

Interim unaudited financial statements

for the 6-month period ended 30 June 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 %) MM Infrastructure Investments Europe Limited (29,06 %) |
| Financial statements period | 1 January 2020 – 30 June 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 from 3 January 2018 to 30 April 2020

| | |
|--------------------------|---|
| 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 |
| Gijoms Rivrons | Member of the Council |
| Martins Sičelkovs | Member of the Council (since 27 April 2018) |
| Ilmārs Šņucins | Member of the Council |

Term of office since 30 April 2020

| | |
|----------------------------|--------------------------------|
| Ilmārs Šņucins | Chairman of the Council |
| Tomohide Goto | Deputy Chairman of the Council |
| Ippei Kojima | Member of the Council |
| Jun Matsumoto | Member of the Council |
| Ilze Aleksandroviča | Member of the Council |
| Zane Āboliņa | Member of the Council |
| Normunds Šuksts | Member of the Council |

The Board

Term of office from 31 December 2017

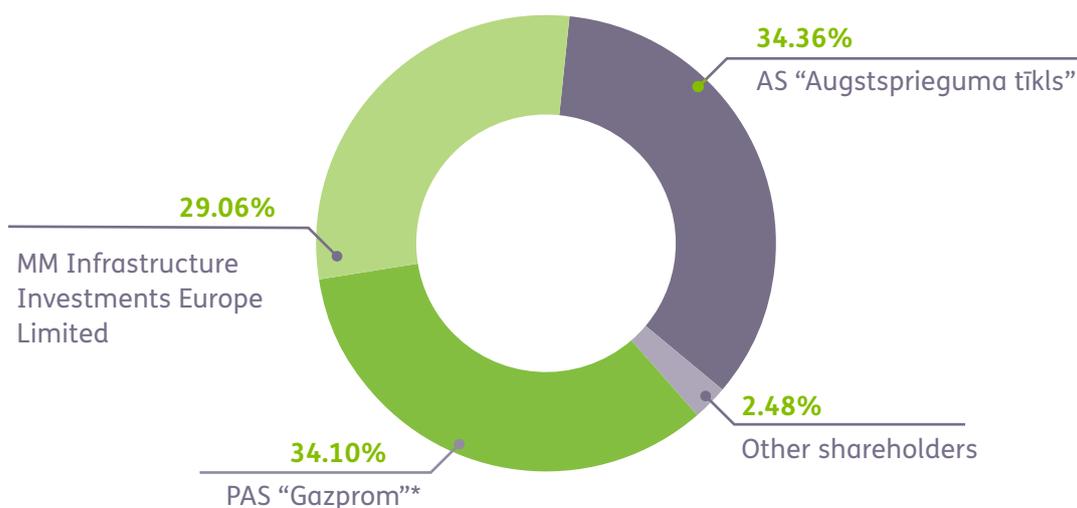
| | |
|------------------------|---|
| Zane Kotāne | Chairperson of the Board (until 26 June 2020) |
| Gints Freibergs | Member of the Board |
| Mārtiņš Gode | Member of the Board |

Term of office from 27 June 2020

| | |
|---------------------|--------------------------|
| Jānis Eisaks | Chairperson of the Board |
|---------------------|--------------------------|

Shareholders

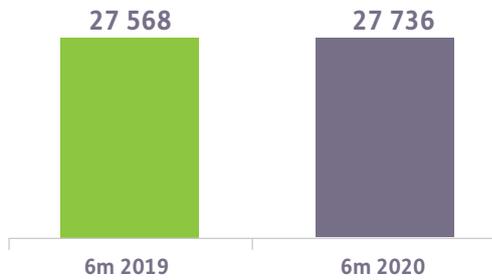
Conexus is a closed-end joint stock company with 100% registered shares. The total number of shares is 39 786 089, with a nominal value of EUR 1.00. The total number of shareholders exceeds 4.8 thousand. 97.52% of the total number of shares belong to the three largest shareholders.



