Joint Stock Company

conexus
BALTIC GRID

Annual Report for 2019

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

RIGA 2020

Contents

Company information

Company information

Joint stock company (JSC) Conexus Baltic Grid (hereinafter – the Company, Conexus) is the unified natural gas transmission and storage operator in Latvia managing one of the most modern natural gas storage facilities in Europe – Inčukalns underground gas storage (hereinafter – Inčukalns UGS, storage, IUGS) and the main natural gas transmission system directly connecting the Latvian natural gas market with Lithuania, Estonia, Finland and NW region of Russia.

Conexus offers the natural gas transmission and storage service in accordance with the tariffs set by the Public Utilities Commission (hereinafter – PUC, the Regulator).

Conexus is an independent and competitive company with high quality services providing development opportunities both to customers and employees.

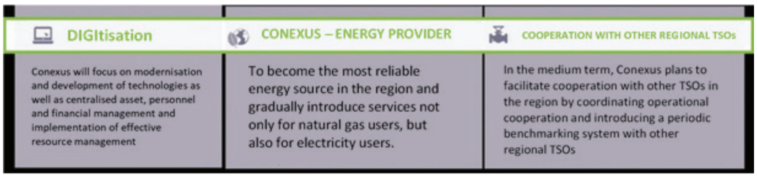
We are a socially responsible company that enables the growth of employees and contributes to the overall development of the industry by creating sustainable employment and added economical value, while taking care of the impact of technological processes on the environment.

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 motifs add to the strategic goals, facilitate their implementation and are determined as follow:



Company	Joint Stock Company (JSC) 'Conexus Baltic Grid'
Registration number	40203041605
Date and place of registration	2 January 2017, Riga
Address	Stigu Street 14 Riga, LV – 1021 Latvija www.conexus.lv
Major shareholders	AS „Augstsprieguma tīkls" (34,36 %) PAS „Gazprom" (34,10 %) Marguerite Gas I S.à r.l. (29,06 %)
Financial statement period	1 January 2019 – 31 December 2019

Council

Term of office since 3 January 2018

Kaspars Āboliņš	Chairman of the Council
William Michael Pierson	Deputy Chairman of the Council
Ilze Bērziņa	Member of the Council
Sanita Greize	Member of the Council
Ilmārs Šņucins	Member of the Council
Guillaume Rivron	Member of the Council
Martin Sichelkow	Member of the Council (since 27 April 2018)

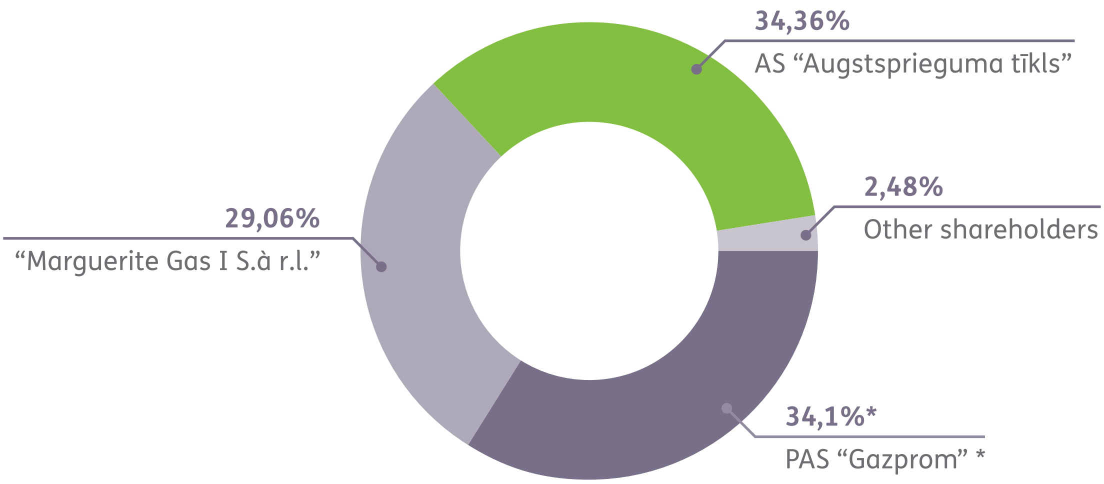
Board of Directors

Term of office since 31 December 2017

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

Shareholders at 31 December 2019

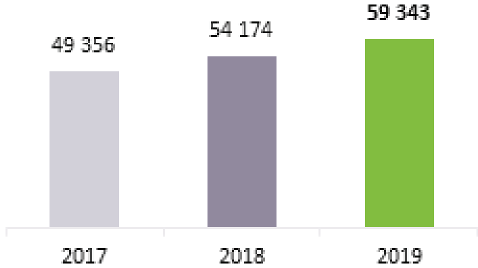
Conexus is a closed-end joint stock company with 100% registered shares. The total number of shares is 39 786 089, with a nominal value of EUR 1.00. The total number of shareholders exceeds 4.8 thousand. 97.52% of the total number of shares belong to the three largest shareholders.



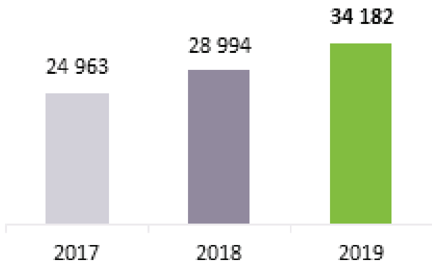
*Has no right to represent

Key performance indicators

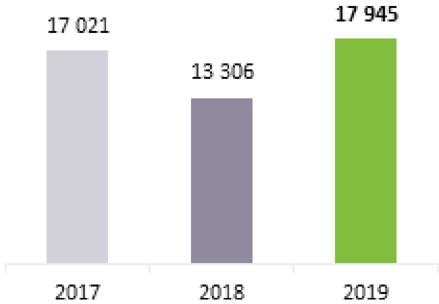
Net sales
thousand EUR



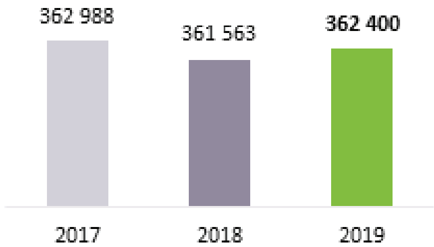
EBITDA
thousand EUR



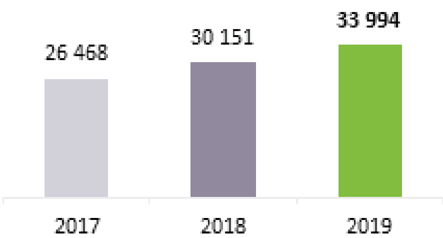
Net profit
thousand EUR



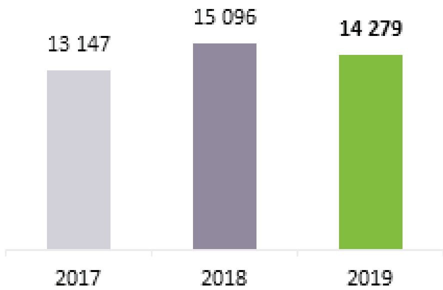
Assets
thousand EUR



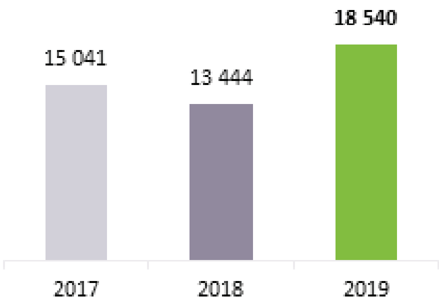
Transmitted natural gas,
thousand MWh



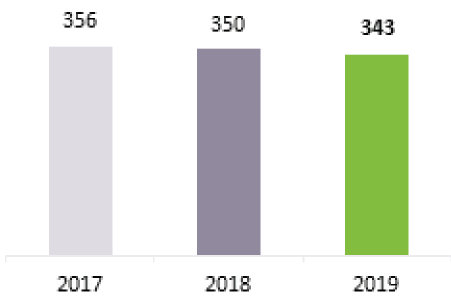
Natural gas for consumption in Latvia, thousand MWh



Amount of natural gas deployed IUGS, thousand MWh



Average number of employees



Management Report

Summary

- An ambitious storage modernization project, commenced in 2019, has been approved by the European Commission for co-financing of 50% and is intended to significantly improve the technical infrastructure and operational reliability of the facility to maintain its functionality after increasing pressure in the Baltic transmission system. The total investment in the project is EUR 88 million, which will be invested in the storage by 2025.
- During the reporting period the Company ensured uninterrupted supply of natural gas for the needs of Latvia, Lithuania and Estonia. Due to the warm weather in the winter period, the volume of natural gas transmitted for the needs of Latvian users decreased by 5% during the reporting period, but still exceeded the forecast reaching 14 279 thousand MWh or 78% of total outgoing flows. The total amount of transmitted natural gas reached 33 994 thousand TWh, 13% more than in the previous year.
- During 2019/2020, 18.54 TWh were reserved in storage, which exceeded forecasts and was the best storage fulfilment rate in the past four years. During the natural gas removal season, market participants removed 10.8 TWh of natural gas from storage in Inčukalns UGS.
- During the reporting period, the Company's net turnover is EUR 59 343 thousand, 10% higher than during the prior year. The Company's operating result is profit of EUR 17 945 thous. and EBITDA reached EUR 34 182 thousand. The Company's financial results were positively influenced by the larger amount of gas transmitted and the higher storage volumes.
- As required by Cabinet regulation No. 312 "Procedures for the Supply of Energy Users and Sale of Heating Fuel During Declared Energy Crisis and in Case of Endangerment to the State" of 19 April 2011, the Company ensures the full capacity needed to remove natural gas from storage for the following season by organizing an auction and fully or partially confirming the bids received.

