

Joint Stock Company Conexus Baltic Grid

Non-audited interim period
shortened financial statements
for the period from 4 January 2017
until 30 June 2017

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Information of the Company

Joint stock company Conexus Baltic Grid (hereinafter – the Company) is a unified natural gas transmission and storage operator in Latvia, which manages one of the most modern natural gas storages in Europe - Inčukalns Underground Gas Storage and upstream natural gas transmission system, which directly connects the natural gas market of Latvia with Lithuania, Estonia and the North-West region of Russia.

The Company offers its customers natural gas transmission and storage services in conformity with the tariffs laid down by the Public Utilities Commission.

The Company was established on 22 December 2016 by separating transmission and storage activities from the joint stock company Latvijas Gāze as a result of reorganisation.

Company	JSC Conexus Baltic Grid
Registration number	40203041605
Registration date and place	Riga, 2 January 2017
Address	6 Aristīda Briāna Street, Riga, LV –1001, Latvia www.conexus.lv
Largest shareholders	PAS Gazprom (34.1 %) Marguerite Gas I S.à r.l. (29.06 %) Uniper Ruhrgas international GmbH (18.31 %) ITERA Latvija SIA (16.05 %)
Period of the Financial Statements	4 January 2017 – 30 June 2017

Council

(term of office from 22 December 2016)

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

Board of Directors

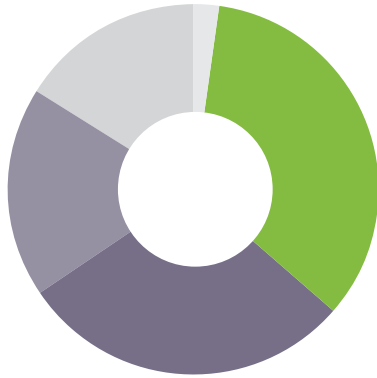
(term of office from 22 December 2016)

Aigars Kalvītis – Chairman of the Board of Directors, **Sebastians Grēblinghofs** – Deputy Chairman of the Board of Directors, **Deniss Jemeljanovs** – Deputy Chairman of the Board of Directors, **Zane Kotāne** – Member of the Board of Directors, **Gints Freibergs** – Member of the Board of Directors

Shares and shareholders

The Company is a private limited company, the shares of which are registered shares in the amount of 100%. The total number of shares is **39 786 089**, their nominal value is **EUR 1.00**.

The total number of shareholders exceeds 4.8 thousand. 97% of the total number of shares are owned by the four largest shareholders.



- Gazprom PAS: 34,10%
- Marguerite Gas I S.a r.l. (29.06 %)
- Uniper Ruhrgas international GmbH (18.31 %)
- Itera Latvia SIA (16,05%)
- Other shareholders (2,49%)

Management Report

The Company commences its activity under new market conditions

Characterisation of activity environment

● On 5 January 2017 the Public Utilities Commission (hereinafter – the PUC) issues licences to the Company regarding the rights and obligations to carry out commercial activity in natural gas transmission in the Republic of Latvia and storage of natural gas in the Inčukalns Underground Gas Storage.

● On 3 April 2017 the natural gas market is opened for all merchants in conformity with that laid down in the Energy Law. Material changes have been made in laws and regulations for operation under the new market situation:

● On 28 November 2016 the PUC approved the methodology for the calculation of the tariffs for natural gas transmission system services;

● On 16 March 2017 the PUC approved the methodology for the calculation of the tariff for natural gas storage service;

● Input/output capacity reservation system is introduced and transition from the accounting of natural gas in cubic metres to accounting of natural gas flow in energy units has been carried out;

● On 28 March 2017 the Cabinet adopted amendments to Regulation No. 312 of 19 April 2011 on the basis of which the ensuring and storage of the natural gas reserve are assigned to the transmission system operator, which will ensure the storage of the natural gas crisis reserves at the Inčukalns Underground Gas Storage;

● On 13 April 2017 the PUC approved regulations for use of the Inčukalns Underground Gas Storage and regulations for the use of the natural gas transmission system, which determine conditions for the application of tariffs until the time when new tariffs for the natural gas storage service and transmission system service will come into effect;

● On 30 May 2017 the PUC approved the tariffs for the natural gas transmission system services which will come into effect on 1 July 2017;

● Indirect capacity granting at cross-border interconnection points has been introduced;

● Preparation has been commenced for the auction regarding the ensuring of natural gas at the **interconnection of the transmission system with storage in 2017 -2018**.

