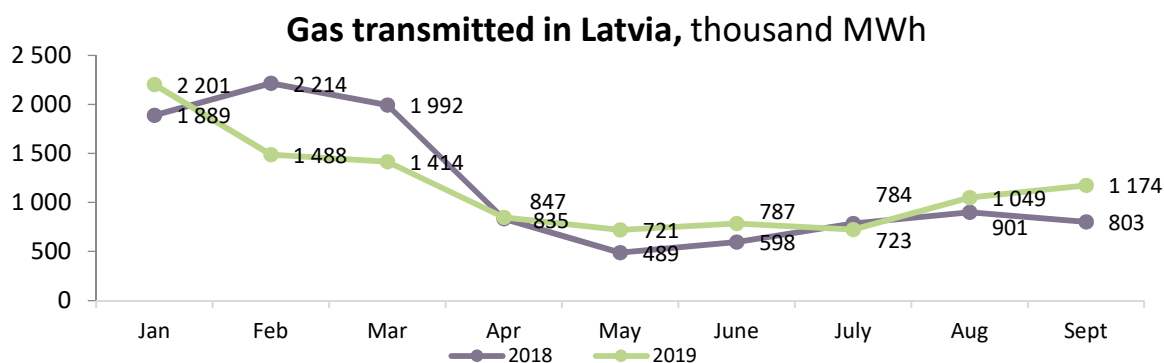
Burden of liabilities = net loans/EBITDA (over 12 months)

### Transmission

The transmission segment gains income from trading capacity both for consumers in Latvia, and for international transmission of natural gas. The transmission segment income during the reporting period was 25.9 million EUR with an EBITDA of 13 million EUR, accounting for 53.2% of the total EBITDA of the Company. The transmission segment profit amounted to 5.8 million EUR (6% lower than in the same period of last year).

In spite of the warm weather conditions in the Q1 2019, which decreased the transmission revenue in winter months, the volume of gas transmitted for Latvian consumption in May, June and August was significantly higher than in the same period of the last year, thereby significantly improving the total nine months revenue.

In the first nine months of 2019, the total volume of gas transmitted reached 27.7 TWh, which is 18% higher in comparison to last year due to the earlier commencement of the injection season. During the reporting period the gas transmitted for Latvian consumption was 1% lower than last year, reaching 81% of the total transmitted volume.



The company's EBITDA was negatively affected by the costs of the auctions in Q1 2019 that took place in autumn 2018, with the costs being significantly (875 thousand EUR) higher than the comparative costs a year before. In view of the fact that last year, the storage tariffs for 2019/2020 were approved in due time, the Company organised the next auction much sooner, as early as March 2019, which led to more interest from natural gas traders, and accordingly to lower costs.

The transmission segment assets at the end of the reporting period amounted to 179 million EUR, accounting for 52.7% of the total assets of the Company. Largest capital investments during the reporting period: TGP Iecava-Liepāja (1.2 million EUR), GRS Sloka branch capital repairs (1.2 million EUR).

<b>Gas transmission</b>	<b>30.09.2019</b>	30.09.2018	+/-	%
	EUR'000	EUR'000		
Net sales	<b>25 896</b>	23 575	2 321	10%
EBITDA	<b>12 988</b>	13 255	(267)	-2%
Segment net profit	<b>5 756</b>	6 115	(359)	-6%
Segment assets	<b>178 652</b>	178 843	(191)	0%
Depreciation and amortisation	<b>7 144</b>	7 048	96	1%
Acquisition of fixed assets and intangible assets	<b>5 096</b>	3 467	1 629	47%
Regulated asset base	<b>171 820</b>	173 772	(1 952)	-1%

### Storage

The storage segment revenue during the reporting period was 16.5 million EUR (19% higher than in the same period of last year), which is related to the earlier commencement of capacity reservations in 2019. The revenue level allowed to reach EBITDA of 11.5 million EUR and 6.6 million EUR net profit.

The assets of the segment at the end of the reporting period amounted to 160 million EUR, accounting for 47.3% of the total assets of the Company. The largest capital investments during the reporting period: Reconstruction of bores (2.4 million EUR), GSP2 reconstruction (1 million EUR).