Key performance indicators	2019	2018
Transmitted natural gas thous. MWh	33 994	30 151
Total amount of natural gas deployed IUGS, thous. MWh	18 540	13 444
Natural gas for consumption in Latvia, thous. MWh	14 279	15 096
Total length of main gas pipelines, km	1 188	1 188
Average number of employees	343	350

Financial results

During the reporting period, the Company's net turnover is EUR 59 343 thousand, 10% higher than during the prior year. The Company's operating result is profit of EUR 17 945 thous. and EBITDA reached EUR 34 182 thousand.

Key financial indicators	31.12.2019	31.12.2018	+/-	%
	EUR'000	EUR'000		
Net sales	**59 343**	**54 174**	**5 169**	**10%**
EBITDA	34 182	28 994	5 118	18%
Net profit	**17 945**	**13 306**	**4 639**	**35%**
Segment assets	340 896	343 495	(2 599)	-1%
Cash and cash equivalents	21 504	18 068	3 436	19%
Total assets	362 400	361 563	837	0.2%
Regulated asset base	322 444	324 396	(1 952)	-1%
Net loans	20 043	26 979	(6 936)	-26%
Investments	14 530	13 909	621	4%

Financing and liquidity

The financial assets at the Company's disposal are sufficient to meet the Company's needs. As at 31 December 2019 the Company's borrowings were EUR 25 375 thous. at an interest rate of 0.6% + 6 month EURIBOR, with maturity on 30 November 2021. All limits on financial ratios established in the Company's effective loan agreement have been complied with during the reporting period.

Key financial indicators	31.12.2019	31.12.2018
EBITDA profitability	58%	54%
Net profitability	30%	25%
Return on Equity (ROE)	6%	4%
Shareholders' equity (>50%)	87%	86%
Obligation load (net loans / EBITDA) (< 2)	0.59	0.93

Results of segment operations

The company has two operational segments: natural gas transmission and gas storage. The division is based on the Company's internal organizational structure, which provides the basis for the regular monitoring of performance by making decisions about the resources allocated to the segments and evaluating its performance. The information included in the operational segments is consistent with that used by the person responsible for making operational decisions.

- All revenues from Conexus are derived from regulated services, applying the tariffs established by the Regulator.
- The natural gas **transmission** segment provides transportation of natural gas through high-pressure pipelines to supply it to Inčukalns UGS, to other countries and to the distribution system.
- 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 underground gas storage.

Transmission

The transmission segment generates revenue from sales 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 EUR 36.4 million and EBITDA reached EUR 19 million, representing 55.5% of the Company's total EBITDA. Profit of the transmission segment amounted to EUR 9.3 million (40% more than last year due to recognition of regulatory costs).

Gas transmission	2019 / 31.12.2019	2018 / 31.12.2018
	EUR'000	EUR'000
Net sales	**36 424**	**33 885**
EBITDA	18 963	16 160
Segment net profit	**9 287**	**6 631**
Segment assets	178 197	181 240
Depreciation and amortization	9 578	9 406
Acquisition of fixed and intangible assets	7 051	6 829
Regulated asset base in approved draft tariffs	171 820	173 772

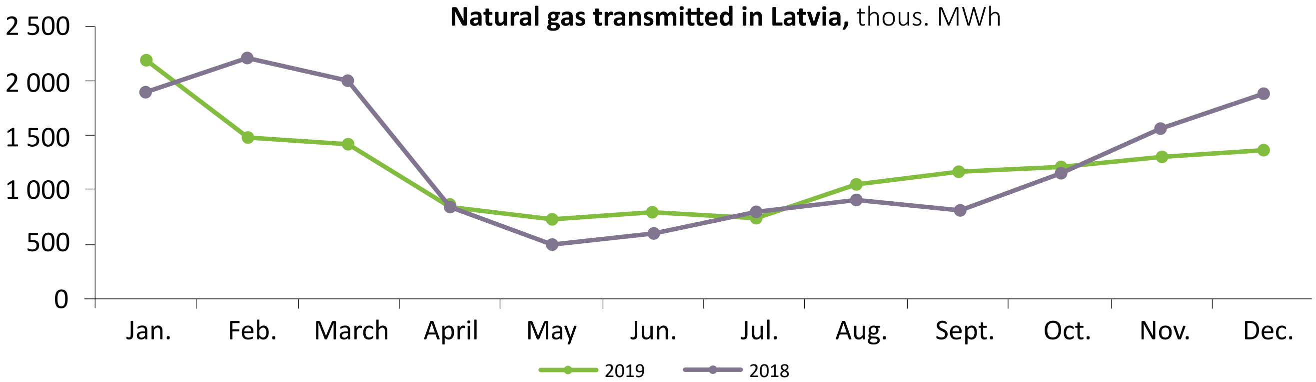
The Company's activities are regulated, and the regulatory periods differ from the financial year. In accordance with current tariff methodologies, depending on changes in actual costs and consumption of natural gas, tariff cycles may generate differences between income and expenses that will give rise to liabilities or assets in subsequent tariff cycles.

In the transmission segment, such differences may arise from differences in actual consumption versus that planned for the purpose of tariffs (revenue adjustment), lower expenses than those envisaged in the draft tariff, or differences in the recognition of costs of natural gas security auction in the statement of profit or loss and the draft tariff.

Gas transmission		
Adjustments to the statement of profit or loss	**31.12.2019**	**31.12.2018**
	EUR'000	EUR'000
Income difference	-	3 649
Cost difference	705	-
Income and expense difference, net	**705**	**3 649**
Auction income/expense difference		
Auction for natural gas supply in 2017	-	(3 967)
Auction for natural gas supply in 2018	(505)	(5 189)
Auction for natural gas supply in 2019	(2 838)	
Total unearned revenue from auctioning for natural gas availability	**(3 343)**	**(9 156)**
Total unearned revenue at the end of the reporting year	**(2 638)**	**(5 507)**

In 2019, the transmission segment costs recognized in the statement of profit or loss are by EUR 705 thousand lower than those in the approved draft tariffs, which means the segment's profit is higher than that permitted by the approved draft tariffs. At the same time, the costs of running an auction for natural gas supplies are incurred faster than revenue are recognized. The transmission tariffs include the actual auction costs and the recovery of such costs begins in the next tariff cycle. At the end of the reporting period 2019, total unearned revenue in the transmission segment amounts to EUR 2 638 thousand.

The volume of gas transmitted in 2019 reached 34 TWh, an increase of 13% compared to the previous year. Due to the warm weather in the winter period, the volume of transmitted natural gas for the needs of Latvian users decreased by 5% during the reporting period, but still exceeded the forecast, reaching 14 279 thousand MWh.



EBITDA of the transmission segment was positively impacted by lower purchase prices for natural gas, and the fact that the cost to provide natural gas (transmission auctions) was by EUR 1.2 million lower than in the previous year. As the storage tariffs for 2019/2020 were timely approved at the end of last year, the Company organized the next transmission auction much earlier, already in March 2019, which ensured increased interest from natural gas traders and consequently lower costs.

At the end of the reporting period, assets of the segment amounted to EUR 178 million and comprised 49% of the total assets of the Company. The largest investments in 2019: PGV Iecava-Liepāja (EUR 1.2 million), capital repairs of the branch to GRS Sloka (EUR 1.4 million).

Storage

Storage revenue in 2019 reached EUR 22.9 million (13% more than a year earlier) due to timely commencement of reservation and higher total reservations. The active interest by traders was linked to both lower gas prices in 2019 and preparations for the introduction of the single market, which promoted higher demand for storage services. The amount of revenue generated by the storage segment ensured EBITDA of EUR 15.2 million and profit of EUR 8.7 million.

