

Interim unaudited financial statements

for the 3-month period ended 31 March 2020

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

RIGA 2020



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Information on Company



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 www.conexus.lv
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 2020 – 31 March 2020

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

Conexus offers its clients natural gas transmission and storage services, subject to the tariffs

determined by the Public Utilities Commission (hereinafter referred to as PUC, or as the Regulator).

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

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

Conexus vision, mission and values



Goals of Conexus

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



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

 DIGITISATION	 CONEXUS – ENERGY PROVIDER	 COOPERATION WITH OTHER REGIONAL TSOs
Conexus will focus on modernisation and development of technologies as well as centralized asset, personnel and financial management and implementation of effective resource management.	To become the most reliable energy source in the region and gradually introduce services not only for natural gas users, but also for electricity users.	In the medium term, Conexus plans to facilitate cooperation with other TSOs in the region by coordinating operational cooperation and introducing a periodic benchmarking system with other regional TSOs.

The Council

Term of office as of 3 January 2018

Kaspars Āboliņš	Chairman of the Council
Viljams Pīrsons	Deputy Chairman of the Council
Ilze Bērziņa	Member of the Council
Sanita Greize	Member of the Council
Ilmārs Šņucins	Member of the Council
Gijoms Rivrons	Member of the Council
Martins Sičelkovs	Member of the Council (since 27 April 2018)

