

Joint-stock company

conexus
B A L T I C G R I D

Interim unaudited financial statements

FOR THE 3-MONTH PERIOD ENDED 31 MARCH 2021

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

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INFORMATION ON THE COMPANY

| | |
|--------------------------------|---|
| Company | Joint Stock Company (JSC) "Conexus Baltic Grid" |
| Registration number | 40203041605 |
| LEI code | 485100YDVP9E8GT6PJ90 |
| Date and place of registration | 2 January 2017, Riga |
| Address | Stigu Street 14, Riga, LV-1021, Latvia www.conexus.lv |
| Major shareholders | JSC „Augstsprieguma tīkls” (68.46%) “MM Infrastructure Investments Europe Limited” (29.06 %) |
| Financial statements period | 1 January 2020 - 31 December 2020 |

Joint stock company (JSC) Conexus Baltic Grid (hereinafter – Company or Conexus) is a unified natural gas transmission and storage operator in Latvia who manages one of the most modern natural gas storage facilities in Europe – Inčukalns Underground Gas Storage (hereinafter – Inčukalns UGS, IUGS or storage facility) and main natural gas transmission system, which directly connects the Latvian natural gas market with Lithuania, Estonia and Russia.

The natural gas transmission and storage services provided by Conexus are regulated by the Public Utilities Commission (hereinafter - PUC, Regulator).

Conexus is an independent unified natural gas transmission and storage operator who takes care for the sustainability and security of infrastructure, high quality of services, that provides economic value to customers and the public at large.

Conexus is a socially responsible Company that through added economic value ensures the overall development of the industry, employee growth, sustainable employment, at the same time taking care of minimum environmental impact of technological processes.

WHAT IS IMPORTANT TO US?

Values



Secure operation
of the system

WHY DO WE EXIST?

Mission

To promote sustainable energy market in the region, offering reliable operation of natural gas transmission and storage system.



Professional
and united team

WHO DO WE WANT TO BE?

Vision

To become the most reliable energy source in the region.



Flexibility and openness
through competent solutions



Sustainable
development

Conexus targets

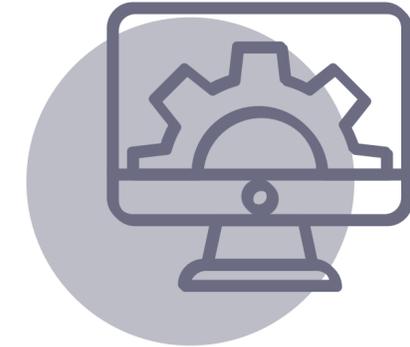
The principal medium-term (2019-2023) targets of Conexus are related to three areas: **market development, infrastructure provision and development of operations.** The strategic targets have been set in accordance with the values, vision, and mission of Conexus: **to promote sustainable operation of energy market in the region, ensure reliable operation of natural gas transmission and storage system.**

1 Development of regional natural gas market to achieve sustainable operation of Inčukalns UGS in market conditions

2 Provide safe, accessible and market-based infrastructure

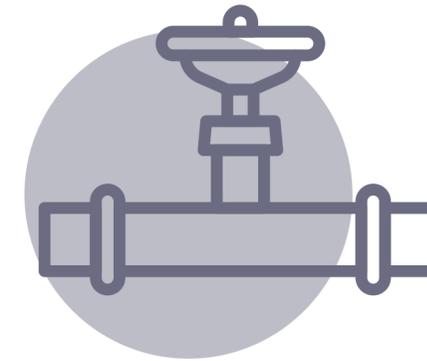
3 Implement sustainable management of the working capacity of internal and external resources

Along with the strategic targets, Conexus has defined three development guidelines that run through all planned medium-term activities, supplement the strategic targets set and contribute to their implementation.



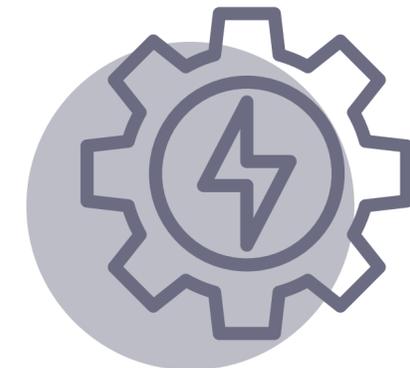
DIGITISATION

Conexus will focus on modernisation and development of technologies as well as centralized asset, personnel and financial management and implementation of effective resource management



COOPERATION WITH OTHER REGIONAL TSOs

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



CONEXUS – ENERGY PROVIDER

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.

The Council

The Council of Conexus represents interests of the shareholders between the shareholders' meetings and monitors the operation of Conexus Board. The operating principles and main obligations of the Council of Conexus are prescribed by the Statutes and Regulation of the Council. The tasks and responsibilities of the Council of Conexus are regulated by laws and regulations.

During the reporting period, several changes have taken place in the composition of the Council.

Term of office from 12 May 2021 until 11 May 2024



(in Council from 3 January 2018)

ILMĀRS ŠŅUCINS
Chairman of the Council



(in Council from 30 April 2020)

TOMOHIDE GOTO
Vice-Chairman of the Council



(Padomē no 2021. gada 12. majs)

TAKUMI SASAKI
Member of the Council



(Padomē no 2021. gada 12. majs)

VIKTORS SENTUHOVSKIS
Member of the Council



(in Council from 30 April 2020)

ILZE ALEKSANDROVIČA
Member of the Council



(in Council from 30 April 2020)

ZANE ĀBOLIŅA
Member of the Council



(in Council from 30 April 2020)

NORMUNDS ŠUKSTS
Member of the Council

Term of office from 30 April 2020 until 12 May 2021

ILMĀRS ŠŅUCINS
Chairman of the Council

(in Council from 3 January 2018)

TOMOHIDE GOTO
Vice-Chairman of the Council

(in Council from 30 April 2020)

IPPEI KOJIMA
Member of the Council

(in Council from 30 April 2020)

JUN MATSUMOTO
Member of the Council

(in Council from 30 April 2020)

ILZE ALEKSANDROVIČA
Member of the Council

(in Council from 30 April 2020)

ZANE ĀBOLIŅA
Member of the Council

(in Council from 30 April 2020)

NORMUNDS ŠUKSTS
Member of the Council

(in Council from 30 April 2020)

Board



ULDIS BARISS

JOINT-STOCK COMPANY
"CONEXUS BALTIC GRID"
CHAIRMAN OF THE BOARD

Born on 29 April 1965

valde@conexus.lv

Term of office: 16.11.2020 - 15.11.2023

Does not own shares in JSC "Conexus Baltic Grid"



GINTS FREIBERGS

JOINT-STOCK COMPANY
"CONEXUS BALTIC GRID"
MEMBER OF THE BOARD

Born on 23 August 1959

valde@conexus.lv

Term of office: 01.01.2021 - 31.12.2023

Owns 416 shares in JSC "Conexus Baltic Grid"



MĀRTIŅŠ GODE

JOINT-STOCK COMPANY
"CONEXUS BALTIC GRID"
MEMBER OF THE BOARD

Born on 17 August 1976

valde@conexus.lv

Term of office: 01.01.2021 - 31.12.2023

Does not own shares in JSC "Conexus Baltic Grid"

Shareholders

Conexus is a closed-emission 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 two largest shareholders.



MANAGEMENT REPORT

Main activities

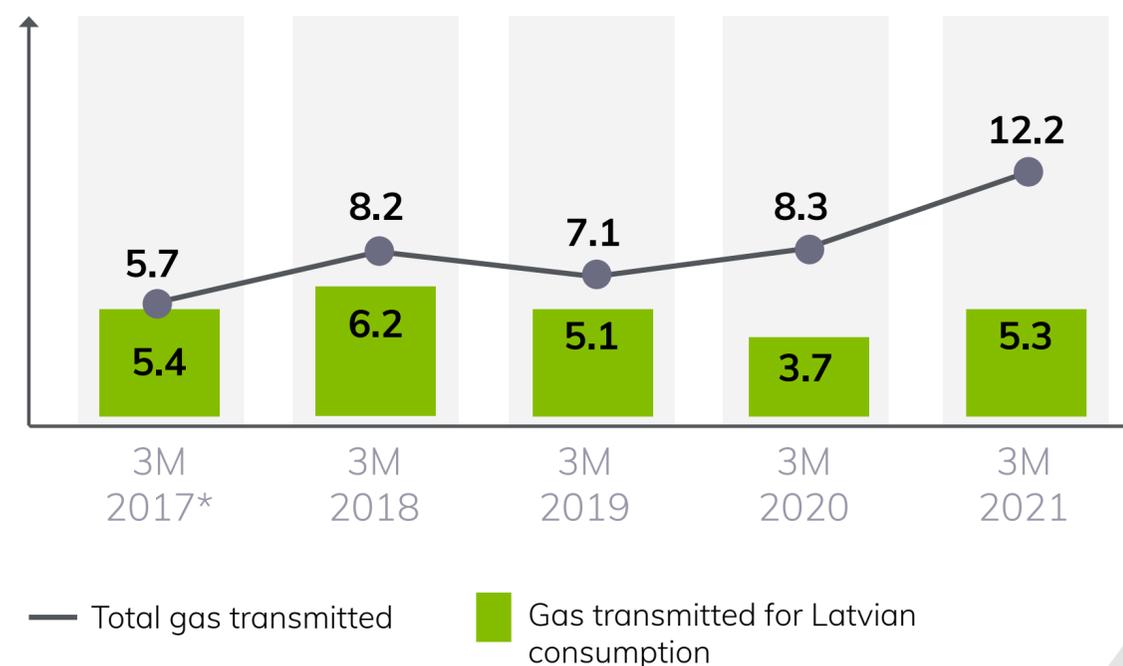
Total volume of natural gas 47% higher than prior year

Conexus successfully adapted its activities to the emergency conditions created by Covid-19 virus, thanks to the digitalisation activities carried out in recent years. Despite the difficult conditions at global and national level, the Company was able to ensure safe operation of infrastructure and access to natural gas transmission and storage services. Thus, the emergency situation related to Covid-19 did not significantly affect the Company's operational and financial results.