Gas storage	2019 / 31.12.2019	2018 / 31.12.2018
	EUR'000	EUR'000
Net sales	**22 919**	**20 290**
EBITDA	15 218	12 834
Segment net profit	**8 658**	**6 675**
Segment assets	162 699	162 255
Depreciation and amortization	6 502	6 093
Acquisition of fixed and intangible assets	7 479	7 081
Regulated asset base	150 624	150 624

Contingent assets or liabilities may arise in the gas storage segment due to gaining revenue not provided for in the draft tariff or due to lower costs than those planned in the draft tariff. In 2019, more income and less expense were recognized in the statement of profit or loss than those provided for in the storage tariff methodology.

Gas storage		
Adjustments to the statement of profit or loss	**31.12.2019**	**31.12.2018**
	EUR'000	EUR'000
Income difference	563	(3 451)
Cost difference	1 012	1 631
Income and expense difference, net	**1 575**	**(1 820)**
Transferred from the previous year	(1 820)	
Total unearned revenue at the end of the reporting year	**(245)**	**(1 820)**

Total profit of the storage segment in 2019 exceeds the margin allowed in the draft tariff by EUR 1 575 thousand. In contrast, in 2018 the situation was reversed and, as the storage segment has a tariff period of 3 years, the total unearned revenue at the end of 2019 in this segment amounts to EUR 245 thousand.

At the end of the reporting period, assets of the segment amounted to EUR 163 million and comprised 45% of the total assets of the Company. Major investments in 2019: well rebuilding (EUR 3.2 million), modernization of gas pumping equipment at compressor station No. 2 (EUR 1.8 million), reconstruction of gas collection point No. 2 (EUR 1 million).

Main activities

Establishment of a single natural gas market

In order to fulfil the agreement of 5 December 2014 between the Prime Ministers of the Baltic States and Finland with the aim to harmonise the implementation of network codes and the establishment of a single regional natural gas market as of 2020, in 2019 the Company actively worked on the necessary solutions to implement the first phase of integration, which provides a package of measures for the Estonian, Latvian and Finnish natural gas market, which would reduce the administrative burden for operations on wholesale markets, ensure a larger and more liquid market, as well as eliminate discrimination on natural gas supply routes and promote tariff transparency and predictability. The main measures include the establishment of a three-country single entry tariff area and a unified Estonia-Latvia balancing zone and the development of the regulatory contractual framework necessary for their operation. In the first phase of integration, the following measures have been implemented with effect from 1 January 2020:

- **Agreement on compensation mechanism is signed** - on 14 February 2019, the Company signed an agreement with Gasum Oy (Finland) and Elering (Estonia) on the implementation of inter transmission system operators compensation mechanism amongst the operators. The ITC agreement regulates the settlement of TSOs' redistribution of input revenues and the compensation of variable costs within a regulatory solution that provides for uniform entry charges at interconnection points at the borders of the single entry tariff zone, removal of commercial borders between countries, including the Balticconnector of Estonia-Finland interconnection at no additional cost, and removal of a commercial entry/exit point on the interconnection with the Inčukalns UGS;
- **Single entry tariff for the Estonian, Latvian and Finnish transmission system** - Estonian, Latvian and Finnish transmission operators apply the same entry tariff to the external borders of the ITC signatory states, i.e., at the Imatra, Narva, Vjarsk, Luhamaa and Kiemenai interconnection points with other countries' transmission systems;
- **Rules for the single balancing zone of Estonia and Latvia** - on 28 October 2019, the Regulator harmonized the rules of the Estonian gas transmission operator AS Elering and Conexus for the use and balancing of the gas transmission system in the single balancing zone of Estonia and Latvia;
- **Establishment of a single balancing zone of Estonia and Latvia** – within the single balancing zone of Estonia and Latvia, the transmission system user shall be entitled to use the entire transmission infrastructure of the single balancing zone of Estonia and Latvia by concluding an agreement on the use and balancing of the transmission system with a freely chosen transmission system operator and its imbalance is calculated for the area as a whole, reducing the administrative burden of operational planning within each individual national transmission system and ensuring simultaneous access to two-country retail markets;
- **Development of a single IT platform** - in cooperation with the Estonian gas transmission operator AS Elering, a single IT platform compliant with the EDIG@S standard has been developed and implemented, providing both interactive and automatic exchange of information with market users on capacity reservations, nominations, etc.
- **Conexus starts operations in the single balancing zone of Estonia and Latvia** – from 1 November, the Company started accepting transmission capacity for reservation in the single balancing zone of Estonia and Latvia through the single IT platform;
- **Opening of the Balticconnector** - the Estonian-Finnish natural gas interconnector Balticconnector, a two-way gas pipeline connecting the natural gas infrastructures of both countries, was officially opened on 11 December 2019. The Balticconnector will open the gas market in Finland and connect the natural gas networks of the Baltic States and Finland, playing an important role in the single market for natural gas.

The Company ensures the necessary capacity for removal of natural gas from the storage for the next season

In order to provide the daily capacity required for the removal of natural gas from the Inčukalns UGS during the energy crisis in accordance with Article 12.1 of Cabinet Regulation No. 312 "Procedures for the Supply of Energy Users and Sale of Heating Fuel During Declared Energy Crisis and in Case of Endangerment to the State" of 19 April 2011, the Company held an auction on March 2019 with the aim of selecting storage users to enter into the natural gas interconnection with the storage system. The interest that the users of natural gas system displayed in bidding at the auction resulted in lower costs than in season 2018/2019.

EU financing granted for the development of Inčukalns Underground Storage

The European Commission has approved 50% co-financing for the Company's development project, which is intended to significantly improve the technical infrastructure and operational reliability of the Inčukalns UGS. The total investment in the project is EUR 88 million, which will be invested in the storage by 2025 and will be redirected to the modernization of the overhead infrastructure, gas wells and existing gas pumping equipment, as well as the purchase of a new compressor. The purpose of the project is to expand the storage facility so that the Inčukalns UGS can maintain its functionality after increasing the pressure on the Baltic transmission system, as well as reduce the dependence of natural gas removal capacity on the gas reserves at the Inčukalns UGS. As part of the project, the first 6 wells were modernized in 2019.

Conexus starts the new natural gas removal season with the best filling of Inčukalns storage in the last four years

Storage users have reserved 18.54 TWh during the storage cycle 2019/2020, which happens to be the maximum technically available amount of natural gas during the season 2019/2020 based both on the technical assessment carried out by Conexus and recommendations of the author supervision organisation of the storage facility. The relatively low price of natural gas, as well as the expected creation of a single natural gas market with Estonia and Finland, and the opening of the Balticconnector interconnector contributed to the increased interest of users in storage services.

Construction financing contract is signed to enhance Latvia-Lithuania interconnection

The Innovation and Networks Executive Agency of the European Commission has signed a contract with Conexus and the operator of the Lithuanian natural gas transmission system Amber Grid regarding the financing of construction works within the project Enhancement of Latvia-Lithuania gas interconnection. As a result of the project, the market will have a better access to the Klaipeda LNG terminal, the Latvian Inčukalns underground gas storage facility and the gas interconnection Poland-Lithuania (GIPL). The total investment of the project amounts to EUR 9.7 million, of which EUR 5.5 million will be covered by the Latvian party. The support granted by the European Commission under the Connecting Europe Facility (CEF) will represent 50% of the cost of the project. Construction work is expected to be completed at the end of 2023.

Natural gas users have the opportunity to connect to the natural gas transmission system

On 30 April 2019, the Regulator approved the regulations – "Regulations of natural gas transmission system connection for manufacturers of biomethane, operators of liquefied natural gas system and natural gas users". Manufacturers of biomethane, operators of liquefied natural gas system and natural gas users may connect themselves to the natural gas transmission system.

Entry into force of the amendments to the Rules of Use of the Natural Gas Transmission System

On August 15 2019 the amendments to the Rules for the Use of the Natural Gas Transmission System approved by the PUC Council Resolution No. 1/11 of 25 July 2019, which establishes the obligation for natural gas transmission system users to submit to transfer and accept the balance responsibility between system users, as well as specify the eligibility criteria for the credit rating of the natural gas transmission system user and its related merchant providing collateral for the fulfilment of obligations.

Conexus puts into operation the reconstructed gas collection point No. 2

In 2019, the Inčukalns UGS reconstructed gas collection point No. 2 was put into operation, which is equipped with new machinery and pipelines. The total investment in the project is EUR 23 million. The objective of the reconstruction project was to replace obsolete machinery and pipelines, to organize the remote control of the facility and to increase its capacity. During the project the number of technological lines were increased from 19 to 27.