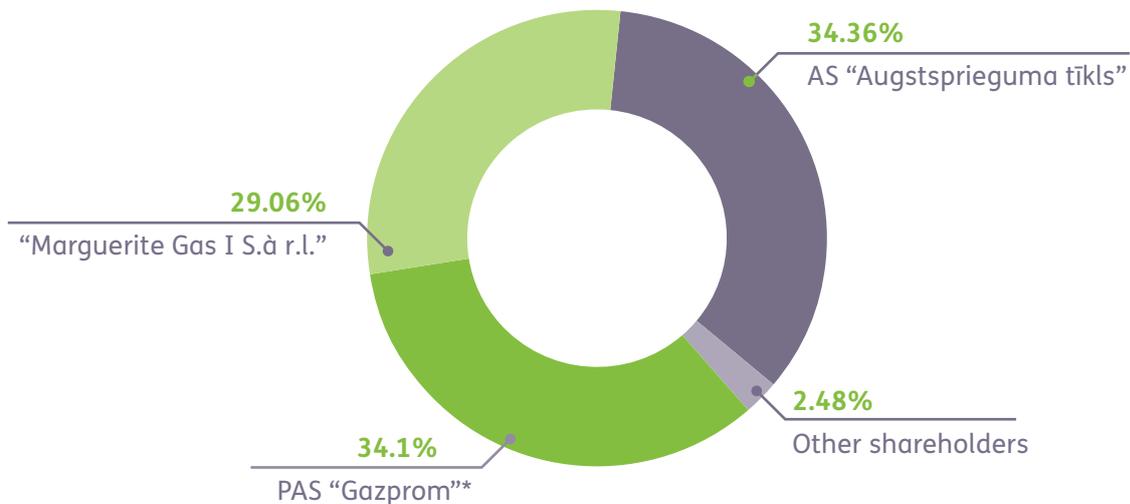
The Board

Term of office as of 31 December 2017

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

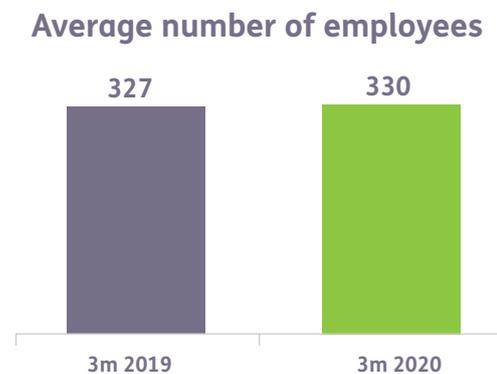
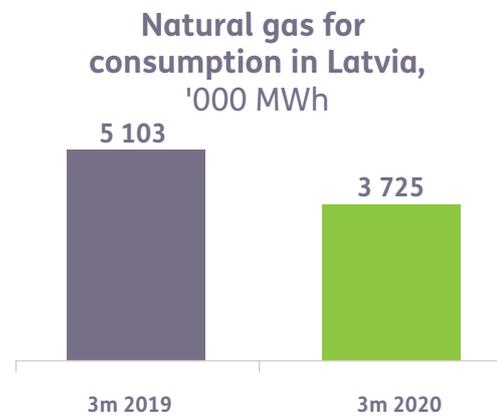
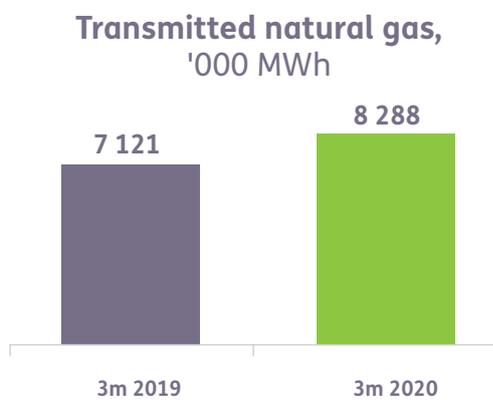
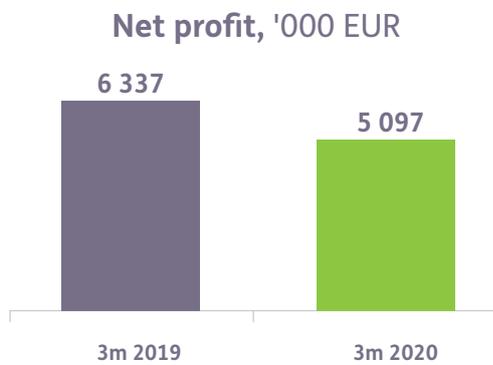
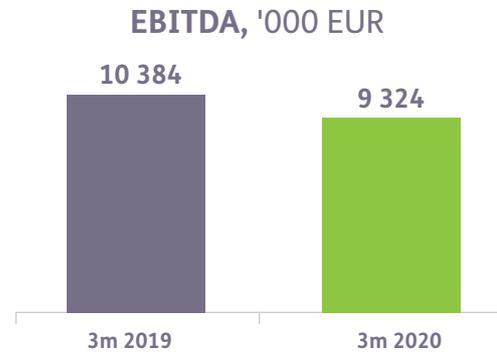
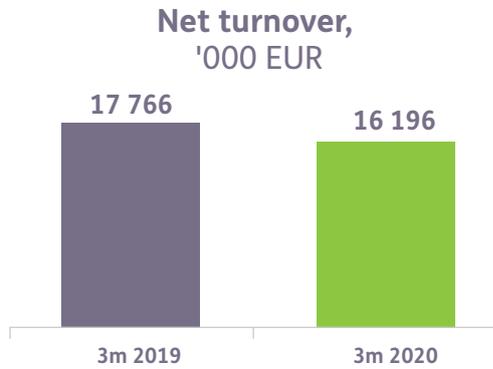
Shareholders

Conexus is a closed-end joint stock company with 100% registered shares. The total number of shares is 39 786 089, with a nominal value of EUR 1.00. The total number of shareholders exceeds 4.8 thousand. 97.52% of the total number of shares belong to the three largest shareholders.



*Has no right to represent

Key performance indicators



Management report



Summary

With opening of the unified natural gas market, the interest to use Inčukalns UGS has increased

- ◆ During the first quarter of 2020 the Company provided uninterrupted supply of natural gas for the needs of Latvia, Lithuania, Estonia, Finland and Russia. With opening of the unified natural gas market, the interest to use Inčukalns UGS has increased. The total amount of natural gas withdrawn from Inčukalns UGS during reporting period reached 7 447 thousand MWh, 14% increase in comparison to first quarter of 2019. 37% of the withdrawn volume was for consumption in Finland, 14% for consumption in Estonia.

The unusually warm weather in winter months adversely affected the volume of natural gas transmitted and financial results

- ◆ Average actual temperatures were considerably above norm during the reporting period, which significantly affected gas demand for heating purposes, and decreased the volume of gas transmitted for consumption in Latvia to 3.7 TWh, 27% less in comparison to the same period of 2019;
- ◆ In the first quarter of 2020 the Company's net turnover was 16 196 thousand EUR, which is 9% lower in comparison to the same period of 2019. Company generated a Net Profit of 5 097 thousand EUR and reached EBITDA of 9 324 thousand EUR;
- ◆ During emergency situation in relation to Covid-19 Conexus provides safe and uninterrupted operation of transmission system and Inčukalns UGS.

Main activities

- ◆ On 1 January 2020 the unified natural gas market began operating, single transmission tariff system entered into force significantly reducing the administrative burden for the users and a transparent and simple tariff system was established, which will positively affect the usage of the natural gas infrastructure in the long term. The revenue incurred on external borders of the unified market zone, are split among the three countries, which affirms the common goal of all unified market member states to strengthen the energetic security of the region. The Latvian-Estonian common IT platform which was established at the end of last year, provides capacity reservations, nominations and other services for traders in the unified Latvian-Estonian balancing zone.
- ◆ On 12 March 2020, PUC approved amendments in usage regulations of Inčukalns UGS and made a decision on Conexus natural gas storage tariffs application procedure for the 2020/2021 storage cycle. The Inčukalns UGS usage regulations came into force on March 14, tariff values came into force on April 14. PUC confirmed the following tariff values for Inčukalns UGS storage cycle 2020/2021 (VAT excl.):
 - minimum value of market product tariff - 0.92000 EUR/MWh;
 - virtual counterflow product tariff - 0.32200 EUR/MWh;
 - maximum value of bundled capacity product - 1.37918 EUR/MWh;
 - two-years bundled capacity product tariff - 2.84741 EUR/MWh.