Main activity indicators

In the reporting period the Company ensured a continuous supply of natural gas and managed the flows for the needs of Latvia, Lithuania, Estonia and a little bit for the needs of Russia. 92% of total managed flows were for the needs of the Latvian market.

Main financial indicators 30.06.2017	
thous. EUR	
Net turnover	24 009
EBITDA	16 966
EBITDA, %	71%
Net profit	5 367
Net return, %	22%

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

Activity results of the segments

Income of the transmission segment in the reporting period was EUR 12.425 mill. and EBITDA reached EUR 8.222 mill., which ensures 48.5% of the total EBITDA of the Company. Profit of gas transmission reached EUR 2.287 mill. In the reporting period the storage segment operated with income of EUR 11.869 mill., which ensured EBITDA in the amount of EUR 8.744 mill. and profit in the amount of EUR 3.080 mill.

All income of the company is gained from regulated services, the allowed income of which are determined based on the amounts of costs for segment activity and necessary capital return.

Notikumi pēc pārs

Taking into account the obligations of the natural gas transmission system operator laid down in the Energy Law to ensure safety of the transmission system, its

All income of the Company was gained from the regulated services by applying the tariffs approved in 2008. Net turnover of the reporting period is EUR 24 009 thous., profit EUR 5 367 thous.

Main activity indicators 30.06.2017		
Transmitted natural gas,	MWh	8 343 435
	milj. m ³	792.048
Active natural gas at the Inčukalns UGS,	MWh	3 661 957
	milj. m ³	347.764
Length of upstream gas pipelines, km		1 191
Number of employees, average		335

efficient and economically beneficial activity, and also a long-term capacity to ensure natural gas transmission in conformity with the demand, the Company announced an application for an auction for ensuring natural gas availability at the point of input of the natural gas transmission system - transmission system interconnection with the Inčukalns Underground Gas Storage. On 26 July 2017 the results of the auction for ensuring natural gas availability at the transmission system interconnection with the storage during 2017 - 2018 were made available, from which it was found out that 736 thous. m³ of gas will be ensured at the Inčukalns UGS.

The components will not be applied from 1 July.

Further development

The Company carries out research of the potential activity of the Inčukalns Underground Storage in conformity with the market situation. The research is carried out by attracting INEA (Innovation and Networks Executive Agency) CEF (Connecting Europe Facility) financing.

Notification regarding responsibility of the Board of Directors

Non-audited interim period shortened financial statements regarding the period from 4 January 2017 until 30 June 2017 have been prepared in conformity with the International Financial Reporting Standards approved in the European Union.

On the basis of the information at the disposal of the Board of Directors of the Company, the financial information has been prepared in accordance with the requirements of the laws and regulations in force and provide a true and clear conception regarding assets, liabilities, the financial situation and profit or loss of the Company.

Aigars Kalvītis

Chairman of the Board of Directors

The non-audited interim period shortened financial statements regarding the period from 4 January 2017 until 30 June 2017 have been approved by the Board of Directors of the Company on 2 August 2017.

Statements have been approved by the Board of Directors of JSC Conexus Baltic Grid on 2 August 2017 and they are signed on behalf of the Board of Directors by:

Zane Kotāne

Member of the Board of Directors

Financial Statements

PROFIT OR LOSS STATEMENT

	Annex	04.01.2017 - 30.06.2017
		EUR'000
Revenue from the main activity	1	24 009
Other income	2	285
Cost of materials	3	(1 807)
Personnel costs	4	(4 115)
Depreciation, amortisation and decrease in value of fixed assets		(10 547)
Other operating expenses	5	(1 407)
Gross Profit		6 418
Financial income, net expenses		(103)
Profit before taxes		6 315
Enterprise income Tax		(948)
Profit for the reporting period		5 367

JOINT STATEMENT OF OTHER INCOME

	04.01.2017 - 30.06.2017
	EUR'000
Profit for the reporting period	5 367
Revaluation of fixed assets	6
Net income from further activity which is directly recognised in income statement	6
Total joint income of the reporting period	5 373