Conexus puts into operation the reconstructed gas transmission gas metering station

In 2019 the gas transmission gas metering station "Korneti" in Aluksne region was put into operation. The total investment in the project is EUR 1.4 million, and the station has been equipped with the new generation of gas counters and flow computers, dew point, sulphur compounds and gas composition equipment, and the management and reporting system has been completely improved. The project led to the creation of one of the most advanced transnational gas metering stations in Europe.

Tariffs

All revenues are generated by Conexus from regulated services applying the tariffs established by the Regulator.

In April 2019, the Regulator approved the new natural gas transmission system tariffs, which became effective on 1 July 2019. They were in force until the single regional natural gas markets of Latvia, Estonia and Finland took action on 1 January 2020.

The amount of allowed revenue from storage services EUR 22 316 thous. per year is approved for a regulatory period of 3 years until 30 April 2021. Storage service tariff values for 2019 were determined in accordance with Appendix 2 of Regulator's Decision No. 47 of 26 April 2018.

On 2 December 2019, the tariff values for the Inčukalna UGS cycle 2020/2021 were submitted to the Regulator:

Minimum value for market product tariff 1 - 1.00000 EUR/MWh;

Minimum value for market product tariff 2 – 0.35000 EUR/MWh;

Minimum value for market product tariff 3 – 3.52056 EUR/MWh;

Minimum value for market product tariff 4 - 4.52056 EUR/MWh.

Sustainability Index award in Silver category

For the first time participating in the Sustainability Index assessment by the Institute of Corporate Sustainability and Responsibility, Conexus has been awarded the prestigious Silver Award for Sustainability, which is an assessment of Conexus' work over the past year to improve environmental, work environment, strategic planning, market.

Legal issues

- On 18 September 2018, Conexus submitted an application to the Administrative District Court for an appeal against the part of the Regulator's Board Decision No. 69 of 18 June 2018 on the tariffs of the "Conexus Baltic Grid" that concerned the share of costs that was not included in the draft tariffs for natural gas transmission and the issuance of a new administrative act to ensure that the non-included costs (recognised in 2018) be included in the draft tariffs for the natural gas transmission service in the next period. By decision of the Administrative District Court of 17 May 2019, the proceedings were terminated and the application by Conexus was not considered. By decision of the Administrative Case Department of the Supreme Court of 19 July 2019, the decision of the Administrative District Court of 17 May 2019 was cancelled and the case was referred for review. The case was re-examined on 16 January 2020, and the judgement is scheduled for 6 April 2020.
- On 6 June 2019, the Administrative District Court examined the application of Conexus for the cancellation of the conditions set out in points 1.1. and 1.2. of the Regulators Board Decision No. 112 of 28 September 2018 on the certification of the single operator of the natural gas transmission and storage system. By judgement of 2 September 2019 of the Administrative District Court, the application by Conexus 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 no decision has been taken on the further course of the case and the date of the hearing is not known at this time.

Conexus compliance with independence requirements

On 28 October 2019, following an annual review of independence requirements, it was determined by PUC that Conexus shall meet the certification requirements provided it complies with a number of conditions by the end of 2019:

- to ensure that from 1 January 2020 the author's supervision of Inčukalns underground gas storage facility is implemented by a merchant which is not directly or indirectly affiliated with PAS "Gazprom" and its related merchants;
- to ensure that, as of 1 January 2020, Conexus is not directly or indirectly controlled by Gazprom and that the Company fully complies with the independence requirements of the single natural gas transmission and storage system operator laid down in the Energy Law;
- to ensure that by 1 January 2020 Conexus eliminates the risk of conflict of interest arising from the concomitant holding of a stake by "Marguerite Gas I S.a.r.l." in both Conexus and JSC Latvijas Gāze.
- In November 2018 Conexus filed an application to the Administrative District Court requesting to cancel the decision made by the PUC on the operator's certification in the part that concerned the provisions. The provisions incorporated in the Regulator's decision are in essence addressed to the shaholders, in turn Conexus as a company has no legal means to influence the actions taken by the shareholders.

Subsequent events

No significant subsequent events have occurred since the last day of the reporting period that would materially influence the Company's financial statements as at 31 December 2019.

Conexus shareholders "Marguerite Gas I S.a.r.l." and PAS "Gazprom" organize the sale of their shares. The share sale process has not been completed at the date of this report.

In 2020, the Company plans to revaluate its assets with the aim of ensuring that the carrying amount does not differ materially from the fair value of the assets. The following groups of PPE will be 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.

Suggestion regarding profit distribution

Dividends calculated for shareholders amount to EUR 16 312 thousand or EUR 0.41 per share. The Board suggests that dividends be paid from retained earnings brought forward from previous years and profit for 2019 be transferred to retained earnings.

The decision on the distribution of profit and the amount of dividends is made by the shareholders' meeting of JSC Conexus Baltic Grid. The profit of JSC Conexus Baltic Grid for 2019 is EUR 17 945 thousand.

Statement of the Board's Responsibility

The management board of the Company is responsible for the preparation of the financial statements of the Company.

The financial statements for 2019 have been prepared in accordance with the International Financial Reporting Standards adopted by the European Union and provide a true and fair view of the Company's assets, liabilities, financial position and operational results.

The financial statements were approved by the Board on 12 March 2020 and they are signed by:

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

Abbreviations and formulas

- MWh = megawatt hours
- TWh = terawatt hours
- EUR/MWh/d/y = euro per megawatt hour per day/year
- EBITDA = earnings before interest, corporate tax, depreciation and amortization
- Net loans = loans including guarantees minus cash and cash equivalents
- EBITDA profitability = EBITDA / revenue
- Net profitability = net profit / revenue
- Return on Equity (ROE) = net profit / average equity value
- Shareholders' equity adequacy = shareholders equity / total assets
- Obligation load = net loans / EBITDA (12 month period)

Financial statements

Profit and loss statement

	Note	01.01.2019 - 31.12.2019	01.01.2018– 31.12.2018
		EUR'000	EUR'000
Revenue	2	59 343	54 174
Other income	3	1 350	2 459
Cost of materials and services	4	(11 458)	(13 331)
Personnel expenses	5	(10 532)	(9 551)
Depreciation, amortisation and impairment of property, plant and equipment	7,8	(16 046)	(15 500)
Other operating expenses	6	(4 521)	(4 757)
Gross profit		**18 136**	**13 494**
Financial expenses, net		(191)	(188)
Profit before taxation		**17 945**	**13 306**
Corporate income tax		-	-
Profit for the period		**17 945**	**13 306**

Statement of other comprehensive income

	Note	01.01.2019 - 31.12.2019	01.01.2018– 31.12.2018
		EUR'000	EUR'000
Profit for the period		17 945	13 306
Remeasurement of post-employment benefits due to changes in actuary's assumptions	15	(56)	(32)
Total net income recognised as other comprehensive income		(56)	(32)
Total comprehensive income for the period		**17 889**	**13 274**

The accompanying notes on pages 23 to 47 form an integral part of these financial statements.

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

Balance sheet

Assets

	Note	31.12.2019	31.12.2018
		EUR'000	EUR'000
Non-current assets			
Intangible assets	7	1 646	990
Property, plant and equipment	8	327 279	331 681
Non-current prepaid costs	9	1 310	1 411
Right of use assets	10	533	-
Total non-current assets:		**330 768**	**334 082**
Current assets			
Inventories	11	3 384	2 182
Advances paid for inventories		33	1
Trade receivables		6 258	6 859
Other receivables	12	453	371
Cash and cash equivalents		21 504	18 068
Total current assets:		**31 632**	**27 481**
TOTAL ASSETS:		**362 400**	**361 563**

The accompanying notes on pages 23 to 47 form an integral part of these financial statements.

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

Balance sheet (continued)

Liabilities and shareholders' equity

	Note	31.12.2019	31.12.2018
		EUR'000	EUR'000
Shareholders' equity:			
Share capital	19	39 786	39 786
Treasury shares	19	(36)	(38)
Reserves	13	140 630	146 914
Retained earnings		135 341	123 104
Total shareholders' equity:		**315 721**	**309 766**
Non-current liabilities			
Deferred income	14	11 125	7 800
Employee benefit liabilities	15	1 114	1 061
Loans from credit institutions	16	21 875	25 375
Non-current lease liabilities	10	453	-
Total non-current liabilities:		**34 567**	**34 236**
Short-term liabilities			
Borrowings	16	3 500	3 500
Accounts payable to suppliers and contractors		2 327	3 666
Other liabilities	17	5 363	8 510
Provisions	18	-	1 421
Deferred income	14	307	302
Customer advances		524	162
Current lease liabilities	10	91	-
Total current liabilities:		**12 112**	**17 561**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY:		**362 400**	**361 563**

The accompanying notes on pages 23 to 47 form an integral part of these financial statements.