- ◆ On 1 April 2020 the unified transmission and storage system's operator's report on the compliance of the system operator with certification requirements in 2019 was submitted to PUC. Information on the new shareholder was also submitted, whose compliance with the certification conditions will be evaluated by PUC along with the annual report.
- ◆ On 18 September 2018 Conexus filed an application to the District administrative court against the decision No. 69 of the Regulator council "On JSC "Conexus Baltic Grid" natural gas transmission system tariffs" dated 18 June 2018, in relation to expenses not being included in the transmission system tariff project

and issuance of a new administrative act, intending to include the excluded expenses in tariff project in the next period. With the decision of the District administrative court dated 17 May 2019, the proceeding was terminated, and the Company's application dismissed without consideration. With the decision by Administrative cases department of the Senate dated 19 July 2019, the District administrative court's decision dated 17 May 2019 was revoked and the case was referred for review. The case was re-examined on 16 January 2020, and with the ruling of 7 April 2020 the application was rejected. Conexus can submit an appeal in cassation to the Department of Administrative Cases of the Senate until 7 May 2020.

Main operating indicators

All Company's revenues are derived from regulated services, applying tariffs approved by the Regulator.

Conexus performance indicators		31.03.2020	31.03.2019
Transmitted natural gas	thousand MWh	8 288	7 121
Total amount of natural gas stored in Inčukalna UGS	thousand MWh	8 749	3 667
Natural gas for consumption in Latvia	thousand MWh	3 725	5 103
Total length of main gas pipelines	km	1 188	1 188
Average number of employees	Average (based on working hours)	330	327

Financial results

During the reporting period, the Company's net turnover is 16 196 thousand EUR, 9% lower in comparison to the same period of 2019. The Company's operating result is Net Profit of 5 097 thousand EUR and EBITDA reached 9 342 thousand EUR.

The Company's financial results were affected by the warm weather, which decreased demand for gas transmission services. However, signifi-

cantly lower transmission auction expenses of 2019 attributable to the first quarter of 2020 had a positive effect on the Company's EBITDA (by 1 577 thousand EUR lower than comparable expenses the year before). The savings were caused by earlier organization of this auction, due to timely approval of storage tariffs for 2019/2020, which provided increased interest from natural gas traders and subsequently lower expenses.

Conexus financial indicators	31.03.2020	31.03.2019	+/-	%
	EUR'000	EUR'000		
Net turnover	16 196	17 766	(1 570)	-9%
EBITDA	9 324	10 384	(1 060)	-10%
Net Profit	5 097	6 337	(1 241)	-20%
Segment assets	339 354	342 561	(3 207)	-1%
Cash and cash equivalents	23 221	17 874	5 347	30%
Total assets	362 574	360 435	2 139	1%
Regulated asset base	322 444	324 396	(1 952)	-1%
Net debt*	17 449	26 296	(8 847)	-34%
Investments	2 066	666	1 399	210%

*Net debt includes guarantee received from bank.

Financing and liquidity

The financial assets at the Company's disposal are sufficient to meet the Company's needs. As at 31 March 2020, the Company's borrowings were 24 500 thousand EUR at an interest rate of

0.6% + 6 month EURIBOR, with maturity on 30 November 2021. All financial covenants set in the Company's loan agreement have been complied with during the reporting period.

Conexus financial coefficients	31.03.2020	31.03.2019
EBITDA profitability	58%	58%
Net profitability	31%	36%
Return on equity ratio (ROE)	2%	2%
Shareholders' equity (>50%)	86%	88%
Net debt to EBITDA ratio (<2)	0.52	1.01

Results of segment operations

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

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

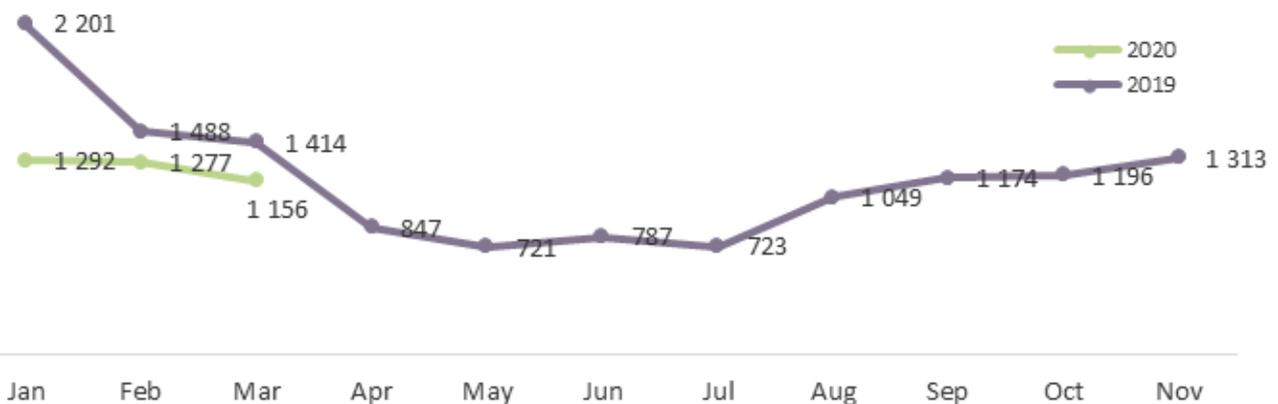
Transmission

The transmission segment generates revenue from sale of capacity both for natural gas consumption in Latvia and for international transportation of natural gas. The revenue of the transmission segment during the reporting period was 9.8 million EUR and EBITDA reached 4.7 million EUR, representing 50% of the Company’s total EBITDA. Net Profit of the transmission segment amounted to 2.2 million

EUR (29% less than year before).