During the first 3 months of 2021, Conexus provided safe and uninterrupted natural gas supply for the consumption of Latvia, Lithuania, Estonia, Finland and Russia. Total volume of gas transmitted reached 12.2 TWh, which is 47% more than in prior year. Volume withdrawn from Inčukalns UGS reached 11.5 TWh, which is 63% more than the year before. 46% of the withdrawn gas volume fulfilled the needs of Latvia's consumers – natural gas for consumption in Latvia reached 5.3 TWh (42% more than in prior year). The natural gas transmitted for Lithuania's consumption during the reporting period increased more than twice, reaching 2.4 TWh. In accordance with information of Klaipėda oil terminal tankers' schedule, at the end of January one gas delivery was cancelled and the required gas volume was provided using Inčukalns UGS. During the first 3 months, 2.7 TWh (22%)

were transmitted for consumption of Finland, which is on the same level as in prior year's respective period.

Transmitted gas, TWh



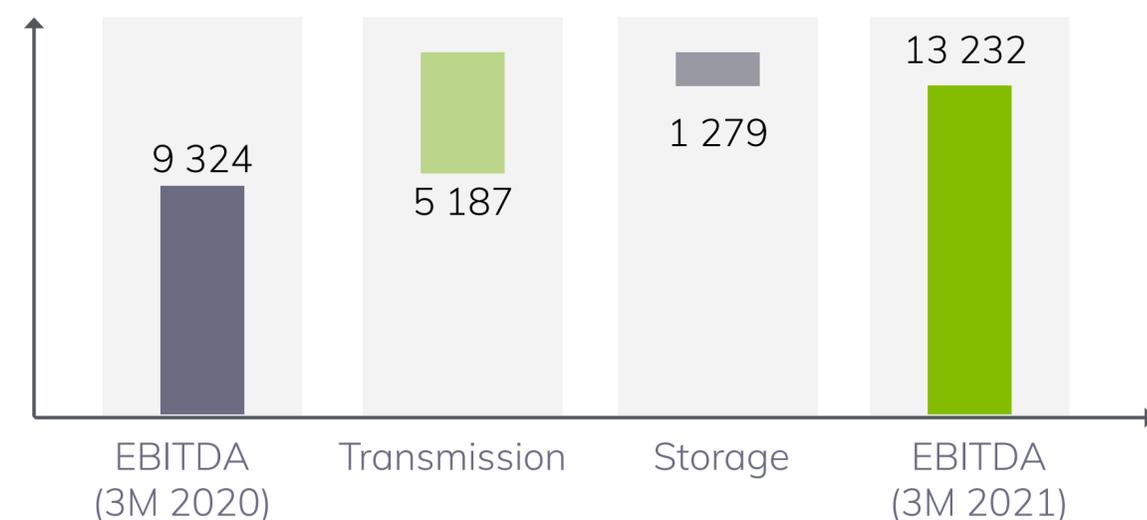
*04.01.2017-31.03.202

Financial indicators are positively affected by the cold winter

During the first 3 months of 2021, the Company's financial results were positively affected by the increase of demand for gas for national consumption, attributed to the cold weather in the winter months. The net turnover in the reporting period was 18 561 thousand EUR, which is 15% more than in prior year's respective period.

The Company's EBITDA during the reporting period increased by 42% in comparison to the respective period of 2020, reaching 13 232 thousand EUR. EBITDA was positively affected by the portion of auction expenses in relation to ensuring the natural gas supply, attributable to the first quarter of 2021, which were significantly lower (by 1 914 thousand EUR). The lower auction expenses and increase of volume of transmitted gas improved Transmission segment's EBITDA by 5.2 million EUR in comparison to the respective period of 2020.

EBITDA, '000 EUR



The decrease of Storage segment's revenue and as a result – EBITDA is mainly related to the different choice of product reservations by the market participants – during the storage cycle 2019/2020 the Market product reservations were 4.2 TWh, whereas during 2020/2021 storage cycle the Market product amounted to only 0.005 TWh. Nevertheless, the allowed revenue approved by PUC was reached during 2019/2020 and 2020/2021 storage cycles.

During the reporting period, the Company's net profit was 8 796 thousand EUR, which is 3 700 thousand EUR higher than in the respective period of prior year.

| MAIN FINANCIAL INDICATORS | 3M 2021 or 31.03.2021 | 3M 2020 or 31.03.2020 | +/- | % |
|---------------------------|-----------------------|-----------------------|--------------|------------|
| | EUR'000 | EUR'000 | | |
| Net turnover | 18 561 | 16 196 | 2 365 | 15% |
| EBITDA | 13 232 | 9 324 | 3 908 | 42% |
| Net profit | 8 796 | 5 096 | 3 700 | 73% |
| Segment assets | 484 214 | 362 574 | 121 640 | 34% |
| Investments made | 3 911 | 1 791 | 2 120 | 118% |

Financing and liquidity

The financial assets at the Company's disposal are sufficient to meet the Company's needs. As at 31 March 2021, the Company's borrowing is 20 848 thousand EUR at an interest rate of 0.41% + 6-month EU-RIBOR, with maturity on 28 March 2023.

On 29 March 2021 an overdraft agreement was concluded with an available limit of 25 million EUR expiring on 29 March 2022.

As at 31 March 2021 the Company has available, but not used, long-term loans in total amount of 60 million EUR.

All financial covenants set in the Company's loan agreement have been complied with during the reporting period.

| CONEXUS FINANCIAL COEFFICIENTS | 31.03.2021 | 31.03.2020 |
|---|-------------------|-------------------|
| EBITDA profitability | 71% | 58% |
| Net profitability | 47% | 31% |
| Return on equity ratio (ROE) | 2.1% | 1.6% |
| Net debt to EBITDA ratio (< 2) | 85% | 88% |
| Debt-Service Coverage Ratio (DSCR) (>1.2) | 0.45 | 0.52 |
| Saistību apkalpošanas koeficients (DSCR) (>1.2) | 8.93 | 9.12 |

New storage tariffs for the next five years

On 1 March 2021, PUC approved new storage service tariffs, which will come into force on 1 May 2021 and are intended for a regulative period of 5 years (from 1 May 2021 until 30 April 2026). Such period allows to equalize the future revenue over the whole regulative period and provides stability and predictability for market participants. The PUC's decision determines several tariff periods, at the same time the Company was granted a permission by PUC council decision No "1/15 Natural gas storage system service tariff calculation methodology" dated 8 October 2020, to determine storage service tariffs for each tariff period independently, if in accordance with the Methodology the planned revenue required adjustments.

Tariff values (excluding VAT) set for the 2021/2022 storage cycle, effective from 1 May 2021:

- One-year bundled capacity product tariff 1.02260 EUR/MWh;
- Two-year bundled capacity product tariff 1.08650 EUR/MWh - for one year period (01.05.2021.-30.04.2022);
- Interruptible capacity product tariff 0.81470 EUR/MWh;

- ◆ Stock transfer product tariff 1.77960 EUR/MWh;
- ◆ Virtual reverse flow product tariff 0.34710 EUR/MWh;
- ◆ The tariff of the two-year bundled unit capacity product booked in 2020/2021 storage cycle, does not change – 2.84741 EUR/MWh for two periods until 30 April 2022.

The high interest in participation in the first Inčukalns UGS capacity auction signifies the necessity for this capacity reservation tool

- ◆ The demanded capacity almost twice exceeded the maximum available capacity.

Along with the approval of new storage tariffs for the next five years, an auction principle for capacity reservations has been introduced, which was a necessary solution to ensure transparency of capacity reservations for market participants. The auction mechanism is a widely used solution in Europe, and has showed its efficiency, at the

same time enabling the Company as the service provider to ensure transparent usage of the storage for market participants. First Inčukalns UGS capacity auctions took place on 15 March, as a result system users were granted 12.9 TWh – 10.9 TWh for one year bundled capacity product of 2021/2022 storage cycle and 2 TWh for two year bundled capacity product of 2021/2023 storage cycle.