Zane Kotāne
Chairperson of the Board

Gints Freibergs
Member of the Board

Mārtiņš Gode
Member of the Board

Statement of changes in equity

	Share capital	Treasury shares	Reserves	Retained earnings	Total
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
As at 1 January 2018	39 786	(39)	153 004	117 666	310 417
Dividends	-	1	-	(13 926)	(13 925)
Decrease of the revaluation reserve	-	-	(6 058)	6 058	-
Other comprehensive income:					
Other comprehensive income	-	-	(32)	-	(32)
Profit of the period				13 306	13 306
Total other comprehensive income:	-	-	*(32)*	*13 306*	*13 274*
As at 31 December 2018	**39 786**	**(38)**	**146 914**	**123 104**	**309 766**
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	-
Other comprehensive income:					
Other comprehensive income	-	-	(56)	-	(56)
Profit of the period				17 945	17 945
Total other comprehensive income:	-	-	(56)	*17 945*	*17 889*
As at 31 December 2019	**39 786**	**(36)**	**140 630**	**135 341**	**315 721**

The accompanying notes on pages 23 to 47 form an integral part of these financial statements.

Zane Kotāne
Chairperson of the Board

Gints Freibergs
Member of the Board

Mārtiņš Gode
Member of the Board

Statement of cash flow

	Note	31.12.2019	31.12.2018
Cash flow from operating activities		EUR'000	EUR'000
Profit before taxes		**17 945**	**13 306**
Adjustments for:			
- depreciation	8	15 672	15 118
- amortization of intangible assets	7	374	382
- loss on disposal of property, plant and equipment	6	246	461
- amortisation of the right of use assets	10	34	-
- changes in provisions		(1 421)	1 421
- participation in the transnational cross-border project		101	101
- income from EU financing	3	(353)	(418)
- interest expenses		191	188
Change in operating assets and liabilities:			
- (increase)/decrease in debtors		519	(850)
- (increase)/decrease in inventories		(1 204)	279
- (decrease)/ increase in creditors		(4 174)	2 602
Corporate income tax paid		-	(1 110)
Net cash flow from operating activities		**27 930**	**31 480**
Cash flows from operating activities			
Purchase of property, plant and equipment		(13 500)	(13 545)
Purchase of intangible assets		(1 030)	(364)
Proceeds from sale of property, plant and equipment		1 954	25
Cash flow from investing activities		**(12 576)**	**(13 884)**
Cash flow from financing activities			
Interest paid		(191)	(188)
Repayment of borrowings		(3 500)	(3 500)
EU grants received	14	3 683	125
Lease payments		(23)	-
Dividends paid		(11 887)	(13 851)
Net cash flow from financing activities		**(11 918)**	**(17 414)**
Net cash flow		**3 436**	**182**
Cash and cash equivalents at the beginning of the reporting period		**18 068**	**17 886**
Cash and cash equivalents at the end of the reporting period		**21 504**	**18 068**

The accompanying notes on pages 23 to 47 form an integral part of these financial statements.

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

Notes to the financial statements

Notes to the statement of profit or loss

1. Segment information

All revenues are generated by Conexus from regulated services applying the tariffs established by the Regulator.

- The natural gas **transmission** segment provides transportation of natural gas through high-pressure pipelines to supply it to Inčukalns UGS, to other countries and to the distribution system.
- 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 underground gas storage.

The transmission segment generates revenue from both natural gas consumption in Latvia and from international transportation of natural gas. The revenue of the transmission segment during the reporting period was EUR 36.4 million and EBITDA reached EUR 19 million, representing 55.5% of the Company's total EBITDA. Profit of the transmission segment amounted to EUR 9.3 million (40% more than last year due to recognition of regulatory costs).

Gas transmission	2019 / 31.12.2019	2018 / 31.12.2018
	EUR'000	EUR'000
Net sales	**36 424**	**33 885**
EBITDA	18 963	16 160
Segment net profit	**9 287**	**6 631**
Segment assets	178 197	181 240
Depreciation and amortization	9 578	9 406
Acquisition of fixed and intangible assets	7 051	6 829
Regulated asset base in the approved draft tariffs	171 820	173 772

Storage revenue in 2019 reached EUR 22.9 million (13% more than a year earlier) due to timely commencement of reservation and higher total reservations. The active interest by traders was linked to both lower gas prices in 2019 and preparations for the introduction of the single market, which promoted higher demand for storage services. The amount of revenue generated by the storage segment ensured EBITDA of EUR 15.2 million and profit of EUR 8.7 million.

Gas storage	2019 / 31.12.2019	2018 / 31.12.2018
	EUR'000	EUR'000
Net sales	**22 919**	**20 290**
EBITDA	15 218	12 835
Segment net profit	**8 658**	**6 675**
Segment assets	162 699	162 255
Depreciation and amortization	6 502	6 093
Acquisition of fixed and intangible assets	7 479	7 081
Regulated asset base	150 624	150 624

2. Revenue

	31.12.2019	31.12.2018
	EUR'000	EUR'000
Revenue from transmission services	36 424	33 885
Revenue from storage services	22 919	20 289
	59 343	**54 174**

All revenue is generated in Latvia.

3. Other income

	31.12.2019	31.12.2018
	EUR'000	EUR'000
Net result from balancing	892	1 988
Income from EU financing (see Note 14)	353	418
Other income	105	53
	1 350	**2 459**

4. Materials and services

	31.12.2019	31.12.2018
	EUR'000	EUR'000
Maintenance of transmission and storage infrastructure	8 949	10 786
Cost of materials	1 424	1 032
Natural gas expenses	464	1 007
Maintenance of IT infrastructure	444	319
Maintenance of transport and machinery	177	187
	11 458	**13 331**

5. Personnel expenses

	31.12.2019	31.12.2018
	EUR'000	EUR'000
Salary	8 069	7 337
Compulsory state social security contributions	1 980	1 751
Life, health and pension insurance	469	438
Other personnel costs	14	25
	10 532	**9 551**
Including for members of the Council and the Board:		
- Salary	616	564
- Compulsory state social security contributions	135	122
- Life, health and pension insurance	42	36
- Other personnel costs	8	9
	801	**731**
Average number of employees	343	350

6. Other operating expenses

	31.12.2019	31.12.2018
	EUR'000	EUR'000
Premises and territory maintenance and other services	1 367	1 378
Office and other administrative costs	1 503	1 626
Taxes and duties	1 371	1 292
Net loss from disposals of property, plant and equipment	246	461
-Amortisation of the right of use assets	34	-
	4 521	**4 757**

Notes to the balance sheet

7. Intangible assets

	31.12.2019	31.12.2018
	EUR'000	EUR'000
Cost		
Beginning of the period	5 959	5 712
Additions	1 030	364
Reclassified from PPE	-	4
Disposals	-	(121)
End of the period	**6 989**	**5 959**
Accumulated amortization		
Beginning of the period	4 969	4 674
Amortization for the reporting period	374	382
Disposals	-	(87)
End of the period	**5 343**	**4 969**
Net book value as at the beginning of the period	**990**	**1 038**
Net book value as at the end of the period	**1 646**	**990**

Intangible assets as at 31.12.2019 include fully depreciated intangible assets with a total cost of EUR 4 367 thousand (as at 31.12.2018: EUR 3 340 thousand).

Intangible assets are primarily comprised of software for the purposes of operating segments.

8. 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						
31.12.2017	**639 387**	**109 939**	**5 522**	**1 608**	**19 289**	**775 745**
Additions	-	195	265	-	13 085	13 545
Reclassified	12 668	11 335	534	-	(24 537)	-
Disposals	(1 416)	(767)	(90)	-	-	(2 273)
Transferred	-	-	-	(173)	(4)	(177)
31.12.2018	**650 639**	**120 702**	**6 231**	**1 435**	**7 833**	**786 840**
Accumulated depreciation						
31.12.2017	**377 393**	**60 827**	**3 642**	**-**	**-**	**441 862**
Calculated	10 856	3 767	495	-	-	15 118
Disposals	(1 120)	(613)	(88)	-	-	(1 821)
31.12.2018	**387 129**	**63 981**	**4 049**	**-**	**-**	**455 159**
Balance as at 31.12.2018	**263 510**	**56 721**	**2 182**	**1 435**	**7 833**	**331 681**

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						
31.12.2018	**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 to inventory	-	-	-	(30)	-	(30)
31.12.2019	**656 621**	**127 158**	**6 660**	**1 405**	**4 657**	**796 501**
Accumulated depreciation						
31.12.2018	**387 129**	**63 981**	**4 049**	**-**	**-**	**455 159**
Calculated	11 201	3 960	511	-	-	15 672
Disposals	(1 245)	(207)	(157)	-	-	(1 609)
31.12.2019	**397 085**	**67 734**	**4 403**	**-**	**-**	**469 222**
Balance as at 31.12.2019	**259 536**	**59 424**	**2 257**	**1 405**	**4 657**	**327 279**

Property, plant and equipment as at 31.12.2019 include fully depreciated assets with a total cost of EUR 16 202 thousand (as at 31.12.2018: EUR 13 418 thousand).