<b>Storage</b>	<b>30.09.2019</b>	30.09.2018	+/-	%
	<b>EUR'000</b>	EUR'000		
Net sales	<b>16 509</b>	13 840	2 669	19%
EBITDA	<b>11 450</b>	8 611	2 839	33%
Segment net profit	<b>6 587</b>	4 118	2 469	60%
Segment assets	<b>160 133</b>	160 538	(405)	0%
Depreciation and amortisation	<b>4 811</b>	4 443	368	8%
Acquisition of fixed assets and intangible assets	<b>4 049</b>	3 627	421	12%
Regulated asset base	<b>150 624</b>	150 624	0	0%

### Subsequent events

#### Regulations in common Latvian – Estonian gas transmission and balancing zone

The Regulator has approved Elering AS and AS Conexus Baltic Grid's Common Regulations for the use of Natural Gas Transmission System in common Latvia–Estonia entry–exit zone and Common Regulations for the Natural Gas Balancing of Transmission System in common Latvia–Estonia entry–exit zone on 28 October 2019. The regulations will be applied from 1 January 2020. According to amendments in Energy Law of Latvia from 17 October 2019, Regulations are yet to be approved by PUC.

#### Conexus commences capacity reservations in the common Estonia-Latvia balancing zone

On 1 November 2019, the Company started taking capacity reservations for work in the common Estonia-Latvia balancing zone, which will begin on 1 January 2020, initially including Latvia and Estonia. Until the beginning of the next year, the gas traders which are currently operating in the Latvian gas market have to conclude a new set of contracts on the usage of transmission system and on balancing in the common balancing zone, which will automatically be in force both in Latvia and in Estonia.

#### Withdrawal begins at Inčukalns UGS

Evaluating customer needs, and in order to ensure natural gas supply, Conexus began withdrawal from Inčukalns UGS on 22nd October 2019.

### Statement of the Board's responsibility

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

The unaudited financial statements of the Company for the 9 months period ending on 30 September 2019 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.

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Zane Kotāne  
Chairwoman of the  
Board

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Gints Freibergs  
Member of the Board

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Mārtiņš Gode  
Member of the Board

## Financial Statements

### PROFIT AND LOSS STATEMENT

	Note	01.01.2019 - 30.09.2019	01.01.2018 – 30.09.2018 Adjusted
Revenue	1	EUR'000 42 405	EUR'000 37 415
Other income	2	(747)	1 096
Materials and services	3	(6 652)	(6 155)
Personnel expenses	4	(7 498)	(7 222)
Depreciation, amortisation and impairment of property, plant and equipment	6, 7, 8	(11 955)	(11 491)
Other operating expenses	5	(3 070)	(3 268)
<b>Operating profit</b>		<b>12 483</b>	<b>10 375</b>
Financial expenses, net		(140)	(142)
<b>Profit before taxes</b>		<b>12 343</b>	<b>10 233</b>
Corporate income tax		-	-
<b>Profit for the period</b>		<b>12 343</b>	<b>10 233</b>

*The accompanying notes on pages 19 to 29 form an integral part of these financial statements.*

\_\_\_\_\_  
 Zane Kotāne  
 Chairwoman of the  
 Board

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 Gints Freibergs  
 Member of the Board

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 Mārtiņš Gode  
 Member of the Board

## BALANCE SHEET

	Note	30.09.2019	31.12.2018
		EUR'000	EUR'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	6	1 143	990
Property, plant and equipment	7	326 871	331 681
Non-current prepaid costs		1 310	1 411
Right-of-use assets	8	422	-
<b>Total non-current assets:</b>		<b>329 746</b>	<b>334 082</b>
<b>Current assets</b>			
Inventories	9	1 628	2 182
Advances for inventories		14	1
Trade receivables		6 687	6 859
Other current assets	10	710	371
Cash and cash equivalents		21 369	18 068
<b>Total current assets:</b>		<b>30 408</b>	<b>27 481</b>
<b>TOTAL ASSETS:</b>		<b>360 154</b>	<b>361 563</b>

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 Member of the Board

\_\_\_\_\_  
 Mārtiņš Gode  
 Member of the Board

BALANCE SHEET (continued)

