

# Unaudited interim condensed financial statements

for the period 01.01.2018 - 31.03.2018

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

**RIGA 2018**



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# Information on Company



# Information on Company

Joint Stock Company “Conexus Baltic Grid” (further referred to as the Company, as 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 – Inčukalns 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 set up in 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 providing 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 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 growth and overall industry development, creating sustainable employment and added economic viability while at the same time taking care of the environmental impact of technological processes.

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<b>Company</b>	JSC Conexus Baltic Grid
<b>Registration number</b>	40203041605
<b>Registration date and place</b>	Riga, 2 January 2017
<b>Address</b>	Aristida Briāna Street 6 Riga, LV-1001 Latvia www.conexus.lv
<b>Main shareholders</b>	Joint stock company “Augstsprieguma tīkls” (34.36 %) PJSC “Gazprom” (34.10 %) Marguerite Gas I S.à r.l. (29.06 %)
<b>Financial statements period</b>	1 January 2018 – 31 March 2018

## Council

### term of office – from 3 January, 2018

<b>Kaspars Āboliņš</b>	Chairman of the Council
<b>Viljams Pīrsons</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>Gijoms Rivrons</b>	Member of the Council
<b>Franks Zīberts</b>	Member of the Council

### term of office – from 31 December, 2017 till 3 January, 2018

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

## Management Board

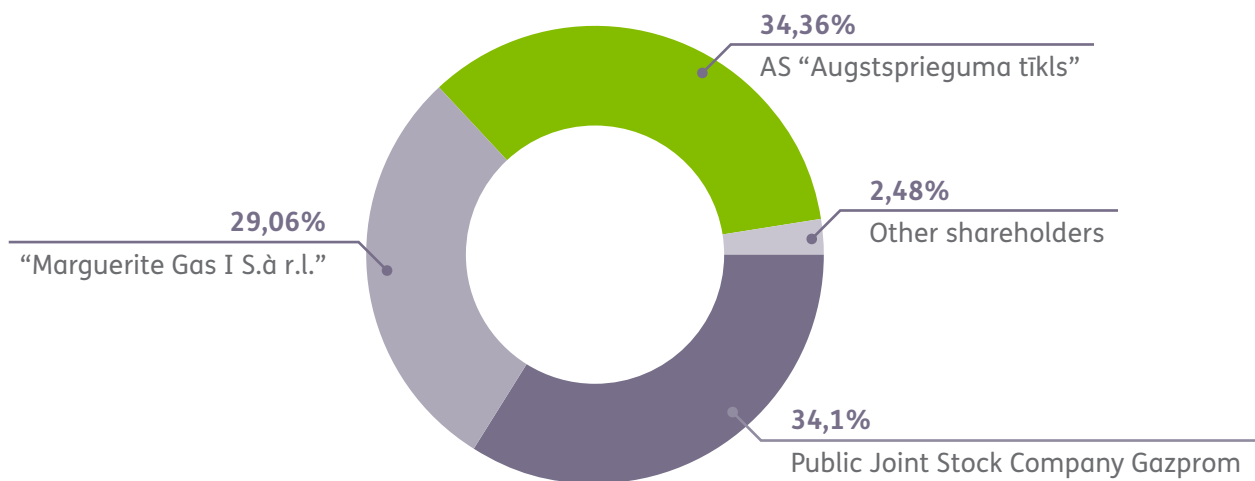
### term of office – from 31 December, 2017

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

## Shareholders

Conexus is a Closed-End Joint Stock Company, whose shares are 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, the structure of the Conexus shareholders changed, when the Latvian electricity transmission system operator AS “Augstsprieguma tīkls” (AST) concluded transactions with the German energy company Uniper Ruhrgas International GmbH (Uniper) for the acquisition of 18.31% of its shares and with SIA “IT-ERA Latvija” for the acquisition of 16.05% of its shares owned of the natural gas transmission and storage system operator, thereby becoming the largest shareholder of Conexus, holding 34.36% of the shares.



# Management Report



## Summary

### Conexus has spent the first winter under the conditions of natural gas in free market, ensuring uninterrupted supply of the natural gas to its customers.

During the reporting period, Conexus provided uninterrupted supply of natural gas for the needs of Latvia, Lithuania, Estonia and Russia. Notably, 73% of total transmitted flows were for the needs of the Latvian market.