During the first three months of 2020, the total volume of transmitted gas reached 8.3 TWh, 16% increase versus the year before. However, during the reporting period the volume of gas transmitted for consumption in Latvia decreased by 27%, reaching 45% of the total transmitted volume.

Gas transmitted in Latvia, thousand MWh



The transmission segment's revenue of the first quarter of 2020 was affected by the warm weather, which decreased gas demand for heating purposes. Actual temperatures in January, February and March 2020 were not only higher

than in the respective months of 2019, but also highest in the history of meteorological observations. As a result, the consumers' need for gas for heating purposes was lower than in the first quarter of 2019.

Temperature	Average monthly temperature	Above/below norm
January 2019	-4 °C	-0.8 °C
February 2019	+0.8 °C	+4.5 °C
March 2019	+2.2 °C	+2.4 °C
January 2020	+3.1 °C	+6.3 °C
February 2020	+2.2 °C	+5.9 °C
March 2020	+2.9 °C	+3.1 °C

The transmission segment assets at the end of the reporting period amounted to 177 million EUR, accounting for 52% of the total assets of the Company. Largest capital investments during the

reporting period: GRS Sloka branch capital repairs (411 thousand EUR); transmission gas pipeline repairs (153 thousand EUR).

Transmission	31.03.2020	31.03.2019	+/-	%
	EUR'000	EUR'000		
Net sales	9 787	11 316	(1 530)	-14%
EBITDA	4 673	5 491	(818)	-15%
Segment Net Profit	2 186	3 077	(891)	-29%
Segment assets	176 691	180 994	(4 302)	-2%
Depreciation and amortisation	2 463	2 388	75	3%
Acquisition of fixed assets and intangible assets	761	330	430	130%
Regulated asset base	171 820	173 772	(1 952)	-1%

Storage

The storage segment revenue during the reporting period was 6.4 million EUR (1% lower than in the same period of last year). The revenue level allowed to reach EBITDA of 4.7 million EUR and 2.9 million EUR Net Profit.

The assets of the segment at the end of the reporting period amounted to 163 million EUR, accounting for 48% of the total assets of the Company. The largest capital investments during the reporting period: Reconstruction of bores (738 thousand EUR).

Storage	31.03.2020	31.03.2019	+/-	%
	EUR'000	EUR'000		
Net sales	6 409	6 450	(40)	-1%
EBITDA	4 651	4 893	(242)	-5%
Segment Net Profit	2 910	3 260	(350)	-11%
Segment assets	162 662	161 567	1 095	1%
Depreciation and amortisation	1 726	1 617	109	7%
Acquisition of fixed assets and intangible assets	1 305	336	969	288%
Regulated asset base	150 624	150 624	0	0%

Abbreviations and formulas

- ◆ MWh = megawatt-hours
- ◆ TWh = terawatt-hours
- ◆ EBITDA = earnings before interest, taxation, depreciation & amortisation
- ◆ RAB = regulated asset base
- ◆ Net debt = loans minus cash and cash equivalents
- ◆ EBITDA profitability = EBITDA/income
- ◆ Net profitability = net profit/income
- ◆ Return on equity ratio (ROE) = net profit (over the reporting period)/equity average value
- ◆ Shareholders' equity = equity/total assets
- ◆ Net debt to EBITDA ratio = net debt/EBITDA (over 12 months period)

Subsequent events

- ◆ On April 1, Nasdaq CSD informed that on April 1, 2020 changes were made in the shareholders' registry: change of ownership of 29,0570% (11'560'645 closed share issue shares) of the Company's share capital. The transferor of the shares is Marguerite Gas I S.ār.l., the acquirer of the shares is MM Infrastructure Investments Europe Limited (Reg. No 12279235);
- ◆ During the reporting period, for the third time Conexus arranged an auction regarding the storage of active natural gas volume and availability thereof in Inčukalns UGS during the season 2020/2021 which is required to ensure the Latvian natural gas supply during an energy crisis or in case of national threats. In accordance with Cabinet Regulations "Procedure for supply of energy users and fuel selling in case of an announced energy crisis and national threats", Conexus must ensure that 3 160 megawatt hours (MWh) of active natural gas is stored in Inčukalns UGS from the beginning of withdrawal season to March 1, 2021;
- ◆ As per decision of PUC dated April 9, it was refused to extend the deadline for compliance with the conditions set out in the certification decision, and a warning was issued together with new conditions with deadline on October 1, 2020. It was decided to appeal this decision in Court by May 14, 2020 and, following the acceptance of this application, to also submit an application regarding temporary measures to suspend the initial certification decision;
- ◆ During shareholders' meeting on April 30, dividends for 2019 in amount of 16 312 thousand EUR or 0.41 EUR per share were approved. The payout is planned until May 28.