	Note	30.09.2019	31.12.2018
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		EUR'000	EUR'000
<b>Shareholders' equity:</b>			
Share capital		39 786	39 786
Treasury shares		(36)	(38)
Reserves	11	142 213	146 914
Retained earnings		128 212	123 104
<b>Total shareholders' equity:</b>		<b>310 175</b>	<b>309 766</b>
<b>Non-current liabilities</b>			
Deferred income	13	7 600	7 800
Employee benefit obligations		1 061	1 061
Borrowings	12	22 750	25 375
Non-current lease liabilities	8	419	-
<b>Total non-current liabilities:</b>		<b>31 830</b>	<b>34 236</b>
<b>Current liabilities</b>			
Borrowings	12	3 500	3 500
Trade payables		2 977	3 666
Other liabilities	14	3 866	8 510
Provisions		3 870	1 421
Deferred income	13	3 234	302
Advances from customers		700	162
Current lease liabilities	8	2	-
<b>Total current liabilities:</b>		<b>18 149</b>	<b>17 561</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY:</b>		<b>360 154</b>	<b>361 563</b>

The accompanying notes on pages 19 to 29 form an integral part of these financial statements.

Zane Kotāne  
 Chairwoman of the  
 Board

Gints Freibergs  
 Member of the Board

Mārtiņš Gode  
 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
<b>As at 1 January, 2018</b>	<b>39 786</b>	<b>(39)</b>	<b>153 004</b>	<b>117 666</b>	<b>310 417</b>
Dividends	-	-	-	(13 926)	(13 926)
Transfer of revaluation reserve	-	-	(6 058)	6 058	-
Acquisition of treasury shares	-	1	-	-	1
<i>Other comprehensive income:</i>					
Other comprehensive income	-	-	(32)	-	(32)
Profit for the period	-	-	-	13 306	13 306
<i>Total other comprehensive income</i>	-	-	(32)	13 306	13 274
<b>As at 31 December, 2018</b>	<b>39 786</b>	<b>(38)</b>	<b>146 914</b>	<b>123 104</b>	<b>309 766</b>
Reduction of the revaluation reserve	-	-	(4 701)	4 701	-
Dividends	-	2	-	(11 936)	(11 934)
Profit for the period	-	-	-	12 343	12 343
<i>Total</i>	-	2	(4 701)	5 108	409
<b>As at 30 September, 2019</b>	<b>39 786</b>	<b>(36)</b>	<b>142 213</b>	<b>128 212</b>	<b>310 175</b>

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 Chairwoman of the  
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 Mārtiņš Gode  
 Member of the Board

## STATEMENT OF CASH FLOWS

Note	01.01.2019 – 30.09.2019	01.01.2018 – 30.09.2018
<b>Cash flows from operating activities</b>	EUR'000	EUR'000
<b>Profit before corporate income tax</b>	<b>12 343</b>	<b>10 233</b>
<i>Adjustments:</i>		
- depreciation of property, plant and equipment	11 677	11 207
- amortisation of intangible assets	269	284
- loss on disposal of property, plant and equipment	9	199
- impairment of non-current assets	1 855	-
- participation in the transnational cross-border project	101	101
- amortisation of EU grants	(200)	(201)
- interest expenses	139	141
<i>Change in operating assets and liabilities:</i>		
- increase in debtors	(167)	237
- increase in advances for inventories	(13)	11
- increase in inventories	554	754
- increase in creditors	(2 367)	(3 269)
Corporate income tax paid	(36)	(1 103)
<b>Net cash inflow from operating activities</b>	<b>24 164</b>	<b>18 594</b>
<b>Cash flow from investing activities</b>		
Payments for property, plant and equipment	(8 723)	(6 990)
Payments for intangible assets	(422)	(103)
Proceeds from sale of property, plant and equipment	-	21
<b>Net cash outflow from investing activities</b>	<b>(9 145)</b>	<b>(7 072)</b>
<b>Cash flow from financing activities</b>		
Interest paid	(139)	(141)
Repayment of borrowings	(2 625)	(2 625)
EU grants received	2 932	35
Dividends paid	(11 886)	(13 846)
<b>Net cash outflow from financing activities</b>	<b>(11 718)</b>	<b>(16 577)</b>
<b>Net cash flow</b>	<b>3 301</b>	<b>(5 055)</b>
<b>Cash and cash equivalents at the beginning of the reporting period</b>	<b>18 068</b>	<b>17 886</b>
<b>Cash and cash equivalents at the end of the reporting period</b>	<b>21 369</b>	<b>12 831</b>

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Zane Kotāne  
 Chairwoman of the  
 Board

Gints Freibergs  
 Member of the Board

Mārtiņš Gode  
 Member of the Board

## NOTES TO THE FINANCIAL STATEMENTS

### Notes to profit and loss statement

#### 1. Revenue

	<b>01.01.2019 - 30.09.2019</b>	<b>01.01.2018 - 30.09.2018 Adjusted</b>
	EUR'000	EUR'000
Revenue from transmission services	25 896	23 575
Revenue from storage services	16 509	13 840
	<b>42 405</b>	<b>37 415</b>