Although at the beginning of 2018, the winter was not relatively cold and with long cold periods, it was enough to clearly point out that filling the Inčukalns underground gas storage in the autumn is the only way to ensure a stable and an uninterrupted supply of the region during the winter months. In 2017, the amount pumped into the storage was historically the lowest, and as the temperature dropped over a longer period of time, the supply of natural gas in the winter months of 2018 would be threatened even for the needs of the Latvian market. Customer demand for the natural gas was ensured by the operator through the auctioning of input power provision at the Inčukalns underground gas storage facility implemented in 2017.

### The volume of the transported natural gas grows by 45%

In the 1st quarter of 2018, the volume of the gas transported amounted to 8 215 GWh, an increase of 45% compared to the previous year. During the reporting period, the volumes of transported gas have increased for the needs of other countries, likewise, the amount of gas transported for the needs of users in Latvia has increased by 17%.

### Certification documentation prepared

To the Public Utilities Commission (hereinafter referred to as the PUC) Conexus has submitted the documentation required for the initiation of the certification process of the transmission system operator.

As stipulated by the Energy Law, a company shall, independently of the composition of its shareholders, remain independent in order to ensure that decisions are taken, ensuring transparency and non-discriminatory treatment of transmission system users and market participants. In the preparation of the documents, Conexus took into account the European Commission supplied explanations on ownership unbundling and control over the independence requirements of the transmission system operator, as well as the certification rules adopted by the PUC, specifying the information to be submitted.

### New offers for customers

#### Storage services

- ◆ In November 2017, Conexus submitted to the PUC for an evaluation the new Inčukalns UGS tariffs for storage services, by means of offering users three new basic products that were purposefully designed to make their use convenient and economically feasible under the new natural gas market conditions;
- ◆ In order to stimulate the interest of traders to use the storage facility following the opening of the natural gas market in Latvia, on 14 February, 2018, the PUC approved amendments to the methodology for calculating tariffs for natural gas storage services, which will allow more flexible reaction to the rapid changes in the natural gas market as well as the market participants to plan their activities in the long term.

#### Transmission services

- ◆ In December 2017, Conexus submitted to the PUC a draft of the new transmission tariff, which was well-laid-out, adapting to the new situation in the Latvian natural gas market. In order to promote even greater interest among the market participants to the Inčukalns UGS and enable traders to use their stocks more efficiently in daily balancing, the draft tariff provides for 100% discount on interconnection with the Inčukalns UGS.
- ◆ On 9 March, 2018, the PUC approved amendments to the methodology for calculating tariffs for the Natural Gas Transmission System service, providing for several editorial changes, the most essential of which is the development of a new version in the cost correction section.

## Key Financial Indicators

All Conexus revenue is derived from the regulated services by applying the storage service tariffs approved in 2008, and the transmission service tariffs approved on 30 May 2017.

During the reporting period, Conexus revenue grew by 63% and amounted to EUR 22,293 ths., and EBITDA reached EUR 13 266 ths., that is 24% higher, while the profit comprises EUR 9,091 ths.

Key Financial Indicators	31.03.2018	31.03.2017
	EUR'000	EUR'000
Net turnover	22 293	13 674
EBITDA	13 266	10 672
EBITDA, %	59%	77%
Net profit	9 091	4 555
Net profitability,%	41%	33%

EBITDA - Profit before income tax, interest, depreciation and amortization

Key Performance Indicators	31.12.2018	31.03.2017
Natural gas transported, thsd GWh	8 215	5 659
Active natural gas in Inčukalns UGS, thsd. GWh	3 895	4 818
Natural gas for the consumption in Latvia, thsd. Gwh	6 249	5 344
Maģistrālo gāzes vadu garums, km	1 188	1 191
Darbinieku skaits, vidējais	329	328

## Segment Performance Results

The Company has two business operation segments: gas transmission (including transport of natural gas through high pressure pipelines to supply it to storage, other countries, distribution system or direct users) and gas storage (storage of natural gas in the Inčukalns UGS). The information set out in the business segments coincides with the information used by the person responsible for making operational decisions.

The transmission segment generates revenue from the natural gas consumption in Latvia, as well as from the international natural gas transportation, and also from the natural gas flow, by injecting or removing natural gas from the Inčukalns UGS. Transmission segment revenue in the reporting period was EUR 14.42 mln. and the profit amounted to 4.58 mln. EUR, which provides 50.4% of the Company's total profit. The transmission segment is the largest segment by the volume of assets. Segment assets in 2018 as of

31.03.2018 amounted to EUR 183.9 mln. and comprised 53% of the total assets of the Company.