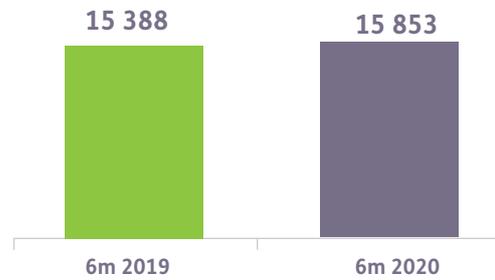
*Has no right to represent

Key performance indicators

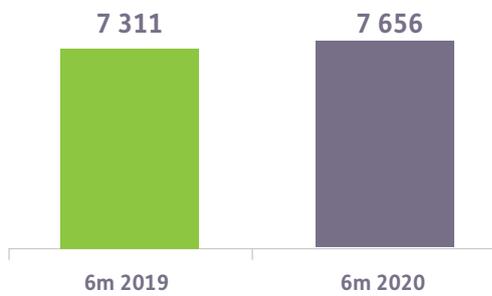
Net turnover, '000 EUR



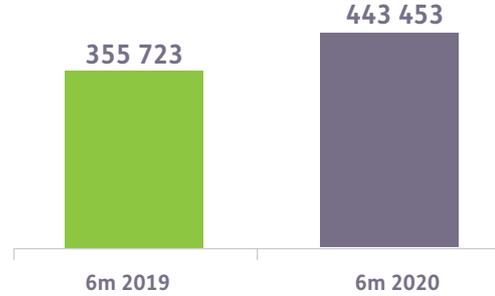
EBITDA, '000 EUR



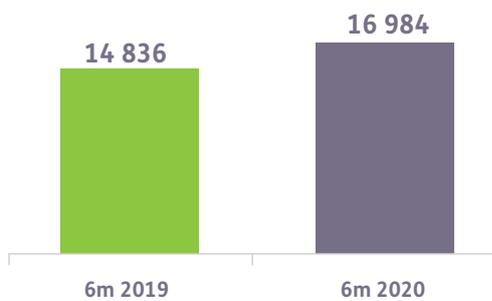
Net profit, '000 EUR



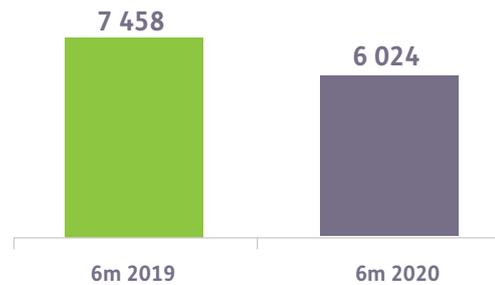
Assets, '000 EUR



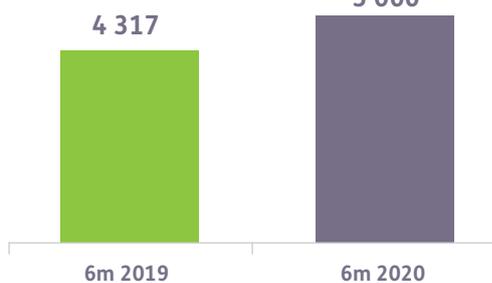
Transmitted natural gas, '000 MWh



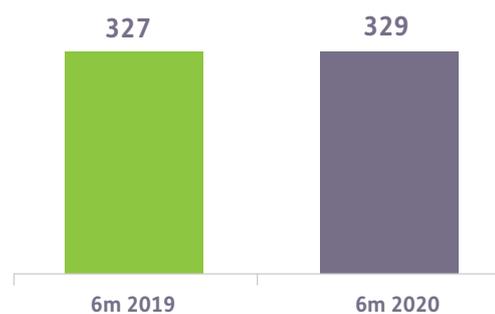
Natural gas for consumption in Latvia, '000 MWh



Capital investments, '000 EUR



Average number of employees



Management report



Creating a single natural gas market makes Inčukalns UGS more accessible and enables natural gas to be supplied to users outside the Baltic States

- ◆ During the first half of 2020 the Company ensured uninterrupted supply of natural gas for the needs of Latvia, Lithuania, Estonia, Finland and Russia. With establishment of the single natural gas market, the interest to use Inčukalns UGS has increased, as demonstrated by market participants' interest in storage reservations for the following injection season, which has repeatedly exceeded the available capacity of 21,525 TWh for 2020/2021;
- ◆ The Estonian-Finnish interconnector Balticconnector opened at the beginning of the year has had a positive impact on the total volumes of the natural gas transmitted, as the new pipeline has enabled natural gas supplies, including from Inčukalns UGS, to Finland users in amount of 4,4 TWh. Overall, the volume of natural gas transmitted over the reporting period increased by 15% in comparison to the respective period of 2019 and reached 17 TWh.

The unusually warm weather in winter months adversely affected the volume of natural gas transmitted in Latvia 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 6 TWh, 19% less in comparison to the same period of 2019. At the same time, timely reservation of storage capacity offset the impact of negative weather on the Company's financial performance;
- ◆ In the first half of 2020 the Company's net turnover was 27 736 thousand EUR, which is 1% higher in comparison to the same period of 2019. Company generated a net profit of 7 656 thousand EUR and reached EBITDA of 15 853 thousand EUR.