#### 2. Other income

	<b>01.01.2019 - 30.09.2019</b>	<b>01.01.2018 - 30.09.2018 Adjusted</b>
	EUR'000	EUR'000
Income from EU grants	200	201
Other income	(947)	895
	<b>(747)</b>	<b>1 096</b>

#### 3. Materials and services

	<b>01.01.2019 - 30.09.2019</b>	<b>01.01.2018 - 30.09.2018 Adjusted</b>
	EUR'000	EUR'000
Maintenance of transmission and storage infrastructure	5 195	4 705
Materials expenses	889	716
Maintenance of IT infrastructure	323	262
Natural gas expenses	125	324
Maintenance of transport and machinery	120	148
	<b>6 652</b>	<b>6 155</b>

#### 4. Personnel expenses

	<b>01.01.2019 - 30.09.2019</b>	<b>01.01.2018 - 30.09.2018</b>
	EUR'000	EUR'000
Salary	5 760	5 557
State compulsory social insurance contributions	1 372	1 317
Life, health and pension insurance	354	327
Other personnel costs	12	21
	<b>7 498</b>	<b>7 222</b>

5. Other operating expenses

	<b>01.01.2019 - 30.09.2019</b>	<b>01.01.2018 - 30.09.2018</b>
	EUR'000	EUR'000
Premises and territory maintenance and other services	1 048	1 056
Taxes and duties	1 047	1 049
Office and other administrative costs	975	963
Net loss on disposal of property, plant and equipment	-	200
	<b>3 070</b>	<b>3 268</b>

**Notes to the balance sheet**

6. Intangible assets

	<b>30.09.2019</b>	<b>31.12.2018</b>
	EUR'000	EUR'000
<b>Cost</b>		
<b>Beginning of period</b>	5 959	5 712
Additions	422	364
Transferred	-	4
Disposals	-	(121)
<b>End of period</b>	<b>6 381</b>	<b>5 959</b>
<b>Amortisation</b>		
<b>Beginning of period</b>	4 969	4 674
Amortisation charge in the reporting period	269	382
Disposals	-	(87)
<b>End of period</b>	<b>5 238</b>	<b>4 969</b>
<b>Net book value as at the end of the period</b>	<b>1 143</b>	<b>990</b>

## 7. 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
<b>Cost or revalued amount</b>						
<b>31.12.2017</b>	<b>639 387</b>	<b>109 939</b>	<b>5 522</b>	<b>1 608</b>	<b>19 289</b>	<b>775 745</b>
Additions	-	195	265	-	13 085	13 545
Reclassified	12 668	11 335	534	-	(24 537)	-
Disposals	(1 416)	(767)	(90)	-	-	(2 273)
Transferred	-	-	-	(173)	(4)	(177)
<b>31.12.2018</b>	<b>650 639</b>	<b>120 702</b>	<b>6 231</b>	<b>1 435</b>	<b>7 833</b>	<b>786 840</b>
<b>Depreciation</b>						
<b>31.12.2017</b>	<b>377 393</b>	<b>60 827</b>	<b>3 642</b>	<b>-</b>	<b>-</b>	<b>441 862</b>
Depreciation charge	10 856	3 767	495	-	-	15 118
Disposals	(1 120)	(613)	(88)	-	-	(1 821)
<b>31.12.2018</b>	<b>387 129</b>	<b>63 981</b>	<b>4 049</b>	<b>-</b>	<b>-</b>	<b>455 159</b>
<b>Net book value as at 31.12.2018</b>	<b>263 510</b>	<b>56 721</b>	<b>2 182</b>	<b>1 435</b>	<b>7 833</b>	<b>331 681</b>