BALANCE SHEET

	Annex	30.06.2017
		EUR'000
ASSETS		
Long-term investments		
Intangible assets	6	1 032
Fixed assets	7	326 302
Long-term deferred expenses	11	1 713
Total long-term investments:		329 047
Current assets		
Inventory	8	4 624
Advance payments for stocks		2
Receivables		3 076
Other current assets		635
Cash and its Equivalents		21 899
Total current assets:		30 236
TOTAL ASSETS:		359 283
EQUITY AND LIABILITIES		
Equity:		
Share capital		39 786
Reserves		234 299
Retained Earnings		5 367
Total equity:		279 452
Long-term liabilities		
Income of next periods	9	8 202
Provisions for pensions and similar liabilities		1 539
Loans from credit Institutions		31 500
Provisions for expected taxes		30 686
Total long-term liabilities:		71 927
Short-term liabilities		
Loans from credit institutions		2 625
Trade payables		1 144
Other liabilities	10	3 768
Income of next periods	9	267
Advances received from customers		100
Total short-term liabilities:		7 904
TOTAL LIABILITIES:		359 283

STATEMENT ON CHANGES IN EQUITY

	Share capital	Reserves	Retained earnings	Total
	EUR'000	EUR'000	EUR'000	EUR'000
04 January 2017				
Opening balance	39 786	234 299	-	274 085
Excluded revaluation reserve of fixed assets	-	(6)	-	(6)
Other joined income		6		6
Profit for the reporting year	-	-	5 367	5 367
<i>Total other joined income</i>	-	6	5 367	5 373
30 June 2017	39 786	234 299	5 367	279 452

CASH FLOW STATEMENT

	30.06.2017
	EUR'000
Cash flow from operating activity	
Profit before corporate income tax	6 315
<i>Adjustments:</i>	
- depreciation of fixed assets	10 206
- amortisation of intangible assets	341
- loss from sale of fixed assets	6
Paid credit interest	103
<i>Changes in assets and liabilities of economic activity:</i>	
- accounts receivable	(3 693)
- advance payments for stocks	(2)
- stocks	514
- creditors	2 488
Net cash flow from operating activity	16 278
Cash flow from investment activity	
Purchase of fixed assets	(3 947)
Purchase of intangible assets	(38)
Participation in transnational cross-border project	(1 713)
Net cash flow from investment activity	(5698)
Cash flow from financial activity	
Paid credit interest	(103)
Paid credit	(875)
Net cash flow from financial activity	(978)
Net cash flow	9 602
Cash and cash equivalents at the beginning of the reporting period	12 297
Cash and cash equivalents at the end of the reporting period	21 899

ANNEXES TO THE FINANCIAL STATEMENT

Segment information

The Company has two activity segments: natural gas transmission (carriage of natural gas along high pressure pipelines in order to deliver it to the distribution system or transmission system of another country) and natural gas storage (natural gas storage at the

Inčukalns Underground Gas Storage). Natural gas storage is the larger of two segments of the activity according to the value of the assets; the number of persons employed therein is 53% of the persons employed in the entire Company.

04.01.2017-30.06.2017	Gas transmission	Gas storage	TOTAL
	EUR'000	EUR'000	EUR'000
Net turnover	12 307	11 702	24 009
Segment profit before taxes	2 789	3 526	6 315
Segment assets	180 343	157 040	337 383
Depreciation and amortisation	5 378	5 169	10 547
Acquisition of fixed assets and intangible assets	2 016	1 969	3 985
EBITDA	8 222	8 744	16 966

Comparison of segments

Comparison of segments	04.01.2017 . - 30.06.2017
	EUR'000
Segment assets	337 383
Cash	21 899
Total assets	359 283

Profit or loss account

1. Income from the main activity

Income from the main activity	04.01.2017 . - 30.06.2017
	EUR'000
Income from transmission	12 307
Income from storage	11 702
	24 009

2. Other income

Other income	04.01.2017 . - 30.06.2017
	EUR'000
Income from EU co-financing	133
Other income	152
	285

3. Cost of materials

Cost of materials	04.01.2017 . - 30.06.2017
	EUR'000
Technological consumption	918
Cost of materials	412
System maintenance services	247
Maintenance of transport and mechanisms	105
Maintenance of IT infrastructure	125
	1 807

4. Personnel costs

Personnel costs	04.01.2017. - 30.06.2017
	EUR'000
Salaries	3 187
State social insurance mandatory contributions	729
Life, health and pension insurance	193
Other staff costs	6
	4 115

5. Other operating expenses

Other operating expenses	04.01.2017 . - 30.06.2017
	EUR'000
Costs for maintenance of premises and territory and other services	579
Taxes and fees	511
Office and other administrative expenses	317
	1 407

Balance sheet

6. Intangible assets

Intangible assets	30.06.2017
	EUR'000
Initial value	
04.01.2017	
Opening balance	5 352
Purchased	38
At the end of the period	5 390
Amortisation	
04.01.2017	
Opening balance	4 017
Amortisation during the reporting period	341
At the end of the period	4 358
Remaining value at the end of the period	1 032