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 3 months period ending on 31 March

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

Zane Kotāne

Chairwoman of the Board

Gints Freibergs

Member of the Board

Mārtiņš Gode

Member of the Board

Financial statements



Profit and loss statement

	Note	01.01.2020- 31.03.2020	01.01.2019 - 31.03.2019
		EUR'000	EUR'000
Revenue	1	16 196	17 766
Other income	2	160	936
Cost of materials and services	3	(3 148)	(4 963)
Personnel expenses	4	(2 925)	(2 442)
Depreciation, amortization and impairment of property, plant and equipment	6, 7	(4 189)	(4 005)
Other operating expenses	5	(959)	(913)
Gross profit		5 135	6 379
Financial expenses, net		(38)	(42)
Profit before taxation		5 097	6 337
Corporate income tax			
Profit for the period		5 097	6 337

The accompanying notes on pages 22 to 36 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

Balance sheet

Assets

	Note	31.03.2020	31.12.2019
		EUR'000	EUR'000
Non-current assets			
Intangible assets	6	1 592	1 646
Property, plant and equipment	7	325 208	327 279
Non-current prepaid costs		1 209	1 310
Right of use assets		533	533
Total non-current assets:		328 542	330 768
Current assets			
Inventories	8	3 245	3 384
Advances paid for inventories		27	33
Trade receivables		6 446	6 258
Other receivables	9	1 093	453
Cash and cash equivalents		23 221	21 504
Total current assets:		34 032	31 632
TOTAL ASSETS:		362 574	362 400

The accompanying notes on pages 22 to 36 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

Balance sheet (continued)

Liabilities and shareholders' equity

	Note	31.03.2020	31.12.2019
		EUR'000	EUR'000
Shareholders' equity:			
Share capital		39 786	39 786
Treasury shares		(36)	(36)
Reserves	10	139 220	140 630
Retained earnings		141 847	135 341
Total shareholders' equity:		320 817	315 721
Non-current liabilities			
Deferred income	12	11 080	11 125
Employee benefit liabilities		1 114	1 114
Loans from credit institutions	11	21 000	21 875
Non-current lease liabilities		453	453
Total non-current liabilities:		33 647	34 567
Short-term liabilities			
Borrowings	11	3 500	3 500
Accounts payable to suppliers and contractors		1 107	2 327
Other liabilities	13	2 818	5 363
Provisions		-	-
Deferred income	12	307	307
Customer advances		287	524
Current lease liabilities		91	91
Total current liabilities:		8 110	121 12
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY:		362 574	362 400

The accompanying notes on pages 22 to 36 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
As at 1 January 2019	39 786	(38)	146 914	123 104	309 766
Dividends	-	2	-	(11 936)	(11 934)
Decrease of the revaluation reserve	-	-	(6 228)	6 228	-
<i>Other comprehensive income:</i>					
Other comprehensive income	-	-	(56)	-	(56)
Profit of the period				17 945	17 945
<i>Total other comprehensive income:</i>			(56)	17 945	17 889
As at 31 December 2019	39 786	(36)	140 630	135 341	315 721
Decrease of the revaluation reserve	-	-	(1 409)	1 409	-
Profit of the period	-	-	-	5 097	5 097
<i>Total other comprehensive income:</i>	-	-	(1 409)	6 506	5 097
As at 31 March 2020	39 786	(36)	139 221	141 847	320 818

The accompanying notes on pages 22 to 36 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 cash flow

	Note	01.01.2020 – 31.03.2020	01.01.2019 – 31.03.2019
Cash flow from operating activities			
Profit before taxes		5 097	6 337
<i>Adjustments for:</i>			
- depreciation	7	4 059	3 919
- amortization of intangible assets	6	130	86
- participation in the transnational cross-border project		101	101
- amortization of EU grants	12	(44)	(67)
- interest expenses		38	42
<i>Change in operating assets and liabilities:</i>			
- (increase)/decrease in debtors		(828)	(628)
- (increase)/decrease in inventories		145	(1 577)
- (decrease)/ increase in creditors		(3 981)	(6 786)
- Corporate income tax paid		-	(36)
Net cash flow from operating activities		4 717	1 391
Cash flows from operating activities			
Purchase of property, plant and equipment		(1 989)	(583)
Purchase of intangible assets		(76)	(83)
Cash flow from investing activities		(2 065)	(666)
Cash flow from financing activities			
Interest paid		(38)	(42)
Repayment of borrowings		(875)	(875)
Lease payments		(21)	-
Dividends paid		(1)	(2)
Net cash flow from financing activities		(935)	(919)
Net cash flow		1 717	(194)
Cash and cash equivalents at the beginning of the reporting period		21 504	18 068
Cash and cash equivalents at the end of the reporting period		23 221	17 874