	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
<b>Cost</b>						
<b>31.12.2018</b>	<b>650 639</b>	<b>120 702</b>	<b>6 231</b>	<b>1 435</b>	<b>7 833</b>	<b>786 840</b>
Additions	-	266	289	-	8 168	8 723
Reclassified	321	130	-	-	(451)	-
Disposals	(2 265)	(41)	(268)	-	-	(2 574)
Transferred	-	-	-	-	-	-
<b>30.09.2019</b>	<b>648 695</b>	<b>121 057</b>	<b>6 252</b>	<b>1 435</b>	<b>15 550</b>	<b>792 989</b>
<b>Depreciation</b>						
<b>31.12.2018</b>	<b>387 129</b>	<b>63 981</b>	<b>4 049</b>	<b>-</b>	<b>-</b>	<b>455 159</b>
Depreciation charge	8 377	2 935	370	-	-	11 682
Disposals	(582)	(31)	(110)	-	-	(723)
<b>30.09.2019</b>	<b>394 924</b>	<b>66 885</b>	<b>4 309</b>	<b>-</b>	<b>-</b>	<b>466 118</b>
<b>Net book value as at 30.09.2019</b>	<b>253 771</b>	<b>54 172</b>	<b>1 943</b>	<b>1 435</b>	<b>15 550</b>	<b>326 871</b>

## 8. Leases

	<b>30.09.2019</b>
	EUR'000
<b>Right-of-use assets</b>	
<b>Net book value at the beginning of the period</b>	-
Initial recognition value as of 1 January 2019	431
Depreciation recognised in the Profit and loss account	(9)
<b>Closing net book amount at the end of the period</b>	<b>422</b>
<b>Lease liabilities</b>	
<b>Net book value at the beginning of the period</b>	-
Initial recognition value as of 1 January 2019	431
Decrease of lease liabilities	(23)
Recognised interest expenses	13
<b>Closing net book value at the end of the period</b>	<b>421</b>
including:	
non-current lease liabilities	419
current lease liabilities	2

## 9. Inventories

	<b>30.09.2019</b>	<b>31.12.2018</b>
	EUR'000	EUR'000
Materials and spare parts	1697	1 699
Natural gas	-	552
Provisions for impairment of slow-moving inventories	(69)	(69)
	<b>1 628</b>	<b>2 182</b>

## 10. Other current assets

	<b>30.09.2019</b>	<b>31.12.2018</b>
	EUR'000	EUR'000
Prepaid expenses related to the participation in the transnational cross-border project	101	101
Prepaid expenses	434	199
Other debtors	175	71
	<b>710</b>	<b>371</b>

## 11. Reserves

	<b>30.09.2019</b>	<b>31.12.2018</b>
	EUR'000	EUR'000
Property, plant and equipment revaluation reserve	117 208	121 909
Post-employment benefit revaluation reserve	358	358
Reorganisation reserve	24 647	24 647
	<b>142 213</b>	<b>146 914</b>

### 12. Borrowings

	<b>30.09.2019</b>	<b>31.12.2018</b>
	EUR'000	EUR'000
Borrowings from credit institutions – non-current part	22 750	25 375
Borrowings from credit institutions – current part	3 500	3 500
	<b>26 250</b>	<b>28 875</b>

### 13. Deffered income

	<b>30.09.2019</b>	<b>31.12.2018</b>
	EUR'000	EUR'000
Non-current part	7 600	7 800
Current part	3 234	302
	<b>10 834</b>	<b>8 102</b>

<b>Movement of deferred income</b>	<b>01.01.2019 – 30.09.2019</b>	<b>01.01.2018 - 31.12.2018</b>
	EUR'000	EUR'000
<b>Net book value at the beginning of the period</b>	8 102	8 395
EU funds received	2 932	125
Included in the revenue of the reporting period	(200)	(418)
<b>Carried forward</b>	<b>10 834</b>	<b>8 102</b>

### 14. Other liabilities

	<b>30.09.2019</b>	<b>31.12.2018</b>
	EUR'000	EUR'000
Value added tax	1 893	756
Accrued vacation costs	437	437
Accrued bonuses	367	1 338
Salaries	297	301
Real estate tax	232	-
State compulsory social insurance contributions	216	203
Natural resource tax	149	27
Dividends	123	74
Personal income tax	110	103
Other non-current liabilities	39	41
Corporate income tax from theoretically distributed profit	3	36
Accrued liabilities for non-received invoices	-	5 194
	<b>3 866</b>	<b>8 510</b>

## 15. Financial risk management

### **Financial risk management**

The principles and guidelines for general management of financial risks are set out in the Company's financial risk management policy. Conexus is exposed to the following financial risks: capital risk, interest rate risk, currency risk, credit risk and liquidity risk. The financial assets of Conexus include trade and other receivables, cash and cash equivalents.