7. Fixed assets

	Land, buildings, structures	Technological equipment and devices	Other fixed assets	Costs for non-finished construction objects	TOTAL
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Initial revaluated value 04.01.2017					
Opening balance	635 266	105 659	4 331	12 419	757 675
Purchased	-	-	-	4 205	4 205
Re-classified	205	176	127	(759)	(251)
Revaluated	-	-	-	-	-
Written off	(14)	(12)	(14)	-	(40)
30.06.2017	635 457	105 823	4 444	15 865	761 589
Depreciation 04.01.2017					
Opening balance	366 126	55 994	2 988	-	425 108
Calculated	6 344	3 682	181	-	10 207
Written off	(11)	(6)	(11)	-	(28)
30.06.2017	372 459	59 670	3 158	-	435 287
Remaining balance value as of 30.06.2017	262 998	46 153	1 286	15 865	326 302

8. Stocks

Stocks	30.06.2017
	EUR'000
Natural gas	1 574
Material and spare parts	3 136
Provisions for stocks of slow circulation	(86)
	4 624

9. Income of next periods

Income of next periods	30.06.2017
	EUR'000
Long-term share	8 202
Short-term share	267
	8 469

Changes in income of next periods	30.06.2017
	EUR'000
Opening balance	8 602
Included in income of the reporting period	(133)
Transferred to next periods	8 469

10. Other liabilities

Other liabilities	30.06.2017
	EUR'000
Enterprise income tax	948
Value added tax	595
Immovable property tax	483
Accumulated costs for non-used leave	464
Social insurance contributions	428
Accumulated costs	308
Personal income tax	260
Remuneration for employees	202
Other short-term liabilities	66
Natural resource tax	14
	3 768

11. Long-term deferred expenses

Long-term deferred expenses	30.06.2017
	EUR'000
	1 713

In accordance with the Regulator's Decision No. 97 of 30 April 2014 (minutes No. 16, page 4), On the Division of Investment Expenses for Interest Project "Increase of

Capacity of the Klaipeda-Kiemenai Pipeline in Lithuania", the payment has been made to AB Amber Grid.

12. Transactions by related parties

No separate undertaking controls the Company. The Company has had transactions with such undertakings,

which own or owned more than 20% of shares, which could ensure significant influence in the Company.

Income or loss	30.06.2017
	EUR'000
Income from the provision of services	
PAS "Gazprom"	26
JSC Latvijas Gāze	21 871
	21 897
Expenses for the acquisition of services from undertakings controlled by related undertakings	
JSC Latvijas Gāze	523
	523
Claims and commitments against related parties	30.06.2017
	EUR'000
Debts of related undertakings for the transit of natural gas	
JSC Latvijas Gāze	2 079
	2 079
Debts against related undertakings for natural gas and services	
JSC Latvijas Gāze	272
	272

13. Separation balance sheet

By reorganisation of the JSC Latvijas Gāze into two separate undertakings, the assets and liabilities were

transferred to the Company, which are related to natural gas transmission and storage activity.

	04.01.2017
ASSETS	EUR'000
Long-term investments	
Intangible assets	1 335
Fixed assets	332 567
Total long-term investments:	333 902
Current assets	
Stocks	5 138
Other current assets	18
Cash and its equivalents	12 297
Total current assets:	17 453
TOTAL ASSETS:	351 355
EQUITY AND LIABILITIES	
Equity:	
Share capital	39 786
Reserves	234 299
Total equity:	274 085
Long-term liabilities	
Income of next periods	8 335
Provisions for pensions and similar liabilities	1 539
Loans from credit institutions	32 375
Provisions for expected taxes	30 686
Total long-term liabilities:	72 935
Short-term liabilities	
Loans from credit institutions	2 625
Other liabilities	1 443
Income of next periods	267
Total short-term liabilities:	4 335
TOTAL LIABILITIES:	351 355

14. Accounting bookkeeping policy

Intangible investments

Intangible investment is an identifiable long-term non-monetary asset, which has no physical form and which is used for the production of goods, provision of services or for economic needs. Only the rights obtained for pay shall be recognised in the composition of intangible investments. Expenses for intangible investment, the initial value of which is less than the criterion of the value of fixed assets laid down in the Company, shall be written off in the profit or loss account in the reporting period.

Amortisation shall be calculated according to the linear method by writing off the investment value during the useful life laid down for it. Classification of intangible investments and useful life shall be determined by the decision of the Board of Directors of the Company.