Main Activities

- ◆ On 1 January 2020 the single 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.
- ◆ 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 April 1, Nasdaq CSD informed that on 1 April 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.à.r.l., the acquirer of the shares is MM Infrastructure Investments Europe Limited (Reg. No 12279235).
- ◆ During emergency situation in relation to Covid-19 Conexus provides safe and uninterrupted operation of transmission system and Inčukalns UGS.
- ◆ In 2020, the Company carried out an asset revaluation in accordance with the International financial reporting standards, with the aim of ensuring that the carrying amount does not differ materially from the fair value of the assets. The following groups of assets were subject to revaluation: buildings, structures, technological equipment and machinery, excluding land, cushion gas in the underground gas storage, natural gas in the pipelines of the transmission system and emergency spare parts.
- ◆ 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. The cassation appeal has been accepted, but the date of the hearing is not known at this time.
- ◆ 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. The received bids exceeded the required auction volume approximately two times compared to 2019, thereby significantly reducing the total costs of the auction. The auction costs are included in the tariff, therefore this resulted in a 4.9% reduction of the tariff for exit point for the supply of Latvian consumers from 1 October 2020 until 30 September 2021.
- ◆ On 9 April 2020, the Regulator's Council adopted Decision No 30 regarding a request for an extension of certification conditions fulfilment deadline by Conexus, by which the Regulator refused to extend the deadline requested by Conexus. Considering that decisions were yet to be made by the Cabinet of Ministers regarding Conexus shares, and also taking into account decision No 31. which issued a warning to Conexus and imposed new requirements with a fulfilment deadline until 1 October 2020, Conexus submitted an application to the Administrative District Court for annulment of these two decisions. The application was accepted and hearing in this case is scheduled for 22 October 2020.
- ◆ Dividends paid to shareholders for 2019 in amount of 16 312 thousand EUR or 0.41 EUR per share.
- ◆ Changes have been made in the Board: the former Chairperson of the Board Zane Kotāne left office on 27 June, accepting other professional challenges. Jānis Eisaks, former head of the Corporate Strategy, was appointed as the Chairperson of the Board, and it is expected that Jānis Eisaks will fulfil his duties until the appointment of a new Chairperson of the Board.

Main operating indicators

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

| Conexus performance indicators | | 30.06.2020 | 30.06.2019 |
|---|----------------------------------|------------|------------|
| Transmitted natural gas | thousand MWh | 16 984 | 14 836 |
| Total amount of natural gas stored in Inčukalns UGS | thousand MWh | 12 367 | 7 760 |
| Natural gas for consumption in Latvia | thousand MWh | 6 024 | 7 458 |
| Total length of main gas pipelines | km | 1 188 | 1 188 |
| Average number of employees | Average (based on working hours) | 329 | 327 |

Financial results

During the reporting period, the Company's net turnover is 27 736 thousand EUR, which is 1% more than the respective period of the prior year. The Company's operating result is net profit of 7 656 thousand EUR and EBITDA reached 15 853 thousand EUR.

The Company's financial results were affected by the warm weather, which decreased demand for gas transmission services in the winter months. At the same time, timely reservation of storage capacity offset the impact of negative we-

ather on the Company's financial performance.

However, significantly lower transmission auction expenses of 2019 attributable to the first half 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 | 30.06.2020 | 30.06.2019 | +/- | % |
|-------------------------------------|-------------------|-------------------|------------|-----------|
| | EUR'000 | EUR'000 | | |
| Net turnover | 27 736 | 27 568 | 168 | 1% |
| EBITDA | 15 853 | 15 388 | 465 | 3% |
| Net Profit | 7 656 | 7 311 | 345 | 5% |
| Segment assets | 429 701 | 342 244 | 87 457 | 26% |
| Cash and cash equivalents | 13 833 | 13 479 | 354 | 3% |
| Total assets | 443 453 | 355 723 | 87 730 | 25% |
| Regulated asset base | 322 444 | 322 444 | 0 | 0% |
| Net debt* | 25 962 | 29 816 | (3 854) | -13% |
| Investments | 5 006 | 4 317 | 689 | 16% |

*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 30 June 2020, the Company's borrowings were 23 625 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 | 30.06.2020 | 30.06.2019 |
|---------------------------------------|-------------------|-------------------|
| EBITDA profitability | 57% | 56% |
| Net profitability | 28% | 27% |
| Return on equity ratio (ROE) | 2.24% | 2.36% |
| Shareholders' equity (>50%) | 90% | 86% |
| Net debt to EBITDA ratio (<2) | 0.74 | 0.98 |

Results of segment 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.