- ◆ Total requested amount of Inčukalns UGS one year bundled capacity product was 19.8 TWh which is 1.8 times more than maximum available amount within one year bundled capacity product;
- ◆ Total requested amount of Inčukalns UGS two year bundled capacity product was 5.7 TWh which is 2.8 times more than maximum available amount within two year bundled capacity product;
- ◆ Premium applicable to one year bundled capacity product volume allocated to system users is 0.31 EUR/MWh, whereas premium applicable to two year bundled capacity product volume is 0.72 EUR/MWh;
- ◆ PUC has published a consultation document on their website on 25 March 2021 regarding amendments to the Inčukalns UGS usage regulations, specifying the conditions related to organisation of Inčukalns UGS capacity auctions. To ensure maximum possible volume of natural gas stored in Inčukalns UGS, it is intended to increase number of reservation auctions. Changes are planned to be introduced starting from 2022/2023 storage cycle.

Implementation of European common interest projects

- ◆ Inčukalns UGS modernisation project and enhancement of Latvia-Lithuania interconnection (ELLI) - is actively continued during 2021, planning to invest 16 million EUR in these projects during 2021. Total planned investments are 93.5 million EUR, and for this purpose on 26 February 2021 a loan agreement was concluded with Nordic Investment Bank for 30 million EUR with a term until 4 March 2038.

During the reporting period, investments were made in amount of 3.9 million EUR, 58% of which were as part of European common interest projects.

Interest in Conexus services has increased

- ◆ During the reporting period, several new transmission, storage and balancing system users have started operating, including from Finland.

Legal events

- ◆ 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 dated on 7 April 2020 the application was rejected. Conexus submitted an appeal in cassation to the Department of Administrative Cases of the Senate on 7 May 2020 and the cassation proceedings have been initiated, but the date of the hearing is not known at this time;
- ◆ On 28 September 2020 Conexus filed an application to the Administrative District Court regarding cancellation of the PUC Council's decision No 109 dated 20 August 2020 on the capital rate of return for the calculation of the tariff project for natural gas transmission system, natural gas distribution system and natural gas storage services. The first hearing was held on 29 April 2021, the next hearing is scheduled for 27 May 2021.

Main financial indicators

| | | 04.01.2017.- 31.03.2017. | 01.01.2018.- 31.03.2018. | 01.01.2019.- 31.03.2019. | 01.01.2020.- 31.03.2020. | 01.01.2021.- 31.03.2021. | Δ | Δ % | |
|------------------------------------|---|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|---------|---------|-------|
| Operating indicators | Transmitted natural gas | TWh | 5.7 | 8.2 | 7.1 | 8.3 | 12.2 | 3.9 | 47% |
| | Total amount of natural gas stored in Inčukalns UGS | TWh | 4.8 | 3.9 | 3.7 | 8.7 | 5.6 | (3.1) | -36% |
| | Natural gas for consumption in Latvia | TWh | 5.4 | 6.2 | 5.1 | 3.7 | 5.3 | 1.6 | 42% |
| | Volume of natural gas withdrawn from IUGS | TWh | 5.7 | 7.9 | 6.4 | 7.1 | 11.5 | 4.5 | 63% |
| Financial indicators | Net turnover | `000 EUR | 13 674 | 20 654 | 17 766 | 16 196 | 18 561 | 2 365 | 15% |
| | EBITDA | `000 EUR | 10 672 | 13 267 | 10 384 | 9 324 | 13 232 | 3 908 | 42% |
| | Net profit | `000 EUR | 4 555 | 9 091 | 6 337 | 5 096 | 8 796 | 3 700 | 73% |
| | Segment assets | `000 EUR | 358 920 | 367 605 | 360 435 | 362 574 | 484 214 | 121 640 | 34% |
| | RAB, approved* | `000 EUR | 232 861 | 331 460 | 324 396 | 322 444 | 322 444 | 0 | 0% |
| | Investments | `000 EUR | 260 | 836 | 963 | 1 791 | 3 911 | 2 120 | 118% |
| Financial coefficients | Depreciation | `000 EUR | 5 283 | 4 126 | 4 005 | 4 189 | 4 391 | 202 | 5% |
| | EBITDA profitability | % | 78% | 64% | 58% | 58% | 71% | 14% | 24% |
| | Net profitability | % | 33% | 44% | 36% | 31% | 47% | 16% | 51% |
| | Return on equity ratio (ROE) | % | 1.6% | 2.8% | 2.0% | 1.6% | 2.1% | 0.5% | 34.1% |
| | Shareholders' equity ratio** | % | 77% | 87% | 88% | 88% | 85% | -3% | -4% |
| | Net debt to EBITDA ratio*** | coef. | 1.59 | 0.32 | 1.01 | 0.52 | 0.45 | (0.07) | -14% |
| | Debt-Service Coverage Ratio (DSCR)**** | coef. | - | 7.44 | 7.09 | 9.12 | 8.93 | (0.19) | -2% |
| | Average number of employees | number | 328 | 329 | 327 | 330 | 335 | 5 | 2% |
| Total length of main gas pipelines | km | 1 188 | 1 188 | 1 188 | 1 188 | 1 188 | - | 0% | |

*In 2017 RAB value is according to approved tariffs

Financial covenants:

** Shareholders' equity ratio >50%

***Net debt to EBITDA ratio < 2

****Debt-Service Coverage Ratio (DSCR) >1.2



Results of segments' operations

Business of the Company is organized in two segments: transmission and storage of natural gas. This division is based on internal organizational 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.

Transmission

Conexus is the only natural gas transmission and storage operator in Latvia, which ensures the maintenance and safe and continuous operation of the natural gas transmission system, and the interconnections with the transmission systems of other countries, enabling traders to use the natural gas transmission system for the trading of natural gas.

The main natural gas transmission system is 1 188 km long and is directly connected to the natural gas transmission systems of Lithuania, Estonia and Russia, ensuring both the transmission of natural gas in regional gas pipelines in the territory of Latvia and interconnections with the natural gas transmission systems of neighbouring countries:

- the diameter of international gas pipelines of the transmission network of natural gas transmission system in Latvia is 720 mm with the operating pressure between 28 and 40 bars;
- the diameter of regional gas pipelines is between 400 mm and 530 mm with the operating pressure up to 30 bars;

- A virtual exit point is provided for the supplies of natural gas to Latvian users, which compiles all technically feasible exits in the territory of Latvia. To transport the natural gas to the local distribution system in Latvia, 40 gas adjustment stations are used.

53% of Conexus assets are attributed to Transmission segment, and also in terms of revenue and EBITDA it is the largest. During the first 3 months of 2021, transmission revenue was positively affected by the actual air temperatures, which were lower than in the comparative months of 2020. As a result, the total demand for gas for heating purposes was higher than in the respective period of prior year.

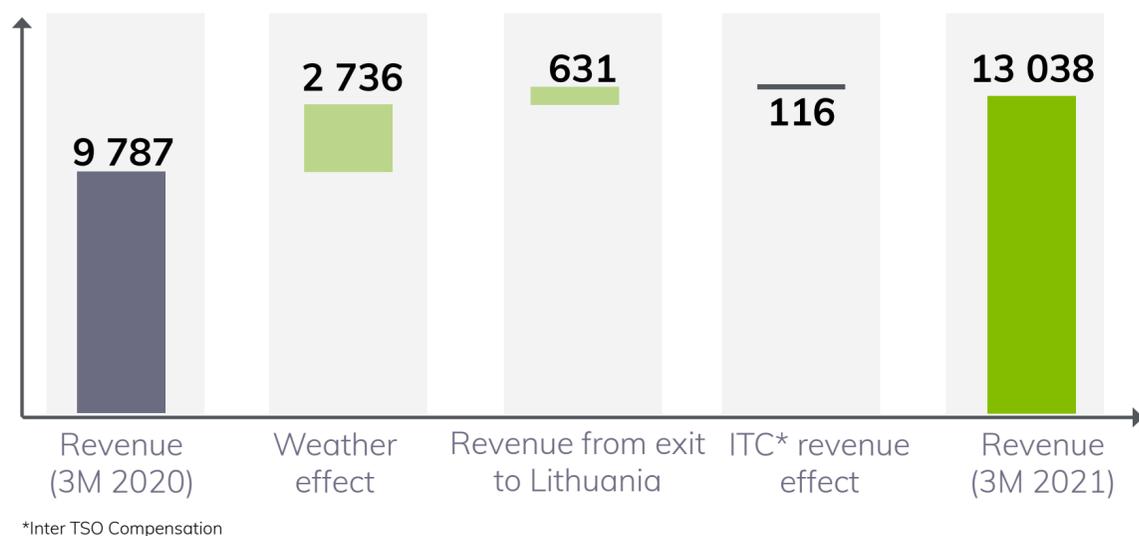
| TEMPERATURE | Average monthly temperature | Above/ below norm |
|---------------|-----------------------------|-------------------|
| January 2020 | +3.1 °C | (+8.4 °C) |
| February 2020 | +2.2 °C | (+7.1 °C) |
| March 2020 | +2.9 °C | (+4.2 °C) |
| January 2021 | -3.1 °C | (+2.2 °C) |
| February 2021 | -5.2 °C | (-0.3 °C) |
| March 2021 | +1.3 °C | (+2.2 °C) |

During the first three months of 2021, the total volume of transmitted gas reached 12.2 TWh, 47% increase versus the respective period of prior year. During the reporting period the volume of gas transmitted for consumption in Latvia increased by 42%, reaching 43% of the total transmitted volume, more than twice increased the volume of gas transmitted for consumption in Lithuania.