The accompanying notes on pages 22 to 36 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

Notes to the financial statements

Notes to the statement of profit or loss

1. Revenue

	01.01.2020 - 31.03.2020	01.01.2019 - 31.03.2019
	EUR'000	EUR'000
Revenue from transmission services	9 787	11 316
Revenue from storage services	6 409	6 450
	16 196	17 766

2. Other income

	01.01.2020 - 31.03.2020	01.01.2019 - 31.03.2019
	EUR'000	EUR'000
Income from EU financing	45	67
Other income	115	869
	160	936

3. Materials and services

	01.01.2020 - 31.03.2020	01.01.2019 - 31.03.2019
	EUR'000	EUR'000
Natural gas expenses	126	208
Cost of materials	148	222
Maintenance of transmission and storage infrastructure	2 660	4 379
Maintenance of transport and machinery	55	40
Maintenance of IT infrastructure	159	114
	3 148	4 963

4. Personnel expenses

	01.01.2020 - 31.03.2020	01.01.2019 - 31.03.2019
	EUR'000	EUR'000
Salary	2 243	1 861
Compulsory state social security contributions	541	465
Life, health and pension insurance	138	113
Other personnel costs	3	3
	2 925	2 442

5. Other operating costs

	01.01.2020 - 31.03.2020	01.01.2019 - 31.03.2019
	EUR'000	EUR'000
Premises and territory maintenance and other services	311	303
Taxes and duties	271	271
Office and other administrative costs	377	339
Net loss from disposals of property, plant and equipment	-	-
	959	913

Notes to the balance sheet

6. Intangible assets

	31.03.2020	31.12.2019
	EUR'000	EUR'000
Cost		
Beginning of the period	6 988	5 959
Additions	77	1 029
Disposals	(1)	-
End of the period	7 064	6 988
Accumulated amortization		
Beginning of the period	5 343	4 969
Amortization for the reporting period	130	374
Disposals	(1)	-
End of the period	5 472	5 343
Net book value as at the end of the period	1 592	1645

7. Property, plant and equipment

	Land and buildings	Machinery and equipment	Other property and equipment	Spare parts emergency reserve	Assets under construction	TOTAL
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Cost or revalued amount						
31.12.2018	650 639	120 702	6 231	1 435	7 833	786 840
Additions	-	178	746	-	12 576	13 500
Reclassified	9 208	6 544	-	-	(15 752)	-
Disposals	(3 226)	(266)	(317)	-	-	(3 809)
Transferred	-	-	-	(30)	-	(30)
31.12.2019	656 621	127 158	6 660	1 405	4 657	796 501
Accumulated depreciation						
31.12.2018	387 129	63 981	4 049	-	-	455 159
Calculated	11 201	3 960	511	-	-	15 672
Disposals	(1 245)	(207)	(157)	-	-	(1 609)
31.12.2019	397 085	67 734	4 403	-	-	469 222
Balance as at 31.12.2019	259 536	59 424	2 257	1 405	4 657	327 279

Property, plant and equipment (continued)

	Land and buildings	Machinery and equipment	Other property and equipment	Spare parts emergency reserve	Assets under construction	TOTAL
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Cost or revalued amount						
31.12.2019	656 621	127 157	6 660	1 405	4 658	796 501
Additions	-	13	54	-	1 922	1 989
Reclassified	6	-	-	-	(6)	-
Disposals	-	-	(45)	-	-	(45)
Transferred	-	-	-	-	-	-
31.03.2020	656 627	127 170	6 669	1 405	6 574	798 445
Accumulated depreciation						
31.12.2019	397 086	67 733	4 403	-	-	469 222
Additions	2 856	1 060	143	-	-	4 059
Reclassified	-	-	-	-	-	-
Disposals	-	-	(44)	-	-	(44)
Transferred	-	-	-	-	-	-
31.03.2020	399 942	68 793	4 502	-	-	473 237
Balance as at 31.03.2020	256 685	58 377	2 167	1 405	6 574	325 208

8. Inventories

	31.03.2020	31.12.2019
	EUR'000	EUR'000
Natural gas	1 726	1 795
Materials and spare parts	1 588	1 658
Write-off of inventory value to net realizable value	(69)	(69)
	3 245	3 384

9. Other receivables

	31.03.2020	31.12.2019
	EUR'000	EUR'000
Prepaid expenses related to the participation in the transnational cross-border project	101	101
Other prepaid expenses	859	214
Other receivables	133	138
	1 093	453

10. Reserves

	31.03.2020	31.12.2019
	EUR'000	EUR'000
Property, plant and equipment revaluation reserve	114 271	115 681
Post-employment benefit revaluation reserve	302	302
Reorganization reserve	24 647	24 647
	139 220	140 630

11. Borrowings

	31.03.2020	31.12.2019
	EUR'000	EUR'000
Borrowings from credit institutions	21 000	21 875
Short-term loans from credit institutions	3 500	3 500
	24 500	25 375