Fixed assets

Fixed assets shall be movable or immovable material property, which is held to be used for the production of goods, provision of services, rent or for administrative purposes, for example for administrative needs, maintenance of other fixed assets, ensuring the performance of labour safety or environmental protection requirements or other economic needs. Useful life shall be longer than one year and it is intended to be used longer than one year and it is expected that economic benefits will be received from the use thereof. Fixed asset is not acquired and is not held for sale.

The land owned and displacement gas in the gas storage shall be accounted in the composition of the fixed assets.

Fixed assets shall be accounted at their acquisition value by deducting the accumulated depreciation and write-off of the reduction in value. Buildings, natural gas transmission and storage technological equipment shall be accounted at their fair value by deducting the accumulated depreciation and write-off of the reduction in value.

Costs arising during further use of fixed assets shall only be included in the asset value in the case when future economic benefits are expected from them and costs can be feasibly assessed.

Fixed assets shall be indicated in net value in the balance sheet by deducting the accumulated depreciation and accumulated losses from the reduction in value. Depreciation of fixed assets shall be calculated according to the linear method.

Depreciation shall not be calculated for the land, displacement gas at the gas storage, art items, advance payments for long-term assets and non-finished construction.

Classification of fixed assets and useful life shall be approved by the decision of the Board of Directors of the Company.

Revaluation of assets shall be carried out on a regular basis in order to ensure that accounting value does not significantly differ from the fair values of assets. Revaluation shall be carried out not less than once in five years. Buildings, structures, technological devices and machinery shall be the groups of fixed assets subject to re-assessment. The increase in value incurred due to the revaluation of fixed assets shall be presented in the equity item "Long-term investment revaluation reserve". In turn the reduction in value shall be written off from the revaluation reserve established in the previous periods for the fixed asset, if any, but the excess shall be included in the profit or loss account of the reporting year.

The costs of projects for the establishment of fixed assets shall be accounted in the composition of non-finished construction. Stocks which are purchased and issued for the needs of particular projects shall be accounted in the composition of non-finished construction.

Inventory

Inventory shall be indicated in the lowest value of the cost price or net sale in the balance sheet. Stocks of natural gas, materials and spare parts shall be assessed at the weighted average price. Costs for stocks shall be recognised in the profit or loss account in the reporting period when they are used.

Receivables

Remaining accounts receivable shall be accounted in conformity with supporting documents and co-ordinated by carrying out a mutual comparison of remaining amounts on the balance sheet date. Accounts receivable shall be assessed by complying with the precaution principle.

Accounts receivable shall be co-ordinated by drawing up and approving the statements on the comparison of mutual settlement. Inventory of the accounts receivable shall be carried out at least once a year. Accounts receivable shall be indicated in their net value in the balance sheet, which is calculated by deducting special provisions established for non-performing (bad) debts from the accounting value of debtors. Provisions for non-performing (bad) debts shall be established in the amount of 100 per cent in conformity with the precaution principle in all cases, provided that according to the assessment of the management, recovery of these accounts receivable is doubtful. Costs for the establishment of provisions shall be included in the profit or loss account.

Cash and its equivalents

Funds shall be comprised of the monies in the current accounts in the banks and short-term deposits with an initial term of up to 90 days, which can be easily converted into money and are not subject to the risk of significant changes in value.

Fixed assets

Share capital, long-term investment revaluation reserve, revaluation reserve of employment benefits, other statutory reserves and retained profit shall be accounted in the composition of the equity.

Long-term investment revaluation reserve shall be formed from the revaluation of fixed assets.

Other reserves shall be formed in conformity with that laid down in the decision of the shareholders of the Company.

Creditors

Settlement of loans and commitments, received advances, settlement of security deposits, settlement with suppliers and contractors, settlement of remuneration for work, settlement of taxes shall be included in the composition of creditors. Accounts payable shall be co-ordinated by drawing up and approving the statements on the comparison of mutual settlement.

Provisions

When preparing financial statements, according to the estimation of the management all foreseeable risks and potential losses that may arise shall be taken into account during the reporting period or previous period, even if they are discovered during the time period between the day of closing of the balance sheet and day of preparing the balance sheet. Provisions shall be made in accordance with the accumulation principle in conformity with the time of incurring of expenses by complying with the principle of precaution in accordance with the foreseeable risks of incurring expenses.