The cadastre value of real estate amounts to EUR 63,558 thousand.

The latest revaluation of the buildings, structures, machinery was done in 2016, before the reorganisation of JSC Latvijas Gāze. The items of PPE were transferred to the Company as part of the reorganisation at previous revalued amounts. The revaluation was performed by an independent external expert using the depreciated replacement cost method. The following table summarises values of the revalued assets as if they were carried at the historical cost.

In 2020, the Company plans to revaluate its assets with the aim of ensuring that the carrying amount does not differ materially from the fair value of the assets. The following groups of PPE will be 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.

Cost	31.12.2019	31.12.2018
	EUR'000	EUR'000
Buildings and structures	133 581	131 293
Equipment and machinery	55 013	51 889

9. Prepaid expenses

	31.12.2019	31.12.2018
	EUR'000	EUR'000
Opening balance	1 512	1 613
Amortised in profit or loss	(101)	(101)
Transferred to future periods	**1 411**	**1 512**
incl. current part (see Note 11)	*101*	*101*
long term	*1 310*	*1 411*

In accordance with Regulator's Decision No 97 (minutes No 16, p.4) "On the distribution of investment costs for the common interest project "Klaipedos - Kiemenai pipeline capacity increase in Lithuania "", a payment was made to AB Amber Grid.

The list of projects of common interest attached to Regulation (EU) No 347/2013 of the European Parliament and of the Council of 17 April 2013 includes 8.5 Gas Interconnection Poland–Lithuania (GIPL).

It is stated in Decision No. 01/2014 of the Agency for the Cooperation of Energy Regulators (ACER) of 11 August 2014 on the investment request including cross-border cost allocation for the gas interconnection Poland-Lithuania project of common interest No 8.5 that lump-sum payments shall be provided by the Member States to which the project provides a significant net positive impact to the operator of the Member State deemed to have a net negative effect from the implementation of the project.

Compensation of EUR 29.4 million is payable as a lump-sum payment in a single transfer after the GIPL project is put into operation.

On 11 May 2018, the Company signed an interoperator agreement (Agreement) with GAZ System, AB Amber Grid and Elering AS concerning sharing costs of the GIPL project.

Under the Agreement, the Company is required to provide a financial security (guarantee) to secure performance of liabilities.

Currently, as required by the Agreement the Company has issued a guarantee in favour of GAZ-SYSTEM S.A. to secure fulfilment of liabilities of EUR 16 170 000 expiring on 16 May 2020.

Prepaid expenses were expensed over the period of repayment of investments – 15 years.

10. Lease

	31.12.2019
	EUR'000
Right of use assets	
Opening balance	-
Initially recognized on 1 January 2019	431
Recognised changes in lease contracts	136
Depreciation recognised in the statement of profit or loss	(34)
Balance at 31.12.2019	**533**
Lease liability	
Opening balance	-
Initially recognized on 1 January 2019	431
Recognised changes in lease contracts	136
Recognised decrease in lease liabilities	(43)
Recognised lease interest expense	20
Balance at 31.12.2019	**544**
incl.	
Non-current lease liabilities	453
Current lease liabilities	91

11. Inventories

	31.12.2019	31.12.2018
	EUR'000	EUR'000
Materials and spare parts	1 658	1 699
Natural gas	1 795	552
Write-off of inventory value to net realisable value	(69)	(69)
	3 384	**2 182**

Write-off of inventory value to net realisable value	31.12.2019	31.12.2018
	EUR'000	EUR'000
Write-offs at the beginning of the period	69	69
Write-offs at the end of the period	**69**	**69**

12. Other receivables

	31.12.2019	31.12.2018
	EUR'000	EUR'000
Prepaid expenses related to the participation in the transnational cross-border project (see Note 8)	101	101
Other prepaid expenses	214	199
Other receivables	138	71
	453	**371**

13. Reserves

	31.12.2019	31.12.2018
	EUR'000	EUR'000
Property, plant and equipment revaluation reserve	115 681	121 909
Reorganisation reserve	24 647	24 647
Post-employment benefit revaluation reserve	302	358
	140 630	**146 914**

Movement in revaluation reserves	Property, plant and equipment revaluation reserve	Post-employment benefit revaluation reserve
Balance as at 31.12.2017	**127 967**	**390**
Reassessment of actuarial assumptions	-	(32)
Disposed revalued items of PPE	(162)	-
Transfer of accumulated depreciation of the revaluation reserve (transferred in reorganisation) to retained earnings	(5 896)	-
Balance as at 31.12.2018	**121 909**	**358**
Reassessment of actuarial assumptions	-	(56)
Disposed revalued assets	(565)	-
Transfer of depreciation of revaluation surplus charged for the period to retained earnings	(5 663)	-
Balance as at 31.12.2019	**115 681**	**302**

The revaluation reserve can neither be distributed in dividends nor capitalised.

14. Deferred income

	31.12.2019	31.12.2018
	EUR'000	EUR'000
Non-current part	11 125	7 800
Current part	307	302
	11 432	**8 102**

Movement of deferred income	31.12.2019	31.12.2018
	EUR'000	EUR'000
Opening balance	8 102	8 395
EU co-funding received	3 683	125
Transferred to revenue for the period (see Note 3)	(353)	(418)
Transferred to future periods	**11 432**	**8 102**

In May 2019, the European Commission approved 50% co-financing of the project of common European interest No. 8.2.4. "Enhancement of Inčukalns underground gas storage operations". In 2019 the project received EUR 2.9 million.

In December 2019, an agreement was concluded on the conclusion of the European project of common interest No 8.2.1. "Improving Latvian-Lithuanian interconnection" co-financing at 50% of the total cost of the project. In 2019 the project received EUR 751 thousand.

15. Employee benefit obligations

	31.12.2019	31.12.2018
	EUR'000	EUR'000
Post-employment benefit liabilities	1 016	963
Other employment benefits	98	98
	1 114	**1 061**

	31.12.2019	31.12.2018
	EUR'000	EUR'000
Obligations at the beginning of the reporting period	1 061	1 040
Recognised in profit or loss	84	82
Paid	(87)	(93)
Revaluations due to changes in actuarial assumptions - in equity	56	32
Obligations at the end of the reporting period	**1 114**	**1 061**

Assumptions used in the calculations of obligations	31.12.2019	31.12.2018
	EUR'000	EUR'000
Discount rate, %	0.43%	1.2%
Employee rotation rate, %	4.39%	3.48%
Employee retirement age, years	64.9	64.9
Wage growth, %	3.00%	3.00%
Contribution into private pension fund, %	5.00%	5.00%
Compulsory social security contributions (employees), %	24.09%	24.09%
Compulsory social security contributions (retired), %	21.31%	21.31%

Employee benefit obligations (continued)

Assumptions used in the calculations of obligations	Changes in assumptions	Impact on obligations due to changes in assumptions	31.12.2019	31.12.2018
Discount rate	+0.5%	Savings reduced by	-4.39%	-4.29%
Employee rotation rate	+0.5%	Savings reduced by	-4.82%	-4.70%
Employee retirement age	+1 year	Savings reduced by	-5.88%	-5.34%
Wage growth	+0.5%	Savings increased by	4.52%	4.41%
Contribution into private pension fund	+0.5%	Savings increased by	0.39%	0.39%
Social contributions	+0.5%	Savings increased by	0.39%	0.39%

Assumptions used in the calculations of obligations	Changes in assumptions	Impact on obligations due to changes in assumptions	31.12.2019	31.12.2018
Discount rate	-0.5%	Savings increased by	4.81%	4.70%
Employee rotation rate	-0.5%	Savings increased by	5.27%	5.13%
Employee retirement age	-1 year	Savings increased by	5.91%	5.04%
Wage growth	-0.5%	Savings reduced by	-4.16%	-4.06%
Contribution into private pension fund	-0.5%	Savings reduced by	-0.39%	-0.39%
Social contributions	-0.5%	Savings reduced by	-0.39%	-0.39%

16. Borrowings

	31.12.2019	31.12.2018
	EUR'000	EUR'000
Borrowings from credit institutions	21 875	25 375
Short-term loans from credit institutions	3 500	3 500
	25 375	**28 875**

The Company has a valid loan agreement with maturity on 30 November 2021. The loan has an interest rate of 0.60% plus 6M EURIBOR. The loan is not secured by collateral.