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

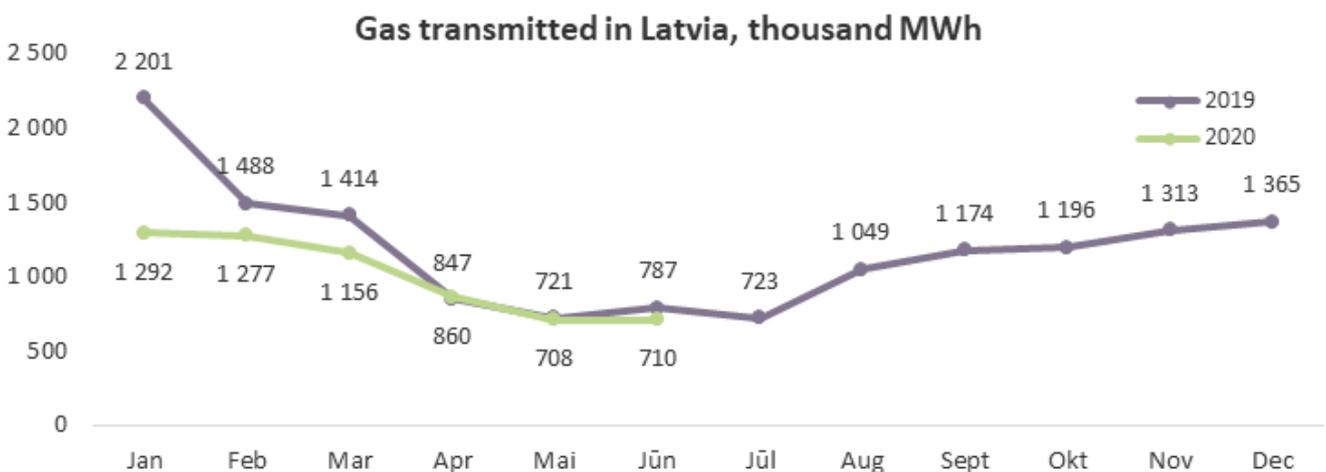
◆ The natural gas **storage** segment involves storage of natural gas at Inčukalna UGS for the purposes of heating season and other needs of system users. The storage tariffs are also approved by the Regulator.

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 16.8 million EUR and EBITDA reached 8.8 million EUR, representing 55% of the Company’s total EBITDA. Net profit of the transmission segment amounted to 3.9 million EUR (17% less

than in the respective period of prior year).

During the first six months of 2020, the total volume of transmitted gas reached 17 TWh, 15% increase versus the respective period of prior year. However, during the reporting period the volume of gas transmitted for consumption in Latvia decreased by 19%, reaching 49% of the total transmitted volume.



The transmission segment's revenue of the first half of 2020 was affected by the warm weather, which decreased gas demand for heating purposes. Actual temperatures in winter months 2020 were not only higher than in the respective

months of 2019, but also higher than the norm. As a result, the consumers' need for gas for heating purposes was lower than in the first half 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) |
| April 2019 | +7.8 °C | (+2.1 °C) |
| May 2019 | +11.7 °C | (+0.3 °C) |
| June 2019 | +18.6 °C | (+3.7 °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) |
| April 2020 | +5.6 °C | (-0.1 °C) |
| May 2020 | +9.5 °C | (-1.9 °C) |
| June 2020 | +18.1 °C | (+3.1 °C) |

The transmission segment assets at the end of the reporting period amounted to 231 million EUR, accounting for 54% of the total assets of the Company. Largest capital investments during the

reporting period: GRS Sloka branch capital repairs (863 thousand EUR); transmission gas pipeline repairs (689 thousand EUR).

| Transmission | 30.06.2020 | 30.06.2019 | +/- | % |
|---|---------------|---------------|--------------|------------|
| | EUR'000 | EUR'000 | | |
| Net sales | 16 787 | 17 061 | (274) | -2% |
| EBITDA | 8 780 | 8 177 | 603 | 7% |
| Segment Net Profit | 3 923 | 3 350 | 573 | 17% |
| Segment assets | 230 991 | 178 588 | 52 403 | 29% |
| Depreciation and amortisation | 4 800 | 4 767 | 33 | 1% |
| Acquisition of fixed assets and intangible assets | 3 134 | 2 187 | 947 | 43% |
| Regulated asset base | 171 820 | 171 820 | 0 | 0% |

Storage

The storage segment revenue during the reporting period was 11 million EUR (4% higher than in the respective period of last year). The revenue level allowed to reach EBITDA of 7 million EUR and 3.7 million EUR net profit.

The assets of the segment at the end of the reporting period amounted to 199 million EUR, accounting for 46% of the total assets of the Company. The largest capital investments during the reporting period: Reconstruction of bores (1 298 thousand EUR).

| Storage | 30.06.2020 | 30.06.2019 | +/- | % |
|---|---------------|---------------|--------------|------------|
| | EUR'000 | EUR'000 | | |
| Net sales | 10 949 | 10 507 | 442 | 4% |
| EBITDA | 7 073 | 7 211 | (138) | -2% |
| Segment Net Profit | 3 733 | 3 961 | (228) | -6% |
| Segment assets | 198 710 | 163 656 | 35 054 | 21% |
| Depreciation and amortisation | 3 309 | 3 217 | 92 | 3% |
| Acquisition of fixed assets and intangible assets | 1 872 | 2 132 | (260) | -12% |
| Regulated asset base | 150 624 | 150 624 | 0 | 0% |