### **Liquidity risk**

Liquidity risk is associated with ability of the Company to settle its obligations within agreed terms. Conexus follows prudent liquidity risk management when estimating annual, quarterly and monthly cash flows to ensure appropriate amount of funds necessary for operating activities. The liquidity reserves of the Company are made of the Company's own cash and cash equivalents and credit lines provided by credit institutions.

### **Interest rate risk**

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

### **Credit risk**

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

To restrict credit risk, Conexus uses security deposits. Credit risk is related to the largest customers of the Company.

### **Capital Risk management**

The Company's objectives when managing capital risk are to safeguard the Company's ability to continue as a going concern, to maintain an optimal capital structure in order to reduce the cost of capital. The Company performs management of the capital, based on proportion of borrowed capital against total capital.

### **Currency risk**

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



## 16. Accounting Policies

### **Basis of preparation**

Conexus financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union. These financial statements cover the period from 1 January 2019 to 30 September 2019.

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

In preparing financial statements of the Company in accordance with IFRS, balances of financial statements items are measured as accurately as possible, 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.

### ***Intangible assets***

Intangible assets of the Company mainly consist of software licenses and patents.

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

### ***Property, plant and equipment***

Property, plant and equipment (PPE) are tangible assets held for using in more than one period for supply of goods and 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 structures, transmission gas pipelines and associated machinery and equipment, as well as structures, equipment and machinery of Inčukalns underground gas storage facility 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 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, 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 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 recognized 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. 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 subject to depreciation on a straight-line basis over the following useful lives:

Type of fixed assets	Estimated useful life in years
Buildings	20-100
Engineering structures	20-60
Equipment and machinery	5-30
Other fixed assets	3-10

In the event that the book value of an asset is higher than its recoverable amount, the value of the respective PPE item is immediately 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.

### **Leases**

The management of the Company has adopted new standard IFRS 16 "Leases" from 01.01.2019.

Under IFRS 16, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For such contracts, the new model requires a lessee to recognise a right-of-use asset and a lease liability. The right-of-use asset is depreciated and the liability accrues interest. This will result in a front-loaded pattern of expense for most leases, even when the lessee pays constant annual rentals.

The new Standard introduces a number of limited scope exceptions for lessees which include:

- leases with a lease term of 12 months or less and containing no purchase options, and
- leases where the underlying asset has a low value ('small-ticket' leases).

The standard IFRS 16, when initially applied, is likely to result in the Company having to recognise in its balance sheet assets and liabilities relating to operating leases for which the Company acts as a lessee.

### **Non-current prepaid expenses**

Classified as non-current prepaid expenses are balances of payment made by the Company, which, by economic substance, relate to future periods beginning 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.

### ***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 stock and the sale.

The cost of natural gas, materials and spare parts is determined using the weighted average method. 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.

### ***Cash and cash equivalents***

Cash and cash equivalents comprise balances of current accounts and demand deposits at banks.

### ***Dividends***

Dividends are recognized as a liability in the period in which the dividends are approved by the Company's shareholders.

### ***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 measured at the present value according to the management's 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.

### ***Currency unit and revaluation of foreign currency***

The items in the financial statements are expressed in thousands of 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. Gains or losses from the revaluation of foreign currencies are recognized in the profit and loss statement of the respective period.

### ***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.

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.

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.

### **Taxes**

The Enterprise Income tax rate is 20% and the taxable base includes:

- distributed profit (dividends calculated, payments equivalent to dividends, conditional dividends) and
- conditionally distributed profit (non-operating expenses).

### **Subsidies**

Subsidies received to cover capital investments are initially recognised in deferred income which is gradually recognised as revenue over the useful life of the fixed assets received or acquired using subsidies. Subsidies received to cover expenses are recognised in the same period when the related expenses have arisen, if all the conditions of receiving the subsidies are met.

### **Revenue**

IFRS 15 was adopted by the Company in 2018. Revenue should be recognised when (or as) a Company transfers control of goods or services to a customer at the amount to which the Company expects to be entitled. Depending on whether certain criteria are met, revenue is recognised:

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

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 Conexus expects to be entitled in exchange for such goods or services.

#### *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 the 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.

### *Net Income from balancing*

The 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.

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

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

### *Revenue from storage*

The storage service is considered to be one performance obligation under IFRS 15. The Company provides Inčukalna 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.

### ***Significant estimates and judgements***

The financial statements are prepared in accordance with IFRS, using significant management estimates and judgements. It should be noted that actual results may differ from the estimates and assumptions for the outcome of future events.

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.

Financial statements were prepared by:

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