The storage segment was operating at EUR 7.88 million revenue during the reporting period, which generated a profit of EUR 4.51 million. The assets of the segment at the end of the reporting period were EUR 160.9 mln.

### Segment information

The Company has two business operation segments: gas transmission (transportation of natural gas through high pressure pipelines to its distribution system or other country transmission system) and gas storage (storage of natural gas in the Inčukalns underground gas storage). According to the value of assets, the gas transmission is the largest of the two business segments, with 53% of all employees employed in the Company.



<b>Gas transmission</b>	<b>31.03.2018</b>	<b>31.03.2017</b>
	EUR'000	EUR'000
Net turnover	14 420	8 083
Segment profit before taxes	4 612	3 662
Segment assets	183 945	183 712
Depreciation and amortisation	2 412	2 691
Purchase of tangible and intangible assets	493.9	367
EBITDA	7 024	6 379

<b>Gas storage</b>	<b>31.03.2018</b>	<b>31.03.2017</b>
	EUR'000	EUR'000
Net turnover	7 873	5 591
Segment profit before taxes	4 530	1 677
Segment assets	160 914	157 279
Depreciation and amortisation	1 713	2 592
Purchase of tangible and intangible assets	552.5	159
EBITDA	6 242	4 292

#### Segment information comparison

	<b>01.01.2018</b>	<b>04.01.2017</b>
	<b>31.03.2018</b>	<b>31.03.2017</b>
	EUR'000	EUR'000
Segment assets	344 859	340 991
Cash	22 747	17 929
<b>Total assets</b>	<b>367 605</b>	<b>358 920</b>

## Events after the end of the reporting period

On 26 April 2018, the PUC approved amendments to the Natural Gas Storage Service Tariffs. Accepted Tariff Storage Systems the total amount of the Regulatory Assets Base (RAB) has increased from EUR 102 616 ths. in 2008 to EUR 150 624 ths.

At the shareholders' meeting on 27 April, the dividend payment for 2017 was approved for EUR 13 925 ths. or EUR 0.35 per share. Dividend payment scheduled for 21 May.

## Statement of responsibility of the Board

The Board of the Joint Stock company Conexus Baltic Grid is responsible for the preparation of the Company's financial statements.

Unaudited Conexus Baltic Grid Condensed Consolidated Financial Statements for the 3 month period ended

31 March 2018 are prepared in accordance with International Financial Reporting Standards as adopted by the European Union and provide a true and fair view of the Company's assets, liabilities, financial position and profit or loss.

**Zane Kotāne**

Chairperson of the Board

**Gints Freibergs**

Member of the Board

**Mārtiņš Gode**

Member of the Board

# Financial Statements



## Statement of profit or loss

	Note	01.01.2018–31.03.2018	04.01.2017–31.03.2017
		EUR'000	EUR'000
Revenue	1	22 293	13 674
Other income	2	25	219
Materials and services	3	(6 101)	(808)
Personnel expenses	4	(2 159)	(1 781)
Depreciation, amortisation and impairment of property, plant and equipment	6, 7	(4 126)	(5 283)
Other operating expenses	5	(791)	(632)
<b>Operating profit</b>		<b>9 141</b>	<b>5 389</b>
Financial expenses, net		(50)	(51)
<b>Profit before taxes</b>		<b>9 091</b>	<b>5 338</b>
Corporate income tax			(783)
<b>Profit for the period</b>		<b>9 091</b>	<b>4 555</b>

The accompanying notes on pages 16 to 25 form an integral part of these financial statements.

**Zane Kotāne**

Chairperson of the Board

**Gints Freibergs**

Member of the Board

**Mārtiņš Gode**

Member of the Board

# Balance sheet

## Assets

	Note	31.03.2018	31.12.2017
		EUR'000	EUR'000
<b>Non-current assets</b>			
Intangible assets	6	950	1 038
Property, plant and equipment	7	330 767	333 883
Non-current prepaid costs		1 512	1 513
<b>Total non-current assets:</b>		<b>333 229</b>	<b>336 434</b>
<b>Current assets</b>			
Inventories	8	2 180	2 277
Advances for inventories		5	12
Trade receivables		8 444	5 959
Other current assets	9	1 000	420
Cash and cash equivalents		22 747	17 886
<b>Total current assets:</b>		<b>34 376</b>	<b>26 554</b>
<b>Total assets:</b>		<b>367 605</b>	<b>362 988</b>