12. Deferred income

	31.03.2020	31.12.2019
	EUR'000	EUR'000
Non-current part	11 081	11 125
Current part	307	307
	11 388	11 432

Movement of deferred income	01.01.2020 - 31.03.2020	01.01.2019 - 31.03.2019
	EUR'000	EUR'000
Opening balance	11 432	8 102
EU co-funding received	-	3 683
Transferred to revenue for the period	(44)	(353)
Transferred to future periods	11 388	11 432

13. Other Liabilities

	31.03.2020	31.12.2019
	EUR'000	EUR'000
Accrued bonuses	643	1 225
Nekustamā īpašuma nodoklis	707	-
Accrued expenses on unused vacations	375	375
Staff remuneration	363	359
Social contributions	258	220
Personal income tax	133	113
Dividends undistributed from prior years	120	121
Other non-current liabilities	108	55
Natural resources tax	6	25
Corporate income tax from theoretically distributed profit	-	28
Accrued costs for non-received invoices	-	2 842
Value added tax	105	-
	2 818	5 363

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. Financial risk management is ensured by the Member of the Board responsible for the financial area.

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

Liquidity risk

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

Interest rate risk

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

The Company is exposed to interest rate risk as the borrowing has variable interest rates. The Company's financial risk management policy

stipulates that the interest rate of the largest portion of the borrowing is variable.

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

Credit risk

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

To restrict credit risk, JSC Conexus Baltic Grid uses security deposits.

Capital risk management

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

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.

Accounting Policies

Basis of preparation

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

The financial statements were prepared on a going concern basis. Assets and liabilities in the financial statements are measured on the historical cost basis, and items of property, plant and equipment are remeasured to fair value. The cash flow statement has been prepared in accordance with the indirect method. The statement of financial position is entitled “Balance Sheet”. Financial indicators in the financial statements of JSC Conexus Baltic Grid are reported in thousands of the EUR, unless stated otherwise.

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

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

Intangible assets

Recognised as intangible assets are identifiable non-monetary assets without physical substance that are used for the provision of services or for operating purposes. Intangible assets of JSC Conexus Baltic Grid mainly consist of software licenses and patents.

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

The average useful life of intangible assets is 5 years.

Property, plant and equipment

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

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

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

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

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

amount of the revalued asset and depreciation of the from the initial cost value are recognised as accumulated profits under equity.

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

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

Type of PPE	Estimated useful life in years
Buildings	20-100
Engineering structures	20-60
Equipment and machinery	5-30
Other PPE	3-10
Darbinieku skaits	327

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

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

Lease

The new standard establishes principles for the recognition, measurement, presentation and disclosure of leases. All lease agreements entitle the lessee to use the asset, and if lease payments

are settled in a definite period, also financing component is included. IFRS 16 eliminates the option to classify lease agreements as operative or finance lease as established by IAS 17. Instead, the standard provides a single lessee accounting model. Accordingly the lessee in its accounting recognises: (a) assets and liabilities for all leases with the lease term exceeding 12 months, except for lease assets of low value; and (b) lease asset depreciation costs separately from lease liabilities' interest expenses. Accounting for lessees under IFRS 16 largely coincides with that of IAS 17. Accordingly, lessors continue to classify leases as operative or financial, and different accounting is maintained depending on classification.

The impact of IFRS 16 on the financial statements of the Company is disclosed in Note 10.

The new standard, when initially applied, will result in the Company having to recognise starting from 1 January 2019 in its balance sheet assets and liabilities relating to operating leases for which the Company acts as a lessee.

IFRS 16 allows this Standard to be applied retrospectively, taking into account the cumulative effect of the initial application of the standard recognized on the date of initial application. The lessee does not restate comparative information. Instead, the lessee recognizes the cumulative effect of the initial application of this Standard as an adjustment to the opening balance sheet of retained earnings (or other component of equity, as appropriate) at the date of initial application, if required (upon the initial application the Company was not required to recognise adjustments to equity).

Non-current prepaid costs

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

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

Inventories

Inventories are stated at the lower of cost or net realizable value. Net realisable value is the estimated selling price in the ordinary course of

business, less the estimated costs necessary to complete the inventories and the sale.

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

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

Cash and cash equivalents

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

Other financial assets

The Company adopted IFRS 9 in 2018. IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. This Standard replaced the guidance in IAS 39 ‘Financial Instruments: Recognition and Measurement’, about classification and measurement of financial instruments.

Although the permissible measurement bases for financial assets – amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit and loss (FVTPL) – are similar to IAS 39, the criteria for classification into the appropriate measurement category are significantly different.

A financial asset is measured at amortized cost if the following two conditions are met:

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

The impairment model in IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with an ‘expected credit loss (ECL)’ model, which means that a loss event will no longer need to occur before an impairment allowance is recognised. The new impairment model is applied to financial assets measured at amortized cost or FVOCI, except for investments in equity instruments, and to contract assets.