Subsequent events

- On July 21 changes were made in the shareholders' registry: change of ownership of 34,0991% of the Company's share capital. The transferor of the shares is PJSC "Gazprom" (reg. No. 7736050003, Russian Federation), the acquirer of the shares is JSC "Augstsprieguma tīkls" (reg. No. 40003575567, Republic of Latvia). Thus, JSC "Augstsprieguma tīkls" currently holds 68,46% of the total share capital paid by the Company.
- On 15 July 2020 Conexus submitted a referen-

ce to the Department of Administrative Cases of the Supreme Court for preliminary ruling questions to the Court of Justice of the European Union with regards to whether Articles 101.1 and 114 of the Energy Act comply with legal norms of Directive 2009/73/EC of the European Parliament and of the Council dated 13 July 2009, concerning common rules for the internal market in natural gas and repealing Directive 2003/55/EC. The Department of Administrative Cases of the Supreme Court has not yet taken a decision.

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)

- ◆ On 7 November 2018, Conexus submitted an application to the Administrative District Court for the annulment of the part of the Regulator Board Decision No 112 of 28 September 2018 on the certification of the single operator of the natural gas transmission and storage system with regards to the conditions set. By judgment of the Administrative District Court of 2 September 2019, Conexus's application was rejected. On 2 October 2019, Conexus filed a cassation appeal with the Administrative Case Department of the Supreme Court. The cassation appeal has been accepted, but the date of the proceedings has not yet been designated. As part of this case, on 21 July 2020, Conexus submitted an application to the Department of Administrative Cases of the Supreme Court, requesting temporary suspension of part of the Decision No 112 of 28 September 2018 on the certification of the single operator of the natural gas transmission and storage system, related to fulfilment of the conditions set. The decision on the application for temporary measures will be taken on 20 August 2020.
- ◆ On 1 April 2020 the single transmission and storage system's operator's report on the compliance of the system operator with certification requirements in 2019 was submitted to the Regulator. Information on the new shareholder was also submitted, whose compliance with the certification conditions will be evaluated by the Regulator along with the annual report. After receiving additional information from Conexus, Regulator evaluated the report submitted by Conexus on 1 April 2020 on compliance with the certification requirements in 2019, assessing only the events of 2019. Regulator's decision was adopted on 23 July 2020. Regulator did not assess a shareholder who was registered in the registry of Conexus shareholders on 1 April 2020, stating that it would only be evaluated after 1 October 2020, i.e. the deadline fulfilment of conditions set in Regulator's Council's Decision No 31 dated 9 April 2020.

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 6 months period ending 30 June

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.

Jānis Eisaks

Chairperson 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- 30.06.2020 | 01.01.2019 - 30.06.2019 |
|--|----------|---------------------------|----------------------------|
| | | EUR'000 | EUR'000 |
| Revenue | 1 | 27 736 | 27 568 |
| Other income | 2 | 617 | 709 |
| Cost of materials and services | 3 | (4 492) | (6 016) |
| Personnel expenses | 4 | (5 962) | (4 968) |
| Depreciation, amortization and impairment of property, plant and equipment | 6, 7 | (8 109) | (7 984) |
| Other operating expenses | 5 | (2 046) | (1 905) |
| Gross profit | | 7 744 | 7 404 |
| Financial expenses, net | | (88) | (93) |
| Profit before taxation | | 7 656 | 7 311 |
| Corporate income tax | | | |
| Profit for the period | | 7 656 | 7 311 |

The accompanying notes on pages 23 to 37 form an integral part of these financial statements.

Comprehensive income

| | Note | 01.01.2020- 30.06.2020 | 01.01.2019 - 30.06.2019 |
|---|------|---------------------------|----------------------------|
| | | EUR'000 | EUR'000 |
| Profit of the period | | 7 656 | 7 311 |
| Other comprehensive income | | | - |
| Property, plant and equipment revaluation | 7 | 92 100 | - |
| Other comprehensive income | | 92 100 | - |
| Total comprehensive income | | 99 756 | 7 311 |

The accompanying notes on pages 23 to 37 form an integral part of these financial statements.

Jānis Eisaks

Chairperson of the Board

Gints Freibergs

Member of the Board

Mārtiņš Gode

Member of the Board

Balance sheet

Assets

| | Note | 30.06.2020 | 31.12.2019 |
|----------------------------------|------|----------------|----------------|
| | | EUR'000 | EUR'000 |
| Non-current assets | | | |
| Intangible assets | 6 | 1 518 | 1 646 |
| Property, plant and equipment | 7 | 416 385 | 327 279 |
| Non-current prepaid costs | | 1 209 | 1 310 |
| Right of use assets | 8 | 452 | 533 |
| Total non-current assets: | | 419 564 | 330 768 |
| Current assets | | | |
| Inventories | 9 | 3 398 | 3 384 |
| Advances paid for inventories | | 26 | 33 |
| Trade receivables | | 5 753 | 6 258 |
| Other receivables | 10 | 879 | 453 |
| Cash and cash equivalents | | 13 833 | 21 504 |
| Total current assets: | | 23 889 | 31 632 |
| TOTAL ASSETS: | | 443 453 | 362 400 |

The accompanying notes on pages 23 to 37 form an integral part of these financial statements.