17. Other liabilities

	31.12.2019	31.12.2018
	EUR'000	EUR'000
Accrued costs for non-received invoices	2 842	5 194
Accrued bonuses	1 225	1 338
Value added tax	-	756
Accrued expenses on unused vacations	375	437
Staff remuneration	359	301
Social contributions	220	203
Personal income tax	113	103
Dividends undistributed from prior years	121	74
Other non-current liabilities	55	41
Corporate income tax from theoretically distributed profit	28	36
Natural resources tax	25	27
	5 363	**8 510**
incl. financial liabilities	*2 842*	*5 194*

18. Provisions

	31.12.2019	31.12.2018
	EUR'000	EUR'000
Provisions to maintain minimum amount of natural gas in the pipelines	-	1 421
	-	**1 421**

19. Share capital

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.

The Company redeemed shares amounting to EUR 39 thousand in accordance with the provisions laid down in Article 353 (1), (2), (3) of the Commercial Code, from the shareholders who voted against the approval of the statues on 22 December 2016 at the constituent meeting of the JSC Conexus Baltic Grid.

20. Taxes

	Liabilities 31.12.2018	Calculated	Paid	(Overpaid)/ liabilities at 31.12.2019
	EUR'000	EUR'000	EUR'000	EUR'000
Corporate income tax from theoretically distributed profit	36	36	(44)	28
Value added tax	756	7 398	(8 176)	(22)
Social contributions	203	2 885	(2 868)	220
Personal income tax	103	1 515	(1 505)	113
Natural resources tax	27	272	(274)	25
Real estate tax	-	958	(958)	-
	1 125	**13 064**	**(13 825)**	**364**

21. Related party transactions

No individual entity exercises control over the Company. The Company has following transactions with entities disclosed below, which own or owned more than 20% of the shares that deemed to provide a significant influence over the Company.

Expenses on purchase of services from the companies controlled by related companies	31.12.2019	31.12.2018
Companies controlled by PJSC Gazprom	240	279
	240	**279**

Related parties payables and receivables	31.12.2019	31.12.2018
	EUR'000	EUR'000
Due to related parties		
Companies controlled by PJSC Gazprom	-	64
	-	**64**

Other issues

Payments for long-term asset contracts

Contracted for, but not yet delivered: EUR 15 429 thousand

Subsequent events

No significant subsequent events have occurred since the last day of the reporting period that would materially influence the Company's financial statements as at 31 December 2019.

Remuneration to the certified auditors' company

Remuneration to the certified auditors' company	31.12.2019	31.12.2018
	EUR'000	EUR'000
Statutory audit	19	13
	19	**13**

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.

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

The financial instruments held by Conexus are divided into the following categories:

Financial assets and liabilities	31.12.2019	31.12.2018
	EUR'000	EUR'000
Trade receivables	6 258	6 859
Other receivables	94	71
Cash and cash equivalents	21 504	18 068
Total financial assets	**27 856**	**24 998**
Loans from credit institutions	25 375	28 875
Accounts payable to suppliers and contractors	2 327	3 666
Other liabilities	2 842	5 194
Total financial liabilities	**30 544**	**37 735**

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.

Term analysis of financial liabilities based on their contractual cash flows, including interest payments:

31.12.2019	Carrying amount	Contractual cash flows	1 to 3 months	3 month - 1 year	1 – 5 years
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Loans	25 375	25 634	913	2 732	21 989
Other loans	5 169	5 168	5 168	-	-
Financial liabilities	**30 544**	**30 802**	**6 081**	**2 732**	**21 989**

31.12.2018	Carrying amount	Contractual cash flows	1 to 3 months	3 month - 1 year	1 – 5 years
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Loans	28 875	29 301	918	2 749	25 634
Other loans	8 860	8 860	8 860	-	-
Financial liabilities	**37 735**	**38 161**	**9 778**	**2 749**	**25 634**

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 ad liabilities are accounted for at the amortised cost, the Company is not exposed to the fair value interest rate risk.

Credit risk

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

To restrict credit risk, JSC Conexus Baltic Grid uses security deposits. 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 January 2020.

Credit risk regarding financial resources with credit institutions is managed by balancing the placement of financial assets with at least two credit institutions. All credit institutions with which the Company is cooperating or plans to cooperate are assessed on the basis of credit rating established by an international credit rating agency – of at least A- or A3. Based on such assessment, outstanding cash and cash equivalents can be summarised as follows (grouped by long term rating):

Bank	Rating	31.12.2019	31.12.2018
	EUR'000	EUR'000	EUR'000
Swedbank*	Aa2*	18 874	18 009
OP Corporate Bank plc filiāle Latvijā	Aa-	695	-
Citadele banka	Ba1	950	50
SEB banka**	Aa2**	985	9
Financial liabilities		**21 504**	**18 068**

* The Moody's rating for the parent company Swedbank AB, such rating is not available for Swedbank AS.
** Credit rating for Skandinavska Enskilda Banken (SEB).

As at 31 December 2019 and 31 December 2018, cash and cash equivalents consisted only of current account balances with credit institutions.

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. Liabilities include all long term and short-term liabilities, but total capital includes all liabilities of the Company and equity. This indicator is used to evaluate structure of the capital of the Company, as well as its solvency. Strategy of the company is to ensure that the mentioned proportion does not exceed 50%. As at 31.12.2019 and 31.12.2018 the proportion of borrowed capital to total capital was as follows:

	31.12.2019	31.12.2018
	EUR'000	EUR'000
Total liabilities	46 679	51 797
(Cash and cash equivalents)	(21 504)	(18 068)
(Deferred income - EU grants)	(11 432)	(8 102)
Net total liabilities	13 743	25 627
Total equity and liabilities	362 400	361 563
Borrowed capital proportion to total capital	**3.79%**	**7.09%**

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.

Carrying amount

IFRS 13 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources. In case of unobservable inputs, the valuation method reflects the Company's market assumptions. This hierarchy requires the use of observable market data when available. The Company considers relevant and observable market prices in its revaluation, where possible.

The objective of the fair value measurement, even in inactive markets, is to arrive at the price at which an orderly transaction would take place between market participants to sell the asset or transfer the liability at the measurement date under current market conditions. In order to arrive at the fair value of a financial instrument different methods are used: quoted prices, valuation techniques incorporating observable data and valuation techniques based on internal models. These valuation methods are divided according to the fair value hierarchy in Level 1, Level 2 and Level 3. The level in the fair value hierarchy within which the fair value of a financial instrument is categorized shall be determined on the basis of the lowest level input that is significant to the fair value in its entirety.

The classification of financial instruments in the fair value hierarchy is a two-step process:

1. Classifying each input used to determine the fair value into one of the three levels;

2. Classifying the entire financial instrument based on the lowest level input that is significant to the fair value in its entirety.

- *Quoted market prices – Level 1*

Valuations in Level 1 are determined by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted prices are readily available and the prices represent actual and regularly occurring market transactions on an arm's length basis.

Valuation techniques and observable inputs – Level 2

- Valuation techniques in Level 2 are models where all significant inputs are observable for the asset or liability, either directly or indirectly. Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (that is, as price) or indirectly (that is, derived from prices).

Valuation technique using significant unobservable inputs – Level 3

A valuation technique that incorporates significant inputs that are not based on observable market data (unobservable inputs) is classified in Level 3. Unobservable inputs are those not readily available in an active market due to non-liquid market or complexity of the product. Level 3 inputs are generally determined based on observable inputs of a similar nature, historic observations on the level of the input or analytical techniques.

The following financial assets and liabilities are included in Level 3.

	31.12.2019	31.12.2018
	EUR'000	EUR'000
Assets:		
Trade receivables	6 257	6 859
Other receivables	94	71
Cash and cash equivalents	21 504	18 068
Liabilities:		
Loans	25 375	28 875
Trade payables	2 327	3 666
Other loans	3 385	5 194

Assets and liabilities for which fair value is disclosed

The carrying amount of liquid and short-term financial instruments (with maturity below 3 months), for example, cash and cash equivalents, short-term trade payables and trade receivables, corresponds to their fair value.

The carrying amount of borrowings from credit institutions is evaluated by discounting future cash flows and applying market interest rate. As interest rates applied on borrowings from credit institutions, are mainly floating and do not significantly differ from market rates, and the risk margin applicable to the Company has not changed significantly, the fair value of long-term liabilities approximates their net book value.

Assets measured at fair value

The Company's buildings, structures, including gas pipeline infrastructure, machinery and equipment are reported at revalued amounts which approximate their fair value.

The last revaluation was performed in 2016 while the relevant assets were still the part of JSC Latvijas Gāze. Considering the unique nature and use of the assets, revaluation was based on Level 3 data, meaning that the data are not freely observable for relevant type of assets. This was a repeated revaluation, and the data level of used assumptions was not changed.