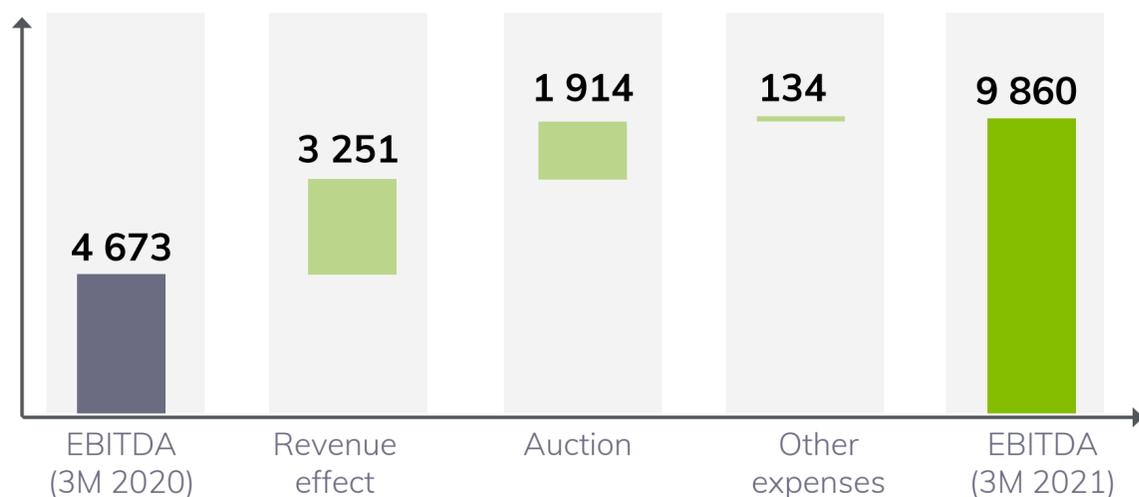


The revenue of the transmission segment during the reporting period was 13 million EUR and EBITDA reached 9.9 million EUR, representing 75% of the Company's total EBITDA. Net profit of the transmission segment amounted to 7.3 million EUR (234% more than in the respective period of prior year).

Transmission segment revenue, `000 EUR

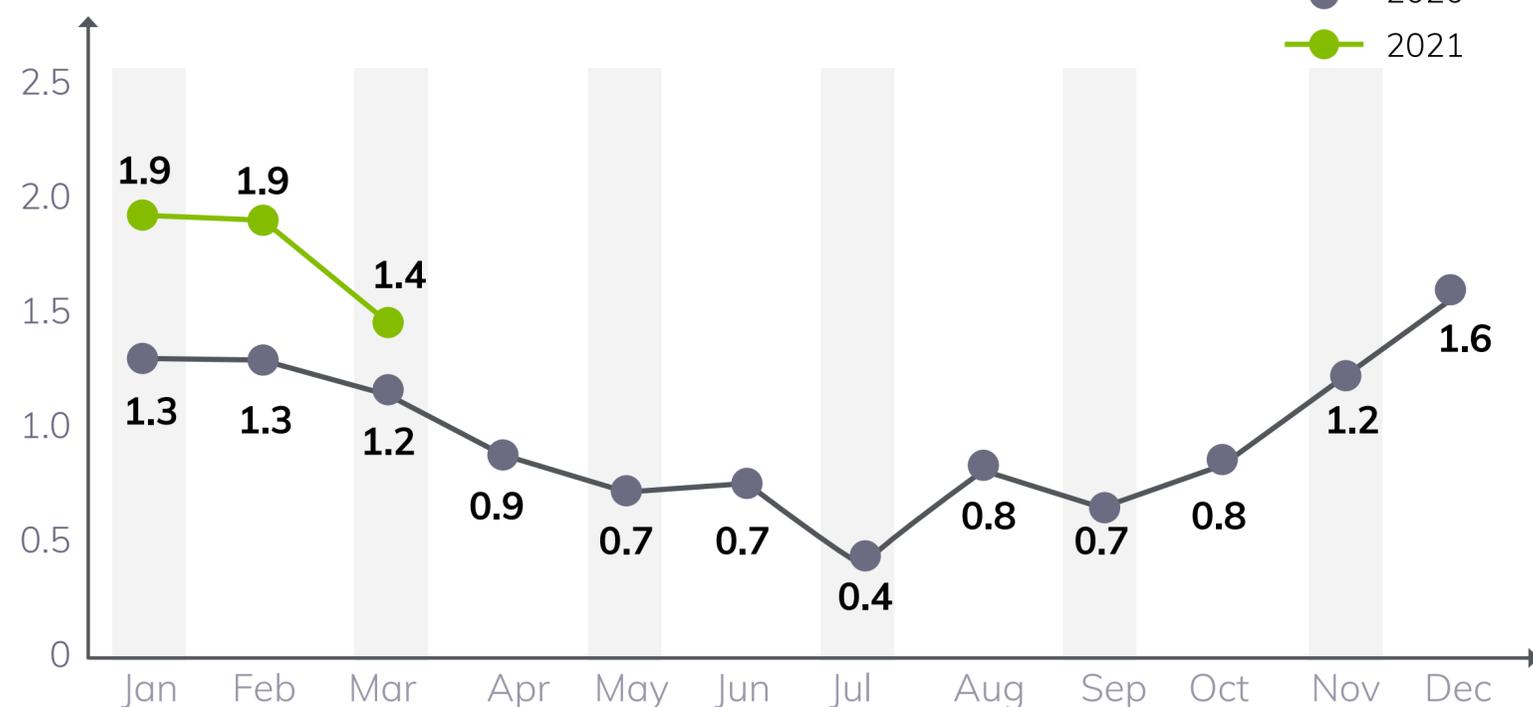


Transmission segment EBITDA, `000 EUR



| TRANSMISSION | 3M 2021 or 31.03.2021 | 3M 2020 or 31.03.2020 | +/- | % |
|------------------------------|-----------------------|-----------------------|--------------|-------------|
| | EUR'000 | EUR'000 | | |
| Net sales | 13 038 | 9 787 | 3 251 | 33% |
| EBITDA | 9 860 | 4 673 | 5 187 | 111% |
| Segment Net Profit | 7 301 | 2 185 | 5 116 | 234% |
| Segment assets | 230 094 | 176 691 | 53 403 | 30% |
| Depreciation and mortisation | 2 533 | 2 463 | 70 | 3% |
| Investments made | 1 334 | 942 | 392 | 42% |
| Regulated asset base | 171 820 | 171 820 | - | 0% |

Natural gas for consumption in Latvia, TWh



✦ The transmission segment's assets at the end of the reporting period amounted to 230 million EUR, which comprised 53% of the total assets of the Company. During the reporting period, capital investments were made in amount of 1.3 million EUR. Largest investments during the 3 months of 2021:

- Within the framework of the European project of common interest "Enhancement of Latvia -Lithuania Interconnection" (ELLI), the Company invested a total of 171 thousand EUR in several sub-projects during the 3 months of 2021.
- Transmission gas pipelines insulation repairs – 739 thousand EUR.

Storage

The natural gas storage segment provides the natural gas storage required for the heating season and other needs of the system users in the Inčukalns UGS.

The storage segment revenue during the reporting period was 5.5 million EUR (14% less than in the respective period of last year, which is related to the types of products reserved). The revenue level allowed to reach EBITDA of 3.4 million EUR and 1.5 million EUR net profit.

| STORAGE | 3M 2021 or 31.03.2021 | 3M 2020 or 31.03.2020 | +/- | % |
|-------------------------------|--------------------------|--------------------------|----------------|-------------|
| | EUR'000 | EUR'000 | | |
| Net sales | 5 523 | 6 409 | (886) | -14% |
| EBITDA | 3 372 | 4 651 | (1 279) | -28% |
| Segment Net Profit | 1 495 | 2 911 | (1 416) | -49% |
| Segment assets | 207 365 | 162 662 | 44 703 | 27% |
| Depreciation and amortisation | 1 858 | 1 726 | 132 | 8% |
| Investments made | 2 577 | 849 | 1 728 | 204% |
| Regulated asset base | 150 624 | 150 624 | - | 0% |

Storage segment's assets at the end of the reporting period amounted to 207 million EUR, which comprised 47% of the total assets of the Company. During the first 3 months of 2021, capital investments were made in amount of 2.6 million EUR, which was 1.7 million EUR more than in prior year. Largest investments (reconstruction of bores, 2 million EUR) were made within the framework of the European major project of common interest PCI 8.2.4. "Enhancement of Inčukalns UGS".