Expenses for benefits of employees expected after employment shall be accumulated during the employment relationship and calculated from the level of present salary of the employees, for whom the right to receive such payments has arisen or will arise in the future, and the number of employees by taking into account the actuary assumptions. Commitments of benefits after employment shall be calculated once a year in accordance with the methodology of a qualified actuary. Changes shall be registered in the profit or loss account and equity.

Provisions for commitments against employees regarding benefits in the case of termination of employment relationships shall be indicated in the current value on the last day of the reporting period. Provisions shall be calculated for each reporting period. Assumptions laid down by the actuary and available to the public regarding variable demographic and financial statements shall be used for calculations. Commitments in respect of benefits shall be calculated by taking into account the present level of the salary and the number of employees which have the right or for whom such right will arise in the future to receive these payments, and also assumptions of the actuary.

Accrued commitments and accrued income

Accrued commitments shall be recognised in the balance sheet, if during the drawing up of the financial statement, the amounts of payments for the goods or services received during the reporting period, the amount or date of payment of which is known, however the invoice has not yet been issued or received, are clearly known.

The amount of accrued commitments shall be determined in accordance with the entered into agreements, estimations, deeds on work performance.

The accrued commitments for payments of non-used leave of employees shall be determined by multiplying the amount of average salary per day for the last six months of the reporting period with the number of days of non-used leave at the end of the reporting period, by adding the relevant social insurance mandatory contributions.

Loans and interest expenses

Loans shall be initially recognised in the amount of received funds by deducting the costs related to the receipt of loans. In the next periods loans shall be indicated in their amortised acquisition value by using the loan effective interest rate.

Taxes

Expenses for enterprise income tax for the reporting year shall be calculated and included in the financial statement in accordance with the Law on Enterprise Income Tax.

Deferred tax shall be calculated in accordance with the commitment method for all temporary differences between the values of assets and liabilities in the financial statements and their values for the purposes of calculating the enterprise income tax. The tax rate which is expected in the periods when it is intended to market the relevant deferred tax asset or settle the deferred tax liability shall be used for the calculation of deferred tax.

Other taxes shall be calculated and accounted in accordance with laws and regulations regarding taxes, and indicated as liabilities in the balance sheet at the end of the reporting period to be paid into the State budget.

Income of next periods

Income of next periods shall be initially accounted in the amount of received funds and included in the income of the relevant reporting periods in conformity with the amounts of depreciation and value write-off for the current year of the long-term investment or parts thereof, or gradually during the time of performance of the conditions.

Revenue

Revenue shall be recognised according to the accumulation principle. Revenue shall be recognised in the period when storage, transmission or other services have been provided, regardless of the receipt or payment of money. Income shall be recognised according to the precaution principle.

Income from trade in transmission capacity shall be recognised for each reporting month in conformity with transmission tariffs and in proportion to the period of the relevant transmission capacity product.

Income from the provision of balancing services shall be recognised for each reporting month when unbalance forms for a system user, which has caused a shortage of natural gas in the transmission system.

Income from the trade in storage capacities shall be recognised for each reporting month in conformity with the storage tariff and in proportion to the remaining months.

Interest income shall be accumulated in accordance with the time proportion principle by using the effective interest rate. Accumulation of interest income shall be terminated if the receipt thereof is doubtful.

By complying with the precaution principle, fines and late payment money shall only be recognised as income on the day of receipt of the money.

Income from financial aid, which on the balance sheet is accounted in the income of next periods, shall be systematically recognised as income in the profit and loss account regarding fixed assets established by financial aid during their useful life.

Significant estimations and assessments

Amortisation and depreciation - shall be determined in conformity with the time periods for the use of intangible investments and fixed assets approved by the Board of Directors of the Company.

Stocks for annual account - shall be assessed in the laws value of cost price or net sale value by creating provisions for stocks of slow circulation, damaged stocks, or completely or partially outdated reduction in the estimated value of stocks.

Monthly estimation regarding the remainder of natural gas stocks at the Inčukalns Underground Gas Storage and transmission system gas pipelines.

Monthly estimation regarding losses of natural gas - shall be assessed in conformity with the methodologies of the Company for the calculation of losses of natural gas.

Estimation for losses of natural gas at the layer of manifolds of the Inčukalns Underground Gas Storage - shall be assessed once a year in the last month of the pump-in season of natural gas in accordance with the approved methodology for the calculation of losses at the layer of manifolds.

Accounts receivable - the value to be recovered of each individual account receivable shall be assessed in respect of the most significant debtors.

Provisions for commitments against employees - shall be assessed by taking into account the information regarding the number of employees, salary, period, presumptions of the actuary and other factors.