Jānis Eisaks

Chairperson of the Board

Gints Freibergs

Member of the Board

Mārtiņš Gode

Member of the Board

Balance sheet (continued)

Liabilities and shareholders' equity

| | Note | 30.06.2020 | 31.12.2019 |
|---|------|----------------|----------------|
| | | EUR'000 | EUR'000 |
| Shareholders' equity: | | | |
| Share capital | | 39 786 | 39 786 |
| Treasury shares | | (35) | (36) |
| Reserves | 11 | 228 893 | 140 630 |
| Retained earnings | | 130 522 | 135 341 |
| Total shareholders' equity: | | 399 166 | 315 721 |
| Non-current liabilities | | | |
| Deferred income | 13 | 11 127 | 11 125 |
| Employee benefit liabilities | | 1 114 | 1 114 |
| Loans from credit institutions | 12 | 20 125 | 21 875 |
| Non-current lease liabilities | 8 | 453 | 453 |
| Total non-current liabilities: | | 32 819 | 34 567 |
| Short-term liabilities | | | |
| Borrowings | 12 | 3 500 | 3 500 |
| Accounts payable to suppliers and contractors | | 2 720 | 2 327 |
| Other liabilities | 14 | 4 149 | 5 363 |
| Provisions | | - | - |
| Deferred income | 13 | 300 | 307 |
| Customer advances | | 742 | 524 |
| Current lease liabilities | 8 | 57 | 91 |
| Total current liabilities: | | 11 468 | 12 112 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | | 443 453 | 362 400 |

The accompanying notes on pages 23 to 37 form an integral part of these financial statements.

Jānis Eisaks

Chairperson of the Board

Gints Freibergs

Member of the Board

Mārtiņš Gode

Member of the Board

Statement of changes in equity

| | Share capital | Treasury shares | Reserves | Retained earnings | Total |
|--|---------------|-----------------|----------------|-------------------|----------------|
| | EUR'000 | EUR'000 | EUR'000 | EUR'000 | EUR'000 |
| 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 | - | - | (3 837) | 3 837 | - |
| Increase of the revaluation reserve | - | - | 92 100 | - | 92 100 |
| Dividends | - | 1 | - | (16 312) | (16 311) |
| Profit of the period | - | - | - | 7 656 | 7 656 |
| Total | - | 1 | 88 263 | (4 819) | 83 445 |
| As at 30 June 2020 | 39 786 | (35) | 228 893 | 130 522 | 399 166 |

The accompanying notes on pages 23 to 37 form an integral part of these financial statements.

Jānis Eisaks

Chairperson of the Board

Gints Freibergs

Member of the Board

Mārtiņš Gode

Member of the Board

Statement of cash flow

| | Note | 01.01.2020 – 30.06.2020 | 01.01.2019 – 30.06.2019 |
|---|------|----------------------------|----------------------------|
| Cash flow from operating activities | | | |
| Profit before taxes | | 7 656 | 7 311 |
| <i>Adjustments for:</i> | | | |
| - depreciation | 7 | 7 849 | 7 809 |
| - amortization of the right of use assets | 8 | 81 | |
| - amortization of intangible assets | 6 | 260 | 175 |
| - loss/(gain) from disposals of property, plant and equipment | | 20 | 18 |
| - participation in the transnational cross-border project | | 101 | 101 |
| - amortization of EU grants | 13 | (134) | (133) |
| - interest expenses | | 88 | 93 |
| <i>Change in operating assets and liabilities:</i> | | | |
| - (increase)/decrease in debtors | | 79 | (680) |
| - (increase)/decrease in advances for inventories | | - | (3) |
| - (increase)/decrease in inventories | | 373 | (1 425) |
| - (decrease)/ increase in creditors | | (849) | (2 707) |
| Corporate income tax paid | | - | (36) |
| Net cash flow from operating activities | | 15 524 | 10 523 |
| Cash flow from investing activities | | | |
| Purchase of property, plant and equipment | | (4 879) | (3 994) |
| Purchase of intangible assets | | (132) | (323) |
| Net cash flow from investing activities | | (5 011) | (4 317) |
| Cash flow from financing activities | | | |
| Interest paid | | (76) | (93) |
| Repayment of borrowings | | (1 750) | (1 750) |
| Lease payments | | (46) | - |
| EU grants received | | - | 2 932 |
| Dividends paid | | (16 312) | (11 884) |
| Net cash flow from financing activities | | (18 184) | (10 795) |
| Net cash flow | | (7 671) | (4 589) |
| 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 | | 13 833 | 13 479 |

The accompanying notes on pages 23 to 37 form an integral part of these financial statements.