Subsequent events

- On 1 April, Operator's report regarding conformity to certification requirements in 2020 was submitted to PUC.
- In April, a financial guarantee agreement in amount of 16.2 million EUR was concluded with OP Corporate Bank plc Latvia, in relation to the Poland-Lithuania interconnection (GIPL) project agreement.
- Dividend disbursement from previous years' retained earnings in amount of 85 142 thousand EUR (2.14 EUR per share) was approved on Shareholders' meeting on 12 May. Dividends are to be paid out on 11 June.
- On 6 May 2021, Inčukalns UGS one year bundled capacity product auction took place, as a result 0.7 TWh were allocated within the

bundled capacity product, which is 7.7 times less than the maximum available capacity within the bundled capacity product.

- In May 2021 for the fourth time Conexus arranged an auction regarding the storage of active natural gas volume and availability thereof in Inčukalns UGS during the season 2021/2022 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, 2022.

ABBREVIATIONS AND FORMULAS:

| | |
|------------------------------|---|
| MWh | megawatt-hours |
| TWh | terawatt-hours |
| EUR/MWh/d/g | Euro for megawatt-hour per day/ per year |
| 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) |

STATEMENT OF THE BOARD'S RESPONSIBILITY

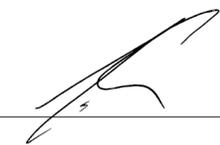
The Board of the Company is responsible for preparing its financial statements. The unaudited financial statements of the Company for the 3 months period ending 31 March 2021 were prepared in accordance with the International Financial Reporting Standards as adopted by the European Union, providing true and fair view of the financial position of the Company, its operational results and cash flow.



ULDIS BARISS
Chairman of the Board



GINTS FREIBERGS
Member of the Board



MĀRTIŅŠ GODE
Member of the Board

* This document is electronically signed with a secure electronic signature and contains a time-stamp

FINANCIAL STATEMENTS

PROFIT OR LOSS STATEMENT

| | Note | 01.01.2021.- 31.03.2021. | 01.01.2020.- 31.03.2020. |
|--|------|-----------------------------|-----------------------------|
| | | EUR | EUR |
| Revenue | 1 | 18 560 523 | 16 195 979 |
| Other income | 2 | 209 958 | 160 811 |
| Maintenance and operating costs | 3 | (1 730 493) | (3 462 216) |
| Personnel expenses | 4 | (2 926 883) | (2 924 513) |
| Other operating expenses | 5 | (881 287) | (646 390) |
| Profit before depreciation, taxes and interest payments | | 13 231 818 | 9 323 671 |
| Depreciation, amortization and impairment of property, plant and equipment | 6,7 | (4 391 062) | (4 189 191) |
| Operating profit | | 8 840 756 | 5 134 480 |
| Financial expenses, net | 8 | (44 414) | (38 088) |
| Profit before taxation | | 8 796 342 | 5 096 392 |
| Corporate income tax | | - | - |
| Profit for the reporting period | | 8 796 342 | 5 096 392 |

STATEMENT OF OTHER COMPREHENSIVE INCOME

| | Note | 01.01.2021.- 31.03.2021. | 01.01.2020.- 31.03.2020. |
|---|------|-----------------------------|-----------------------------|
| | | EUR | EUR |
| Profit for the reporting period | | 8 796 342 | 5 096 392 |
| Other comprehensive income | | | |
| Property, plant and equipment revaluation | | - | - |
| Remeasurement of post-employment benefits due to changes in actuary's assumptions | | - | - |
| Total comprehensive income | | 8 796 342 | 5 096 392 |

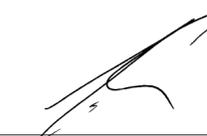
The accompanying notes on pages 21 to 36 form an integral part of these financial statements.



ULDIS BARISS
Chairman of the Board



GINTS FREIBERGS
Member of the Board



MĀRTIŅŠ GODE
Member of the Board

* This document is electronically signed with a secure electronic signature and contains a time-stamp

STATEMENT OF FINANSIAL POSITION

| | Note | 31.03.2021 | 31.12.2020 |
|---|------|--------------------|--------------------|
| ASSETS | | EUR | EUR |
| Non-current assets | | | |
| Intangible assets | 6 | 1 820 910 | 1 872 671 |
| Property, plant and equipment | 7 | 423 895 821 | 424 022 779 |
| Non-current prepaid costs | 13 | 1 184 241 | 1 209 438 |
| Right-of-use assets | 9 | 480 401 | 503 584 |
| Total non-current assets: | | 427 381 373 | 427 608 472 |
| Current assets | | | |
| Inventories | 10 | 2 896 033 | 3 021 003 |
| Advances paid for inventories | | 3 447 | - |
| Receivables from contracts with customers | 11 | 6 724 848 | 6 855 249 |
| Other receivables | 12 | 101 581 | 93 002 |
| Current prepaid costs | 13 | 352 008 | 350 493 |
| Cash and cash equivalents | | 46 754 515 | 15 163 736 |
| Total current assets: | | 56 832 432 | 25 483 483 |
| TOTAL ASSETS: | | 484 213 805 | 453 091 955 |

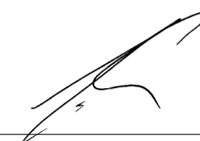
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STATEMENT OF FINANSIAL POSITION (continued)

| | Note | 31.03.2021 | 31.12.2020 |
|---|--|--------------------|--------------------|
| LIABILITIES AND SHAREHOLDERS' EQUITY | | EUR | EUR |
| Shareholders' equity: | | | |
| Share capital | | 39 786 089 | 39 786 089 |
| Treasury shares | | (34 678) | (34 678) |
| Reserves | 14 | 222 792 219 | 224 758 592 |
| Retained earnings | | 150 901 381 | 140 138 666 |
| | <i>Retained earnings</i> | <i>142 105 039</i> | <i>127 026 860</i> |
| | <i>Profit for the reporting period</i> | <i>8 796 342</i> | <i>13 111 806</i> |
| Total shareholders' equity: | | 413 445 011 | 404 648 669 |
| Non-current liabilities | | | |
| Deferred income | 15 | 10 697 359 | 10 781 736 |
| Employee benefit liabilities | | 1 028 494 | 1 028 494 |
| Loans from credit institutions | 16 | 15 525 173 | - |
| Non-current lease liabilities | 9 | 453 852 | 453 852 |
| Total non-current liabilities: | | 27 704 878 | 12 264 082 |
| Short-term liabilities | | | |
| Borrowings | 16 | 30 322 917 | 21 875 000 |
| Accounts payable to suppliers and contractors | | 3 682 910 | 7 637 032 |
| Other liabilities | 17 | 2 012 176 | 1 787 955 |
| Provisions and accrued liabilities | 18 | 1 849 002 | 2 912 784 |
| Deferred income | 15 | 4 546 045 | 1 252 930 |
| Customer advances | | 616 566 | 653 285 |
| Current lease liabilities | 9 | 34 300 | 60 218 |
| Total current liabilities: | | 43 063 916 | 36 179 204 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | | 484 213 805 | 453 091 955 |

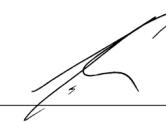
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ULDIS BARISS
Valdes priekšsēdētājs



GINTS FREIBERGS
Valdes loceklis



MĀRTIŅŠ GODE
Valdes loceklis

* Dokuments parakstīts ar drošu elektronisko parakstu un satur laika zīmogu

STATEMENT OF CHANGES IN EQUITY

| | Share capital | Treasury shares | Reserves | Retained earnings | Total |
|---|-------------------|-----------------|--------------------|--------------------|--------------------|
| | EUR | EUR | EUR | EUR | EUR |
| As at 1 January 2020 | 39 786 089 | (36 471) | 140 629 827 | 135 341 259 | 315 720 704 |
| Dividends | - | 1 793 | - | (16 312 297) | (16 310 504) |
| Decrease of the revaluation reserve | - | - | (7 997 898) | 7 997 898 | - |
| <i>Other comprehensive income:</i> | | | | | |
| Increase of the revaluation reserve | - | - | 92 100 425 | - | 92 100 425 |
| Other comprehensive income | - | - | 26 238 | - | 26 238 |
| <i>Total other comprehensive income</i> | - | - | 92 126 663 | - | 92 126 663 |
| Profit for the reporting year | - | - | - | 13 111 806 | 13 111 806 |
| <i>Total</i> | - | 1 739 | 84 128 765 | 4 797 407 | 88 927 965 |
| As at 31 December 2020 | 39 786 089 | (34 678) | 224 758 592 | 140 138 666 | 404 648 669 |
| Dividends | - | - | - | - | - |
| Decrease of the revaluation reserve | - | - | (1 966 373) | 1 996 373 | - |
| Profit for the reporting period | - | - | - | 8 796 342 | 8 796 342 |
| <i>Total</i> | - | - | (1 966 373) | 10 762 715 | 8 796 342 |
| As at 31 March 2021 | 39 786 089 | (34 678) | 222 792 219 | 150 901 381 | 413 445 011 |