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Chairperson of the Board

**Gints Freibergs**

Member of the Board

**Mārtiņš Gode**

Member of the Board

## Balance sheet (continued)

### Liabilities and shareholders' equity

	Pielikums	31.03.2018	31.12.2017
		EUR'000	EUR'000
<b>Shareholders' equity:</b>			
Share capital		39 786	39 786
Treasury shares		(39)	(39)
Reserves	10	151 441	153 004
Retained earnings		128 319	117 666
<b>Total shareholders' equity:</b>		<b>319 507</b>	<b>310 417</b>
<b>Non-current liabilities</b>			
Deferred income	12	8 001	8 068
Employee benefit obligations		1 040	1 040
Borrowings	11	28 000	28 875
<b>Total non-current liabilities:</b>		<b>37 041</b>	<b>37 983</b>
<b>Current liabilities</b>			
Borrowings	11	3 500	3 500
Trade payables		1 656	2 814
Corporate income tax		1 103	1 103
Other liabilities	13	4 334	6 707
Deferred income	12	327	327
Advances from customers		137	137
<b>Total current liabilities:</b>		<b>11 057</b>	<b>14 588</b>
<b>Total liabilities and shareholders' equity:</b>		<b>367 605</b>	<b>362 988</b>

The accompanying notes on pages 16 to 25 form an integral part of these financial statements.

**Zane Kotāne**

Chairperson 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 4 January, 2017</b>	-	-	-	-	-
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)
<i>Other comprehensive income:</i>					
Other comprehensive income	-	-	19 350	-	19 350
Profit for the period				17 021	17 021
<i>Total other comprehensive income</i>	-	-	19 350	17 021	36 371
<b>31 December, 2017</b>	<b>39 786</b>	<b>(39)</b>	<b>153 004</b>	<b>117 666</b>	<b>310 417</b>
Reduction of the revaluation reserve	-		(1 563)	1 563	-
Correction	-	-	-	(1)	-
Profit for the period	-	-	-	9 091	9 091
Total	-	-	(1 563)	10 654	9 091
<b>31 March, 2018</b>	<b>39 786</b>	<b>(39)</b>	<b>151 441</b>	<b>128 319</b>	<b>319 507</b>

The accompanying notes on pages 16 to 25 form an integral part of these financial statements.

**Zane Kotāne**

Chairperson of the Board

**Gints Freibergs**

Member of the Board

**Mārtiņš Gode**

Member of the Board

# Statement of cash flows

Note	01.01.2018– 31.03.2018	04.01.2017– 31.03.2017
<b>Cash flows from operating activities</b>	EUR'000	EUR'000
<b>Profit before corporate income tax</b>	<b>9 091</b>	<b>5 338</b>
<i>Adjustments:</i>		
depreciation of property, plant and equipment	4 031	5 112
amortisation of intangible assets	95	171
loss on disposal of plant, property and equipment	54	2
provisions	–	–
participation in the transnational cross-border project	–	–
amortisation of EU grants	(67)	–
interest expenses	47	51
<i>Change in operating assets and liabilities net of effects of reorganisation:</i>		
increase in debtors	(3 064)	(5 297)
increase in advances for inventories	7	(11)
increase in inventories	96	330
increase in creditors	(3 532)	2 227
<b>Net cash inflow from operating activities</b>	<b>6 758</b>	<b>7 923</b>
<b>Cash flow from investing activities</b>		
Payments for property, plant and equipment	(979)	(522)
Payments for intangible assets	(7)	(5)
Proceeds from sale of property, plant and equipment	11	–
Participation in the transnational cross-border project	–	(1 713)
<b>Net cash outflow from investing activities</b>	<b>(975)</b>	<b>(2 240)</b>
<b>Cash flow from financing activities</b>		
Interest paid	(47)	(51)
Repayment of borrowings	(875)	–
Cash received in reorganisation	–	–
EU grants received	–	–
Acquisition of treasury shares	–	–
<b>Net cash inflow from financing activities</b>	<b>(922)</b>	<b>(51)</b>
<b>Net cash flow</b>	<b>4 861</b>	<b>5 632</b>
<b>Cash and cash equivalents at the beginning of the reporting period</b>	<b>17 886</b>	<b>12 297</b>
<b>Cash and cash equivalents at the end of the reporting period</b>	<b>22 747</b>	<b>17 929</b>

The accompanying notes on pages 16 to 25 form an integral part of these financial statements.