Jānis Eisaks

Chairperson of the Board

Gints Freibergs

Member of the Board

Mārtiņš Gode

Member of the Board

Notes to the financial statements

Notes to the statement of profit or loss

1. Revenue

| | 01.01.2020 - 30.06.2020 | 01.01.2019 - 30.06.2019 |
|------------------------------------|------------------------------------|------------------------------------|
| | EUR'000 | EUR'000 |
| Revenue from transmission services | 16 787 | 17 061 |
| Revenue from storage services | 10 949 | 10 507 |
| | 27 736 | 27 568 |

2. Other income

| | 01.01.2020 - 30.06.2020 | 01.01.2019 - 30.06.2019 |
|--------------------------|------------------------------------|------------------------------------|
| | EUR'000 | EUR'000 |
| Income from EU financing | 134 | 133 |
| Other income | 483 | 576 |
| | 617 | 709 |

3. Materials and services

| | 01.01.2020 - 30.06.2020 | 01.01.2019 - 30.06.2019 |
|--|------------------------------------|------------------------------------|
| | EUR'000 | EUR'000 |
| Natural gas expenses | 189 | 339 |
| Cost of materials | 451 | 472 |
| Maintenance of transmission and storage infrastructure | 3 347 | 4 879 |
| Maintenance of transport and machinery | 117 | 85 |
| Maintenance of IT infrastructure | 388 | 241 |
| | 4 492 | 6 016 |

4. Personnel expenses

| | 01.01.2020 - 30.06.2020 | 01.01.2019 - 30.06.2019 |
|--|------------------------------------|------------------------------------|
| | EUR'000 | EUR'000 |
| Salary | 4 576 | 3 809 |
| Compulsory state social security contributions | 1 120 | 927 |
| Life, health and pension insurance | 261 | 226 |
| Other personnel costs | 5 | 6 |
| | 5 962 | 4 968 |

5. Other operating costs

| | 01.01.2020 - 30.06.2020 | 01.01.2019 - 30.06.2019 |
|--|------------------------------------|------------------------------------|
| | EUR'000 | EUR'000 |
| Premises and territory maintenance and other services | 632 | 653 |
| Taxes and duties | 627 | 632 |
| Office and other administrative costs | 693 | 602 |
| Amortization of the right of use assets | 81 | - |
| Net loss from disposals of property, plant and equipment | 13 | 18 |
| | 2 046 | 1 905 |

Notes to the balance sheet

6. Intangible assets

| | 30.06.2020 | 31.12.2019 |
|---|-------------------|-------------------|
| | EUR'000 | EUR'000 |
| Cost | | |
| Beginning of the period | 6 989 | 5 959 |
| Additions | 132 | 1 030 |
| Disposals | (1) | - |
| End of the period | 7 120 | 6 989 |
| Accumulated amortization | | |
| Beginning of the period | 5 343 | 4 969 |
| Amortization for the reporting period | 260 | 374 |
| Disposals | (1) | - |
| End of the period | 5 602 | 5 343 |
| Net book value as at the end of the period | 1 518 | 1 646 |

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 |
| 31.12.2019 | | | | | | |
| 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 | 127 158 | 6 660 | 1 405 | 4 657 | 796 501 |
| Additions | - | 120 | 175 | - | 4 579 | 4 874 |
| Revaluated | 108 395 | 2 721 | 69 | - | - | 111 185 |
| Reclassified | 369 | 83 | - | - | (452) | - |
| Disposals | (113) | (274) | (49) | - | - | (436) |
| Transferred | - | - | - | - | - | - |
| 30.06.2020 | 765 272 | 129 808 | 6 855 | 1 405 | 8 784 | 912 124 |
| Accumulated depreciation | | | | | | |
| 31.12.2019 | 397 086 | 67 733 | 4 403 | - | - | 469 222 |
| Additions | 5 564 | 1 984 | 301 | - | - | 7 849 |
| Revaluated | 32 214 | (13 170) | 41 | - | - | 19 085 |
| Disposals | (96) | (274) | (47) | - | - | (417) |
| Reclassified | - | - | - | - | - | - |
| 30.06.2020 | 434 768 | 56 273 | 4 698 | - | - | 495 739 |
| Balance as at 30.06.2020 | 330 504 | 73 535 | 2 157 | 1 405 | 8 784 | 416 385 |

8. Lesase

| | 30.06.2020 | 31.12.2019 |
|--|------------|------------|
| | EUR'000 | EUR'000 |
| Right of use assets | | |
| Opening balance | 533 | - |
| Initially recognized on 1 January 2019 | - | 431 |
| Recognized changes in lease contracts | - | 136 |
| Depreciation recognized in the statement of profit or loss | (81) | (34) |
| Balance at the end of the period | 452 | 533 |
| Lease liability | | |
| Opening balance | 544 | - |
| Initially recognized on 1 January 2019 | - | 431 |
| Recognized changes in lease contracts | - | 136 |
| Recognized decrease in lease liabilities | (47) | (43) |
| Recognized lease interest expense | 13 | 20 |
| Balance at the end of the period | 510 | 544 |
| incl.: | | |
| Non-current lease liabilities | 453 | 453 |
| Current lease liabilities | 57 | 91 |