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ULDIS BARISS
Valdes priekšsēdētājs



GINTS FREIBERGS
Valdes loceklis



MĀRTIŅŠ GODE
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STATEMENT OF CASH FLOWS

| | Note | 01.01.2021.-31.03.2021. | 01.01.2020.-31.03.2020. |
|---|------|-------------------------|-------------------------|
| Cash flows from operating activities | | EUR | EUR |
| Profit before taxes | | 8 796 342 | 5 096 392 |
| Adjustments for: | | | |
| - depreciation | 7 | 4 194 346 | 4 059 139 |
| - amortization of intangible assets | 6 | 173 533 | 130 051 |
| - loss/(gain) from disposals of property, plant and equipment | | 106 637 | 875 |
| - amortization of the right of use assets | 9 | 23 183 | - |
| - change in provisions | 18 | 90 000 | - |
| - participation in the transnational cross-border project | | 25 197 | 100 786 |
| - amortization of EU co-financing | 15 | (84 377) | (44 583) |
| - interest expenses | | 43 813 | 37 620 |
| Change in operating assets and liabilities: | | | |
| - (increase)/decrease in debtors | | 120 308 | (829 716) |
| - (increase)/decrease in inventories | | 121 523 | 132 979 |
| - (decrease)/ increase in creditors | | (4 641 151) | (3 965 729) |
| Corporate income tax paid | | - | - |
| Net cash flows from operating activities | | 8 969 354 | 4 717 814 |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | 7 | (4 174 026) | (1 989 133) |
| Purchase of intangible assets | 6 | (121 772) | (76 414) |
| Income from the sale of property, plant and equipment | | - | 1 025 |
| Net cash flows from investing activities | | (4 295 798) | (2 064 522) |
| Cash flows from financing activities | | | |
| Interest paid | | (38 117) | (37 620) |
| Received borrowings | 16 | 25 000 000 | - |
| Repayment of borrowings | 16 | (1 026 910) | (875 000) |
| EU co-financing received | 15 | 3 014 116 | - |
| Lease payments | 9 | (31 614) | (22 706) |
| Dividends paid | | (252) | (1 425) |
| Net cash flows from financing activities | | 26 917 223 | (935 751) |
| Net cash flows | | 31 590 779 | 1 716 541 |
| Cash and cash equivalents at the beginning of the reporting period | | 15 163 736 | 21 504 400 |
| Cash and cash equivalents at the end of the reporting period | | 46 754 515 | 23 220 941 |

The accompanying notes on pages 21 to 36 form an integral part of these financial statements.



ULDIS BARISS
Valdes priekšsēdētājs



GINTS FREIBERGS
Valdes loceklis



MĀRTIŅŠ GODE
Valdes loceklis

NOTES TO THE FINANCIAL STATEMENTS

NOTES TO THE STATEMENT OF PROFIT OR LOSS

1. REVENUE

| | 01.01.2021.- 31.03.2021. | 01.01.2020.- 31.03.2020. |
|------------------------------------|-----------------------------|-----------------------------|
| | EUR | EUR |
| Revenue from transmission services | 13 037 879 | 9 786 553 |
| Revenue from storage services | 5 522 644 | 6 409 426 |
| | 18 560 523 | 16 195 979 |

All revenue is generated in Latvia.

2. OTHER INCOME

| | 01.01.2021.- 31.03.2021. | 01.01.2020.- 31.03.2020. |
|---------------------------|-----------------------------|-----------------------------|
| | EUR | EUR |
| Net result from balancing | 427 276 | 151 629 |
| Income from EU financing | 84 377 | 44 583 |
| Other income | (301 695) | (35 401) |
| | 209 958 | 160 811 |

3. MAINTENANCE AND OPERATING COSTS

| | 01.01.2021.- 31.03.2021. | 01.01.2020.- 31.03.2020. |
|--|-----------------------------|-----------------------------|
| | EUR | EUR |
| Maintenance of transmission and storage infrastructure | 1 072 974 | 2 973 732 |
| Cost of materials | 159 433 | 148 423 |
| Natural gas expenses | 263 916 | 125 729 |
| Maintenance of IT infrastructure | 162 615 | 158 632 |
| Maintenance of transport and machinery | 71 555 | 55 700 |
| | 1 730 493 | 3 462 216 |

4. PERSONNEL EXPENSES

| | 01.01.2021.- 31.03.2021. | 01.01.2020.- 31.03.2020. |
|--|-----------------------------|-----------------------------|
| | EUR | EUR |
| Salary | 2 248 575 | 2 243 459 |
| Compulsory state social security contributions | 554 053 | 540 403 |
| Life, health and pension insurance | 122 140 | 138 185 |
| Other personnel costs | 2 115 | 2 466 |
| | 2 926 883 | 2 924 513 |

5. OTHER OPERATING EXPENSES

| | 01.01.2021.- 31.03.2021. | 01.01.2020.- 31.03.2020. |
|--|-----------------------------|-----------------------------|
| | EUR | EUR |
| Taxes and duties* | 271 532 | 271 335 |
| Office and other administrative costs | 503 118 | 374 180 |
| Net loss from disposals of property, plant and equipment | 106 637 | 875 |
| | 881 287 | 646 390 |

* Real estate tax, Natural resources tax, Public Utilities Commission fee, State and municipal fees, Corporate income tax from theoretically distributed profit

NOTES TO THE STATEMENT OF FINANCIAL POSITION

6. INTANGIBLE ASSETS

| Intangible assets | 31.03.2021 | 31.12.2020 |
|---------------------------------------|-------------------|-------------------|
| Historical cost | EUR | EUR |
| Beginning of the period | 7 705 353 | 6 988 487 |
| Additions | 121 772 | 771 934 |
| Disposals | - | (55 068) |
| End of the period | 7 827 125 | 7 705 353 |
| Accumulated amortization | | |
| Beginning of the period | 5 832 682 | 5 342 742 |
| Amortization for the reporting period | 173 533 | 544 726 |
| Disposals | - | (54 786) |
| End of the period | 6 006 215 | 5 832 682 |
| Balance as at 31.12.2020 | 1 872 671 | 1 645 745 |
| Balance as at 31.03.2021 | 1 820 910 | 1 872 671 |

7. PROPERTY, PLANT AND EQUIPMENT

| | Land and buildings | Machinery and equipment | Other property and equipment | Spare parts emergency reserve | Assets under construction | TOTAL |
|---|--------------------|-------------------------|------------------------------|-------------------------------|---------------------------|--------------------|
| | EUR | EUR | EUR | EUR | EUR | EUR |
| Historical cost or revalued amount | | | | | | |
| 31.12.2019 | 656 621 419 | 127 156 914 | 6 660 420 | 1 404 727 | 4 657 656 | 796 501 136 |
| Additions | - | 411 689 | 825 755 | - | 19 857 622 | 21 095 066 |
| Revaluated | 108 395 378 | 2 721 464 | 69 399 | - | - | 111 186 241 |
| Reclassified | 9 939 154 | 1 824 764 | - | - | (11 763 918) | - |
| Disposals | (2 302 838) | (1 195 494) | (188 226) | - | - | (3 686 558) |
| Transferred | 37 | - | - | 158 461 | - | 158 498 |
| 31.12.2020 | 772 653 150 | 130 919 337 | 7 367 348 | 1 563 188 | 12 751 360 | 925 254 383 |
| Accumulated depreciation | | | | | | |
| 31.12.2019 | 397 085 635 | 67 732 802 | 4 403 067 | - | - | 469 221 504 |
| Calculated | 10 999 985 | 4 603 971 | 587 705 | - | - | 16 191 661 |
| Calculated accelerated depreciation | 82 628 | (309 297) | 15 428 | - | - | (211 241) |
| Revaluated | 32 214 500 | (13 169 683) | 40 999 | - | - | 19 085 816 |
| Disposals | (1 791 013) | (1 079 134) | (185 989) | - | - | (3 056 136) |
| 31.12.2020 | 438 591 735 | 57 778 659 | 4 861 210 | - | - | 501 231 604 |
| Balance as at 31.12.2019 | 259 535 784 | 59 424 112 | 2 257 353 | 1 404 727 | 4 657 656 | 327 279 631 |
| Balance as at 31.12.2020 | 334 061 415 | 73 140 678 | 2 506 138 | 1 563 188 | 12 751 360 | 424 022 779 |