**Zane Kotāne**  
Chairperson of the Board

**Gints Freibergs**  
Member of the Board

**Mārtiņš Gode**  
Member of the Board

# Notes to the financial statements

## Notes to the statement of profit or loss

### 1. Revenue

	01.01.2018–31.03.2018	04.01.2017–31.03.2017
	EUR'000	EUR'000
Revenue from transmission services	14 420	8 083
Revenue from storage services	7 873	5 591
	<b>22 293</b>	<b>13 674</b>

### 2. Other income

	01.01.2018–31.03.2018	04.01.2017–31.03.2017
	EUR'000	EUR'000
Income from EU grants	67	67
Other income	(42)	152
	<b>25</b>	<b>219</b>

### 3. Materials and services

	01.01.2018–31.03.2018	04.01.2017–31.03.2017
	EUR'000	EUR'000
Natural gas	173	378
Materials	153	216
Maintenance of transmission and storage infrastructure	5 557	108
Maintenance of transport and machinery	83	66
Maintenance of IT infrastructure	135	40
	<b>6 101</b>	<b>808</b>

### 4. Personnel expenses

	01.01.2018–31.03.2018	04.01.2017–31.03.2017
	EUR'000	EUR'000
Salary	1 652	1 375
State social insurance contributions	392	313
Life, health and pension insurance	108	90
Other personnel costs	7	3
	<b>2 159</b>	<b>1 781</b>



## 5. Other operating expenses

	01.01.2018–31.03.2018	04.01.2017–31.03.2017
	EUR'000	EUR'000
Premises and territory maintenance and other services	331	303
Taxes and duties	268	178
Office and other administrative costs	192	151
	<b>791</b>	<b>632</b>

## Notes to the balance sheet

### 6. Intangible assets

	31.03.2018	31.12.2017
	EUR'000	EUR'000
<b>Cost</b>		
As at the beginning of period	5 712	-
Transferred as a result of reorganisation	-	5 352
Additions	7	373
Disposals	(7)	(13)
<b>As at the end of period</b>	<b>5 712</b>	<b>5 712</b>
<b>Amortisation</b>		
As at the beginning of period	4 674	-
Transferred as a result of reorganisation	-	4 017
Amortisation charge	95	663
Disposals	(7)	(6)
<b>As at the end of period</b>	<b>4 762</b>	<b>4 674</b>
<b>Net book value as at end of period</b>	<b>950</b>	<b>1 038</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>04.01.2017</b>	–	–	–	–	–	–
Reorganisation	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	–	–	–
<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>
<b>Depreciation</b>						
<b>04.01.2017</b>	–	–	–	–	–	–
Reorganisation	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	–	–	–
<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>
<b>Net book value as at 31.12.2017</b>	<b>261 994</b>	<b>49 112</b>	<b>1 880</b>	<b>1 608</b>	<b>19 289</b>	<b>333 883</b>

### Property, plant and equipment (continued)

	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>31.12.2017</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	-	-	-	-	978	978
Reclassified	18	67	55	-	(140)	-
Disposals	(95)	(109)	(15)	-	-	(219)
Transferred	1	-	-	-	-	1
<b>31.03.2018</b>	<b>639 311</b>	<b>109 897</b>	<b>5 562</b>	<b>1 608</b>	<b>20 127</b>	<b>776 505</b>
<b>Depreciation</b>						
<b>31.12.2017</b>	<b>377 393</b>	<b>60 827</b>	<b>3 642</b>	-	-	<b>441 862</b>
Depreciation charge	2 711	1 199	121	-	-	4 031
Revalued	-	-	-	-	-	-
Disposals	(48)	(91)	(16)	-	-	(155)
Reclassified	-	-	-	-	-	-
<b>31.03.2018</b>	<b>380 056</b>	<b>61 935</b>	<b>3 747</b>	-	-	<b>445 738</b>
<b>Net book value as at 31.03.2018</b>	<b>259 255</b>	<b>47 962</b>	<b>1 815</b>	<b>1 608</b>	<b>20 127</b>	<b>330 767</b>

### 8. Inventories

	31.03.2018	31.12.2017
	EUR'000	EUR'000
Materials and spare parts	1 269	1 366
Natural gas	980	980
Provisions for impairment of slow-moving inventories	(69)	(69)
	<b>2 180</b>	<b>2 277</b>