9. Inventories

| | 30.06.2020 | 31.12.2019 |
|--|--------------|--------------|
| | EUR'000 | EUR'000 |
| Natural gas | 1 822 | 1 795 |
| Materials and spare parts | 1 645 | 1 658 |
| Write-off of inventory value to net realizable value | (69) | (69) |
| | 3 398 | 3 384 |

10. Other receivables

| | 30.06.2020 | 31.12.2019 |
|---|------------|------------|
| | EUR'000 | EUR'000 |
| Prepaid expenses related to the participation in the transnational cross-border project | 101 | 101 |
| Other prepaid expenses | 674 | 214 |
| Other receivables | 104 | 138 |
| | 879 | 453 |

11. Reserves

| | 30.06.2020 | 31.12.2019 |
|---|----------------|----------------|
| | EUR'000 | EUR'000 |
| Property, plant and equipment revaluation reserve | 203 944 | 115 681 |
| Post-employment benefit revaluation reserve | 302 | 302 |
| Reorganization reserve | 24 647 | 24 647 |
| | 228 893 | 140 630 |

12. Borrowings

| | 30.06.2020 | 31.12.2019 |
|---|---------------|---------------|
| | EUR'000 | EUR'000 |
| Long-term borrowings from credit institutions | 20 125 | 21 875 |
| Short-term loans from credit institutions | 3 500 | 3 500 |
| | 23 625 | 25 375 |

13. Deferred income

| | 30.06.2020 | 31.12.2019 |
|------------------|---------------|---------------|
| | EUR'000 | EUR'000 |
| Non-current part | 11 127 | 11 125 |
| Current part | 300 | 307 |
| | 11 427 | 11 432 |

| Movement of deferred income | 01.01.2020 - 30.06.2020 | 01.01.2019 - 31.12.2019 |
|---------------------------------------|----------------------------|----------------------------|
| | EUR'000 | EUR'000 |
| Opening balance | 11 432 | 8 102 |
| EU co-funding received | 145 | 3 683 |
| Transferred to revenue for the period | (150) | (353) |
| Transferred to future periods | 11 427 | 11 432 |

14. Other liabilities

| | 30.06.2020 | 31.12.2019 |
|--|--------------|--------------|
| | EUR'000 | EUR'000 |
| Accrued bonuses | 1 137 | 1 225 |
| Real estate tax | 471 | - |
| Accrued expenses on unused vacations | 375 | 375 |
| Staff remuneration | 273 | 359 |
| Social contributions | 250 | 220 |
| Personal income tax | 127 | 113 |
| Dividends undistributed from prior years | 190 | 121 |
| Other non-current liabilities | 99 | 55 |
| Natural resources tax | 79 | 25 |
| Corporate income tax from theoretically distributed profit | - | 28 |
| Accrued costs for non-received invoices | - | 2 842 |
| Value added tax | 1 148 | - |
| | 4 149 | 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 amortized 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 30 June 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

Recognized 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.

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

The average useful life of intangible assets is 5 years.

Property, plant and equipment

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

From the date when the asset is ready for its intended use, it is depreciated, and its value is gradually written off 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 | 20-65 |
| Equipment and machinery | 5-35 |
| Other PPE | 3-10 |

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 8.

The new standard, when initially applied, will result in the Company having to recognize 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 recognize 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 amortization 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 amortized 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 realizable 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 recognized 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 assets 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 life of revalued asset is estimated and usually – prolonged as compared to the previous estimate, as a result of technological improvements. This is compliant with the existing industry practice.

Revaluation of property, plant and equipment

In 2020, an asset revaluation was carried out in accordance with the International Financial Reporting Standards, with a view to ensuring that the carrying amount does not differ significantly from the fair values of the assets. The following groups of fixed assets were subject to revaluation: buildings, technological equipment and machinery, excluding land, buffered gas in the underground gas storage, natural gas in the pipelines of the transmission system and emergency spare parts.

The revaluation was performed by independent certified assessors to determine the value: initial value, accumulated depreciation and residual value for each group of fixed assets. The method used in the revaluation, was based on the average construction and acquisition costs in Latvia.

As a result of revaluation, the residual value of revalued assets as at 1 January 2020 was increased by 92,311 thousand. EUR. The revaluation

reserve was increased by 92,100 thousand. EUR, the effect on the income statement is revenue 211 thousand. EUR.

During the revaluation, estimates of the useful life of fixed assets were made and, based on experience and industry practice, it was prolonged to the following groups of fixed assets: natural gas pipelines, drills, gas regulation equipment and specialized technological equipment.

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).

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