7. PROPERTY, PLANT AND EQUIPMENT (continued)

| | Land and buildings | Machinery and equipment | Other property and equipment | Spare parts emergency reserve | Assets under construction | TOTAL |
|---|--------------------|-------------------------|------------------------------|-------------------------------|---------------------------|--------------------|
| | EUR | EUR | EUR | EUR | EUR | EUR |
| Historical cost or revalued amount | | | | | | |
| 31.12.2020 | 772 653 150 | 130 919 337 | 7 367 348 | 1 563 188 | 12 751 360 | 925 254 383 |
| Additions | 36 404 | 23 697 | 88 616 | - | 4 025 309 | 4 174 026 |
| Revaluated | - | - | - | - | - | - |
| Reclassified | 1 015 369 | - | - | - | (1 015 369) | - |
| Disposals | (185 508) | (153 800) | (60 714) | - | - | (400 022) |
| Transferred | - | - | - | - | - | - |
| 31.03.2021 | 773 519 415 | 130 789 234 | 7 395 250 | 1 563 188 | 15 761 300 | 929 028 387 |
| Accumulated depreciation | | | | | | |
| 31.12.2020 | 438 591 735 | 57 778 659 | 4 861 210 | - | - | 501 231 604 |
| Calculated | 2 818 167 | 1 192 456 | 183 724 | - | - | 4 194 347 |
| Calculated accelerated depreciation | - | - | - | - | - | - |
| Revaluated | - | - | - | - | - | - |
| Disposals | (109 303) | (124 464) | (59 618) | - | - | (293 385) |
| Transferred | - | - | - | - | - | - |
| 31.03.2021 | 441 300 599 | 58 846 651 | 4 985 316 | - | - | 505 132 566 |
| Balance as at 31.12.2020 | 334 061 415 | 73 140 678 | 2 506 138 | 1 563 188 | 12 751 360 | 424 022 779 |
| Balance as at 31.03.2021 | 332 218 816 | 71 942 583 | 2 409 934 | 1 563 188 | 15 761 300 | 423 895 821 |

8. FINANCIAL EXPENSES

| | 31.03.2021 | 31.12.2020 |
|------------------------------|---------------|---------------|
| | EUR | EUR |
| Interests paid | 38 117 | 37 620 |
| Asset lease interest expense | 5 696 | - |
| Other financial expenses | 600 | 468 |
| | 44 413 | 38 088 |

9. LEASE

| | 31.03.2021 | 31.12.2020 |
|--|----------------|----------------|
| | EUR | EUR |
| Right-of-use assets | | |
| Opening balance | 503 584 | 532 734 |
| Recognised changes in lease contracts | - | 57 397 |
| Depreciation recognised in the statement of profit or loss | (23 183) | (86 547) |
| Balance as at the end of the period | 480 401 | 503 584 |
| Lease liability | | |
| Opening balance | 514 070 | 543 455 |
| Recognised changes in lease contracts | - | 57 397 |
| Recognised decrease in lease liabilities | (31 614) | (111 718) |
| Recognised lease interest expense | 5 696 | 24 936 |
| Balance as at the end of the period | 488 152 | 514 070 |
| incl. | | |
| Non-current lease liabilities | 453 852 | 453 852 |
| Current lease liabilities | 34 300 | 60 218 |

10. INVENTORIES

| | 31.03.2021 | 31.12.2020 |
|--|------------------|------------------|
| | EUR | EUR |
| Natural gas | 1 320 833 | 1 477 709 |
| Materials and spare parts | 1 655 354 | 1 623 448 |
| Write-off of inventory value to net realisable value | (80 154) | (80 154) |
| | 2 896 033 | 3 021 003 |

| Write-off of inventory value to net realisable value | 31.03.2021 | 31.12.2020 |
|--|-----------------|-----------------|
| | EUR | EUR |
| Write-offs at the beginning of the period | (80 154) | (68 339) |
| Write-offs during period | - | (11 815) |
| Write-offs at the end of the period | (80 154) | (80 154) |

11. RECEIVABLES FROM CONTRACTS WITH CUSTOMERS

| | 31.03.2021 | 31.12.2020 |
|--|------------------|------------------|
| | EUR | EUR |
| Receivables for natural gas transporting | 4 473 745 | 4 625 819 |
| Receivables for natural gas storage | 2 009 978 | 2 009 978 |
| Receivables for balancing operations | 240 196 | 218 523 |
| Receivables for penalties | 929 | 929 |
| | 6 724 848 | 6 855 249 |
| Incl. Accrued income | | |
| For natural gas transporting | 2 447 769 | 2 335 550 |
| For natural gas storage | 1 571 515 | 1 571 515 |
| For balancing operations | 651 319 | 111 273 |
| | 4 670 603 | 4 018 338 |

12. OTHER RECEIVABLES

| | 31.03.2021 | 31.12.2020 |
|---|----------------|---------------|
| | EUR | EUR |
| Other receivables | 75 143 | 75 445 |
| Other prepaid expenses | 25 589 | 16 708 |
| Advances to the SRS deposited funds account | 849 | 849 |
| | 101 581 | 93 002 |

13. PREPAID EXPENSES

| | 31.03.2021 | 31.12.2020 |
|---|------------------|------------------|
| | EUR | EUR |
| Non-current part | | |
| Participation in the transnational cross-border project | 1 184 241 | 1 209 438 |
| Total non-current part | 1 184 241 | 1 209 438 |
| Current part | | |
| Participation in the transnational cross-border project | 100 786 | 100 786 |
| IT expenses | 129 643 | 162 095 |
| Insurance expenses | 64 167 | 66 537 |
| Transport expenses | 13 487 | 11 408 |
| Other prepaid expenses | 43 925 | 9 667 |
| Total current part | 352 008 | 350 493 |
| Total prepaid expenses | 1 536 249 | 1 559 931 |

14. RESERVES

| | 31.03.2021 | 31.12.2020 |
|---|--------------------|--------------------|
| | EUR | EUR |
| Property, plant and equipment revaluation reserve | 197 816 883 | 199 783 256 |
| Post-employment benefit revaluation reserve | 328 076 | 328 076 |
| Reorganisation reserve | 24 647 260 | 24 647 260 |
| | 222 792 219 | 224 758 592 |

15. DEFERRED INCOME

| | 31.03.2021 | 31.12.2020 |
|-------------------------------------|-------------------|-------------------|
| | EUR | EUR |
| Non-current part | 10 697 359 | 10 781 736 |
| Current part (EU co-financing) | 3 363 881 | 349 765 |
| Current part (contract liabilities) | 1 182 164 | 903 165 |
| | 15 243 404 | 12 034 666 |

| Movement of deferred income | 31.03.2021 | 31.12.2020 |
|--|-------------------|-------------------|
| | EUR | EUR |
| Opening balance | 12 034 666 | 11 432 471 |
| EU co-financing received | 3 014 116 | - |
| Recognized contract liabilities | 278 999 | 903 165 |
| Transferred to revenue for the period (see Note 2) | (84 377) | (300 970) |
| Transferred to future periods | 15 243 404 | 12 034 666 |

16. BORROWINGS

| | 31.03.2021 | 31.12.2020 |
|---|-------------------|-------------------|
| | EUR | EUR |
| Borrowings from credit institutions | 15 525 173 | - |
| Short-term loans from credit institutions | 30 322 917 | 21 875 000 |
| | 45 848 090 | 21 875 000 |

As at 31 March 2021, the Company's borrowings amounted to EUR 20.8 million with maturity on 28 March 2023. The weighted average interest rate during the reporting period was 0.6% (in 2020: 0.6%).

As at 31 March 2021, the Company's used overdraft amounted to EUR 25 million (as at 31 December 2020: EUR 0). Overdraft agreement's term is 29 March 2022, available credit limit is EUR 25 million.

As at 31 March 2021, the Company has unused long-term loan commitments in amount of EUR 60 million (as at 31 December 2020: EUR 0). All loans are in EUR currency and are not secured by collateral.

17. OTHER LIABILITIES

| | 31.03.2021 | 31.12.2020 |
|--|------------------|------------------|
| | EUR | EUR |
| Value added tax | 686 079 | 611 961 |
| Staff remuneration | 398 276 | 382 599 |
| Social contributions | 361 529 | 267 146 |
| Dividends undistributed from prior years | 190 103 | 190 355 |
| Other non-current liabilities | 149 115 | 157 741 |
| Personal income tax | 194 972 | 131 367 |
| Natural resources tax | 3 590 | 43 237 |
| Corporate income tax from theoretically distributed profit | 350 | 3 539 |
| Real estate tax | 28 612 | 10 |
| | 2 012 176 | 1 787 955 |

18. PROVISIONS AND ACCRUED LIABILITIES

| | 31.03.2021 | 31.12.2020 |
|---|------------------|------------------|
| | EUR | EUR |
| Provisions for annual performance bonuses | 1 216 599 | 1 739 251 |
| Accruals for gas losses in collector layer | 90 000 | - |
| Accrued liabilities for unreceived invoices | 15 257 | 640 972 |
| Accrued unused vacation costs | 516 421 | 516 421 |
| Accrued liabilities for annual audit | 10 725 | 16 140 |
| | 1 849 002 | 2 912 784 |

19. FINANCIAL RISK MANAGEMENT AND FAIR VALUE

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.