### 9. Other current assets

	31.03.2018	31.12.2017
	EUR'000	EUR'000
Prepaid expenses	859	245
Other debtors	141	175
	<b>1 000</b>	<b>420</b>

## 10. Reserves

	31.03.2018	31.12.2017
	EUR'000	EUR'000
Property, plant and equipment revaluation reserve	126 404	127 967
Post-employment benefit revaluation reserve	390	390
Reorganisation reserve	24 647	24 647
	<b>151 441</b>	<b>153 004</b>

## 11. Borrowings

	31.03.2018	31.12.2017
	EUR'000	EUR'000
Borrowings from credit institutions – non-current part	28 000	28 875
Borrowings from credit institutions – current part	3 500	3 500
	<b>31 500</b>	<b>32 375</b>

## 12. Deffered income

	31.03.2018	31.12.2017
	EUR'000	EUR'000
Non-current part	8 001	8 068
Current part	327	327
	<b>8 328</b>	<b>8 395</b>

Movement of deferred income	01.01.2018–31.03.2018	04.01.2017–31.12.2017
	EUR'000	EUR'000
04.01.2017	8 395	–
Transferred as a result of reorganisation		8 602
EU funds received	–	60
Amortised in profit or loss	(67)	(267)
Carried forward as at 31.12.2017	<b>8 328</b>	<b>8 395</b>

## 13. Other liabilities

	31.03.2018	31.12.2017
	EUR'000	EUR'000
Accrued costs for services of providing natural gas availability	–	4 040
Value added tax	1 603	339
Accrued bonuses	865	772
Real estate tax	719	–
Accrued vacation costs	515	515
Social insurance contributions	197	382
Salaries	276	281
Personal income tax	100	231
Other non-current liabilities	58	85
Natural resource tax	1	62
	<b>4 334</b>	<b>6 707</b>

## Financial risk management

AS 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, so there is no significant foreign exchange risk. AS Conexus Baltic Grid uses a borrowing for general purposes so there is an interest rate risk. The turnover risks are assessed as moderate, as Conexus Baltic Grid operates on the basis of regulated public services at approved tariffs.

The financial assets of AS Conexus Baltic Grid include trade and other receivables, cash and cash equivalents. Financial liabilities include borrowings, debts to suppliers and other creditors.

### Liquidity risk

Liquidity risk is associated with ability of the Company to settle its obligations within agreed due dates. JSC Conexus Baltic Grid follows prudent liquidity risk management. The availability of financial resources is planned using cash flow planning tools and by generating annual, quarterly and monthly cash flows to determine the demand for operating cash flows.

### 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's short-term and long-term borrowings are at variable interest rate. Companies policy stipulates that main part of its debts will be variable. Other financial assets and liabilities have no fixed rate.

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

### Credit risk

AS 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, AS Conexus Baltic Grid uses security deposits. Credit risk is related to the largest customers of AS Conexus Baltic Grid.

All credit institutions with which the Company is co-operating 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.

### 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 is not higher than 50%.

## 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 1 January 2018 to 31 March 2018.

Accounting policies and principles have been consistently applied throughout the reporting period. 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.

### **Intangible assets**

Intangible assets of AS 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 Inčukalna 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.

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 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.

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

	<b>years</b>
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.

### **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 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. 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.

#### **Provisions**

Provisions for obligations are recognised when the Company has a present legal or constructive obliga-

tion 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'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.

#### **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.

#### **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 AS 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. Income or loss from revaluation of foreign currencies is included in the profit and loss for the relevant period.

#### **Employee benefits**

AS 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.

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.

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 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 by discounting the estimated future cash outflows using the market rates on government bonds.

#### **Taxation**

From taxation year 2018, corporate income tax is calculated on the basis of distributed profit (20/80 of the net amount payable to shareholders). Corporate tax on distributed profit is 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 a grant from the EU as a 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 AS 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 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 relevant transmission power product.

#### *Revenue from balancing*

AS 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*

AS 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 till 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. Actual results may differ from 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 ex-

perience 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 industry practice.

#### *Revaluation of property, plant and equipment*

Conexus Baltic Grid's 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. Management's estimate of the carrying amount of the revalued property, plant and equipment does not differ significantly from its fair value, is carried out at least once in the reporting year.

#### *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 schemes' liabilities reflects the average profit rate of government bonds with initial maturity of 5Y and more, determined at the latest two issues. 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.

Financial statements were prepared by:

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Head of Financial Reporting