In accordance with IFRS 9 loss allowance is measured on the basis of either:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Initial recognition and measurement

Company’s financial assets include trade and other receivables and cash and cash equivalents. Similarly to the past practice all financial assets held by the Company are classified as loans and receivables at amortized cost under IFRS 9. The Company determines the classification of its financial liabilities at initial recognition. All financial assets held by the Company are recognised initially at fair value plus directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

Subsequent measurement

After initial measurement, financial assets are subsequently measured at amortised cost using the effective interest rate method (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR.

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when rights to receive cash flows from the asset have expired.

Impairment of financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. Allowances for ECL are determined on the basis of customers’ ability to pay, considering historical information about payment patterns, doubtful debts, customer creditworthiness and prevailing economic conditions. Estimates made are updated if the debtor’s ability to pay changes. The Company has adopted a loss rate based on past due day status for its trade debtors and contract assets. The effect of implementing ECLs is trivial due to the nature of the Company’s financial assets. Current receivables the Company holds are of short term nature and from customers with no past loss events. Likewise, given the short term nature the impact on cash and cash equivalents is assessed as not significant.

Therefore, no significant additional disclosures included in financial statements as allowed under IAS 1.31.

Financial liabilities

For financial liabilities, IFRS 9 brings no changes to classification and measurement except for liabilities designated at fair value through profit or loss whereby the changes in own credit risks are recognised in other comprehensive income.

Initial recognition and measurement

The Company's financial liabilities include trade and other payables, interest bearing loans and other liabilities.

Financial liabilities within the scope of IFRS 9 are classified as financial liabilities at amortised cost. The Company determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus directly attributable transaction costs.

Subsequent measurement

After initial recognition, trade and other payables, interest bearing loans and other liabilities are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the statement of profit and loss when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance cost in the statement of profit and loss.

Derecognition

A financial liability is derecognised when the

obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of profit and loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

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 not recognised for future operating losses.

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

Currency unit and revaluation of foreign currency

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

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

Employee benefits

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

Social insurance and pension contributions

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

Post-employment and other employee benefits

Under the Collective Agreement, the Company

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

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

Taxes

As of 1 January 2018, the new Law on Enterprise Income Tax of the Republic of Latvia has become into effect setting out a conceptually new regime for paying taxes. As of the date, the taxation period is one month and the taxable base includes:

- distributed profit (dividends calculated, payments equalled to dividends, conditional dividends) and
- conditionally or theoretically distributed profit (non-operating expenses, doubtful debts, excessive interest payments, loans to related parties, decrease of income or excessive expenses which are incurred by entering transactions at prices other than those on the market).

Grants

Grants received to cover capital investments are initially recognised in deferred income which is gradually recognised as revenue over the useful life of PPE received or acquired using grants. Grants received to cover expenses are recognised

in the same period when the related expenses have arisen, if all the conditions of receiving the grant are met. The Company has received grants from the EU as co-financing of capital investments.

Revenue

IFRS 15, which was adopted by the Company in 2018, deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Entity adopts a five-step model to determine when to recognise revenue, and at what amount. The new model specifies that revenue should be recognised when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised:

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

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

The internal revenue recognition policies for the different types of contracts with customers have been analysed, identifying the performance obligations, the determination of the calendar of satisfaction of these obligations, transaction price and allocation thereof, in order to identify possible differences with respect to the revenue

recognition model under the new standard. No significant differences between them have been detected. IFRS 15 requires the recognition of an asset for incremental costs incurred in obtaining such contracts with customers and which are expected to be recovered. The current practices applied by Conexus imply that there are no contract costs to be capitalized.

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

Revenue from transmission services

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

Revenue from storage

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

Interest income

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

Income from fines

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

Other income

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

JSC Conexus Baltic Grid maintains information on the quantity of natural gas entered in the transmission system and exited from it by the transmission system users and calculates the imbalance. The amount of daily imbalance is the difference between the entry and exit. In the event of a negative imbalance for the user of the

transmission system, the amount of imbalance charge is calculated for each such day, by multiplying the calculated quantity with the sale price of natural gas, published in specified order, for the daily balancing purposes. Revenues from the provision of balancing services are recognized for each reporting month when the transmission system user experiences an imbalance that has caused a deficit of natural gas in the transmission system.

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

Where market participants cause imbalance and where 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.

Significant estimates and judgements

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

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

Useful lives of property, plant and equipment

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

Revaluation of property, plant and equipment

JSC Conexus Baltic Grid 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 of revalued items of PPE is determined independently by certified appraisers in accordance with the valuation standards for real estate.

The latest revaluation of the buildings, structures, machinery was done in 2016, before the reorganisation of JSC “Latvijas Gāze”. The balances of revalued assets were transferred to the Com-

pany as a result of reorganisation, at predecessor carrying amounts. The management estimates that the carrying amount of PPE revalued on 31.12.2019 does not significantly differ from their fair value.

Employee benefit liabilities

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

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

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

The financial statements were prepared by:

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