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

The Company's financial assets include receivables from contracts with customers, other debtors, cash and cash equivalents.

LIQUIDITY RISK

Liquidity risk is associated with ability of the Company to settle its obligations within agreed terms. Company 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, Company 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 and credit lines granted by credit institutions.

INTEREST RATE RISK

Interest rate risk arises from the use of borrowed cash resources to ensure liquidity. Company 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

The Company 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, the Company uses security deposits. As the end of reporting period the Company was not subject to significant credit risk related to its debtors as there were no overdue debts and all trade receivables were collected during April 2021.

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. Adequacy ratio of the shareholders' equity is calculated as the ratio of Conexus's total liabilities to its total capital.

CURRENCY RISK

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

20. ACCOUNTING POLICIES

BASIS OF PREPARATION

The unaudited financial statements of Company 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 2021 to 31 March 2021.

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. Financial indicators in the financial statements of the Company are reported in thousands of the EUR, unless stated otherwise.

In preparing the financial statements of Company 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.

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 the Company and official currency in the Republic of Latvia.

All transactions in foreign currencies are translated into euro at the exchange rate of the European Central Bank on the day of the relevant transactions. 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.

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.

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.

NON-FINANCIAL ASSETS AND LIABILITIES

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 Company mainly consist of so ware 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 In-čukalns 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.

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.

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 | 20-65 |
| Equipment and machinery | 5-35 |
| Other PPE | 3-15 |

LEASE

Upon adoption of IFRS 16 in the reporting period the Company recognised right-of-use assets for property (land) and office space leased by the Company in the ordinary course of business.

Initially right-of-use assets are measured at the present value of outstanding lease payments at the date of recognition. Lease payments are discounted using WACC set for the Company.

Subsequent to initial recognition, right-of-use assets are measured at cost. Under the cost model, right-of-use assets are measured at cost net of accumulated amortisation and impairment losses. Assets are amortised from the date of acquisition to the end date of lease. Subsequent to initial recognition, lease liabilities are measured:

- by increasing the carrying amount to reflect interest on lease liabilities and
- by reducing the carrying amount to reflect lease payments made.

Right-of-use assets relating to leased assets are disclosed in the statement of financial position separately from other assets and lease liabilities are disclosed separately from other liabilities. Interest expenses on lease liabilities are disclosed in the statement of profit or loss separately from amortisation of the right-of-use asset. IFRS 16 was implemented using the modified retrospective approach rather than the full application approach with 1 January 2019 as the date of the initial application, and rights of use and assets were recognised only for contracts signed after the above date.

During the reporting period the Company did not make use of a practical expedient for short-term leases and leases for which the underlying asset is of low value as such contracts were not signed during the reporting period.

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.

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.

PREPAID EXPENSES

Prepaid expenses represent expenses paid during the reporting year but relate to future periods.

Classified as non-current prepaid expenses are balances of payment made by Company, 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.

DEFERRED INCOME

Grants linked to assets and EU funding for establishment of non-current investments are initially recognised under non-current portion of deferred income. Grants are recognised as revenue in the statement of profit or loss income gradually over the useful life of the underlying assets.

Short-term deferred income comprises payments received towards reservations of natural gas storage capacity. A receivable and revenue is recognised by the Company on the date the service is provided, and deferred income is reduced by a corresponding amount at the same time.

CONTRACT ASSETS

Contract assets include the right to a consideration for transmission and storage services provided, which have not been invoiced at the reporting date. These rights are included under receivables as accrued income. Accrued income includes clearly known amounts to be settled with clients in relation to transportation, storage and balancing operations of natural gas of the Company in the reporting year with regard to which the due date for issuing the payment supporting document (invoice) as set in the agreement has not arrived at the reporting date. These amounts are calculated based on fees for services set in effective agreements.

CONTRACT LIABILITIES

Contract liabilities consist primarily of advances paid by customers, deferred income for transmission and storage services provided. Deferred income is recognised if payments are received by the Company in the reporting period for services to be performed in future periods (following the reporting period). Payments included under deferred income are recognised as revenue in the reporting period in which the performance obligation is realised.

ACCRUED LIABILITIES

Accrued liabilities are recognised if the amount and maturity date of the liability is reasonably accurately determinable and the degree of uncertainty is significantly lower than that for provisions.

Accrued liabilities are recognised:

- for services for which the supporting document for payment (invoice) has not been received at the reporting date due to delivery, purchase or company contract provisions, or for other reasons. The amount of these liabilities is calculated based on the contract price and documents supporting actual receipts of goods or services;
- settlements with regard to annual staff vacations and bonuses.

FINANCIAL ASSETS

Financial assets include receivables, cash and cash equivalents. Classification depends on the purpose for which the financial asset was acquired. Financial assets are cash, instruments in equities of another party, contractual rights to receive cash or other financial assets and offset financial assets or financial liabilities, and a contract with equity based settlements.

Financial assets are derecognised when the contractual rights to receive cash flows from the financial asset have expired or have been transferred to another party or when substantially all the risks and rewards of ownership have been transferred.

ACCOUNTS RECEIVABLE

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Short term receivables are not discounted. Receivables are initially recognised at fair value and subsequently recognised at amortised cost using the effective interest rate less impairment allowances. Receivables from services provided are assessed by the Company using the expected credit loss model with impairment allowances recognised regardless of whether or not a loss event had taken place.

The Company uses a simplified approach to receivables and recognises life-time expected credit losses based on the analysis of historical credit losses and forward-looking information. The Company uses an

allowance matrix based on the ageing structure of receivables and the historical level of default for 3 years supplemented with forward-looking information. Expected credit losses for receivables are calculated based on the assumed risk of default and expected loss rates. In making these assumptions and selecting data for impairment calculation the Company relies on its experience, the present market conditions and forward-looking information at the reporting date.

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.

FINANCIAL LIABILITIES

Financial liabilities include loans and trade accounts payable and other creditors.

LIABILITIES

Accounts payable are initially recognised at fair value. In subsequent periods, accounts payable are carried at amortised cost calculated in accordance with the effective interest rate method. Accounts payable are classified as current liabilities if the payment term is one year

or less. Where the payment term exceeds one year accounts payable are classified as non-current liabilities.

The effective interest rate is a rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability. When calculating the effective interest rate, the Company estimates future cash flows considering all contractual terms of the financial instruments, but not future credit losses.

BORROWINGS

The Company obtains loans from credit institutions to finance long-term asset creation. Loans are initially recognised at the fair value net of borrowing costs. In future periods, loans are carried at amortised cost calculated using the effective interest rate of the loan.

The difference between the amount received, net of borrowing costs, and the value of the loan at maturity is gradually charged to the statement of profit or loss using the effective interest rate. The difference is recognised under finance expenses. Loans are classified as current liabilities except when the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Financial liabilities are derecognised when the underlying obligation is discharged or cancelled or expires.

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 Company 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 Company 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 Company to the transmission system users at approved dates. Short-term (quarterly, monthly, daily and current day's capacity) and long-term transmission capacity (annual capacity) products are offered. Revenue from transmission capacity trade products, which, in its essence mean the provision of the transmission infrastructure and according to the chosen product, does not change over time for each capacity unit, is recognised in the profit or loss account for each reporting month in proportion to the period of the transmission capacity product reserved by the user.

Revenue from storage

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

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

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

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 Company does not have sufficient gas resources available to ensure a proper operation of the gas transmission system, Company shall buy respective quantities of balancing gas.

SHARE CAPITAL AND DIVIDENDS

The Company's share capital consists of ordinary voting shares. Share capital consists of ordinary shares. Nominal value of each share is EUR 1.00. The Company is owned by shareholders and it distributes dividends according to laws of the Republic of Latvia. Dividends are recognised as a liability in the Company's financial statements in the period in which the shareholders approves the amount of dividends.

LOANS FROM CREDIT INSTITUTIONS

Non-derivative financial liabilities are measured at fair value, at initial recognition and for disclosure purposes, at each annual reporting date. Fair value of financial liabilities with outstanding maturities longer than six months is calculated based on the present value of future principal and interest cash flows, discounted at the market interest rate at the measurement date. Loans include a fixed and floating interest rate components and changes to the fixed component are assessed each year according to changes in the market situation. As a result it is assumed that the loan interest rate approximates the market rate in all reporting dates presented. For finance leases the market interest rate is determined with reference to similar lease agreements. Fair value of shorter term financial liabilities with no stated interest rate is deemed to approximate their face value on initial recognition and carrying value on any subsequent date as the effect of discounting is immaterial.

PAYABLES AND RECEIVABLES

As trade receivables, amounts due from related parties, other receivables, other financial assets, accounts payable to contractors and other creditors, accounts payable to related parties and other financial liabilities typically mature in less than six months the Company believes that the fair value of these financial assets and liabilities matches their initial nominal value and their carrying amount at any future date.

The financial statements were prepared by:



AIJA MARTINSONE-STAGE

Head of Financial Accounting Division

* This document is electronically signed with a secure electronic signature and contains a time-stamp