The revaluation was performed by an external expert using the amortised replacement cost method. According to this method, initial value of assets is determined according to the prices, requirements and applied materials at the time of the valuation. Key assumptions during revaluation process are associated with the materials cost and the cost of the average construction prices at the time of revaluation. For determination of values, data available to the Company about similar constructions of facilities in recent years is being used. A significant section of the revaluation consists of revaluation of underground gas pipelines. The total length of pipeline transmission system is 1188 km. In case of an increase in the average construction cost in the country or significantly increase the cost of materials, asset value will increase. If the cost of construction or materials decreases the value of the assets will decrease accordingly.

Parallel to the initial value, accumulated depreciation is determined, taking into account the following key factors: the asset's physical, functional and technical depreciation. If revalued assets are used in a substantially different way, or they are functionally obsolete, revalued asset value may decrease significantly.

The management has assessed the level of pipeline and general construction prices during 2018 and 2019, and has not identified significant changes as compared to 2016 when the revaluation was made. In the absence of other significant changes, the management concluded that the carrying amount of revalued property, plant and equipment does not differ materially from the amount which would be determined using fair value at the end of the reporting period.

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 2019 to 31 December 2019.

These financial statements have been approved by the Management Board on 11 March 2019 and will be approved by the shareholders of the Company. Shareholders have the power to reject the financial statements prepared and issued by the Company and the right to request that new financial statements be issued.

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.

Adoption of new and revised standards and interpretations

The following standards effective from 1 January 2019 did not have any impact on these financial statements:

- IFRIC 23 'Uncertainty over Income Tax Treatments',
- Amendments to IFRS 9 'Financial Instruments' – Prepayment Features with Negative Compensation,
- Amendments to IAS 28 'Associates and Joint Ventures' – Long-term Interests in Associates and Joint Ventures;
- Amendments to IAS 19 'Employee Benefits' – Plan Amendment, Curtailment or Settlement, and
- Annual Improvements to IFRS in 2017.

Implementation of IFRS 16 Lease is described further in this note.

A number of new standards and interpretations are published and are effective for annual periods beginning after 1 January 2020 or have not been adopted in the EU:

Amendments to IFRS 3 Business Combinations – Definition of a Business (effective for annual periods beginning on or after 1 January 2020, not yet adopted by the EU)

Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Changes in Accounting Policies, Accounting Estimates and Errors - Definition of Materiality (effective for annual periods beginning on or after 1 January 2020, not yet adopted by the EU).

Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Associates and Joint Ventures - Sale or Transfer of Assets between an Investor and its Associate or Joint Ventures (effective date has not been stated, not yet adopted by the EU).

The management of the Company made a decision not to adopt these standards and interpretations before they become effective. The management believes that the introduction of new standards, amendments and interpretations will not have significant impact on the Company's financial statements during the implementation year.

The management of JSC Conexus Baltic Grid has elected not to adopt these standards, amendments and interpretations in advance of their effective dates, and the management expects that the adoption of all other standards, amendments and interpretations will have no material impact on the financial statements of the Company in the period of application.

Intangible assets

Recognised as intangible assets are identifiable non-monetary assets without physical substance that are used for the provision of services or for operating purposes. Intangible assets of JSC Conexus Baltic Grid mainly consist of 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 Inčukalns underground gas storage facility.

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

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

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

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

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

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

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

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

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

Lease

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

- The impact of IFRS 16 on the financial statements of the Company is disclosed in Note 10.
- The new standard, when initially applied, will result in the Company having to recognise starting from 1 January 2019 in its balance sheet assets and liabilities relating to operating leases for which the Company acts as a lessee.

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

Non-current prepaid costs

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

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

Inventories

Inventories are stated at the lower of cost or net realizable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to complete the inventories and the sale.

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

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

Cash and cash equivalents

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

Other financial assets

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

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

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

- the 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 tax rate increased to 20% instead of the previous tax rate 15% as well as the taxation period is one month instead of a year 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 that should be calculated using the methodology determined by the Cabinet of Ministers, benefits bestowed by the non-resident upon its staff or Board (Council members) regardless of whether the receiving party is a resident or a non-resident, if they relate to the operation of a permanent establishment in Latvia, liquidation quota).

Grants

Grants received to cover capital investments are initially recognised in deferred income which is gradually recognised as revenue over the useful life of PPE received or acquired using grants. Grants received to cover expenses are recognised in the same period when the related expenses have arisen, if all the conditions of receiving the grant are met. The Company has received grants from the EU as co-financing of capital investments.

Revenue

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

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

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

The internal revenue recognition policies for the different types of contracts with customers have been analysed, identifying the performance obligations, the determination of the calendar of satisfaction of these obligations, transaction price and allocation thereof, in order to identify possible differences with respect to the revenue recognition model under the new standard. No significant differences between them have been detected. IFRS 15 requires the recognition of an asset for incremental costs incurred in obtaining such contracts with customers and which are expected to be recovered. The current practices applied by Conexus imply that there are no contract costs to be capitalized.

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

Revenue from transmission services

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

Revenue from storage

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

Interest income

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

Income from fines

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

Other income

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

JSC Conexus Baltic Grid maintains information on the quantity of natural gas entered in the transmission system and exited from it by the transmission system users and calculates the imbalance. The amount of daily imbalance is the difference between the entry and exit. In the event of a negative imbalance for the user of the transmission system, the amount of imbalance charge is calculated for each such day, by multiplying the calculated quantity with the sale price of natural gas, published in specified order, for the daily balancing purposes. Revenues from the provision of balancing services are recognized for each reporting month when the transmission system user experiences an imbalance that has caused a deficit of natural gas in the transmission system.

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

Where market participants cause imbalance and where Conexus does not have sufficient gas resources available to ensure a proper operation of the gas transmission system, Conexus shall buy respective quantities of balancing gas.

Significant estimates and judgements

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

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

Useful lives of property, plant and equipment

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

Revaluation of property, plant and equipment

JSC Conexus Baltic Grid accounting policy provides fro a periodic revaluation of property, plant and equipment if the purchase price and average construction costs have changed significantly. The replacement value of revalued items of PPE is determined independently by certified appraisers in accordance with the valuation standards for real estate.

The latest revaluation of the buildings, structures, machinery was done in 2016, before the reorganisation of JSC "Latvijas Gāze". The balances of revalued assets were transferred to the Company as a result of reorganisation, at predecessor carrying amounts. The management estimates that the carrying amount of PPE revalued on 31.12.2019 does not significantly differ from their fair value.

Employee benefit liabilities

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

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

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

The financial statements were prepared by:

Kārlis Lūks
Head of Financial Reporting

conexus
BALTIC GRID

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Independent Auditors' Report

To the shareholders of Joint Stock Company

Conexus Baltic Grid

Report on the Audit of the Financial Statements

Our opinion on the Financial Statements

We have audited the accompanying financial statements of Joint Stock Company Conexus Baltic Grid ("the Company") set out on pages 17 to 47 of the accompanying Annual Report, which comprise:

- the balance sheet as at 31 December 2019,
- the profit and loss statement for the year then ended,
- the statement of changes in equity for the year then ended,
- the statement of cash flows for the year then ended, and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Joint Stock Company Conexus Baltic Grid as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Basis for Opinion

In accordance with the 'Law on Audit Services' of the Republic of Latvia we conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibility for the Audit of the Financial Statements* section of our report.

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) and independence requirements included in the 'Law on Audit Services' of the Republic of Latvia that are relevant to our audit of the financial statements in the Republic of Latvia. We have also fulfilled our other professional ethics responsibilities and objectivity requirements in accordance with the IESBA Code and the 'Law on Audit Services' of the Republic of Latvia.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Reporting on Other Information

The Company's management is responsible for the other information. The other information comprises:

- Information about the Company, as set out on pages 3 to 6 of the accompanying Annual Report,

- the Management Report, as set out on pages 7 to 16 of the accompanying Annual Report,
- The Statement of the Management Responsibility, as set out on page 16 of the accompanying Annual Report.

Our opinion on the financial statements does not cover the other information included in the Annual Report, and we do not express any form of assurance conclusion thereon, except as described in the *Other Reporting Responsibilities in Accordance with the Legislation of the Republic of Latvia related to Other Information* section of our report.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed and in light of the knowledge and understanding of the entity and its environment obtained in the course of our audit, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Other Reporting Responsibilities in Accordance with the Legislation of the Republic of Latvia related to Other Information

In addition, in accordance with the 'Law on Audit Services' of the Republic of Latvia with respect to the Management Report, our responsibility is to consider whether the Management Report is prepared in accordance with the requirements of the 'Law on the Annual Reports and Consolidated Annual Reports' of the Republic of Latvia.

Based solely on the work required to be undertaken in the course of our audit, in our opinion:

- the information given in the Management Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Management Report has been prepared in accordance with the requirements of the 'Law on the Annual Reports and Consolidated Annual Reports' of the Republic of Latvia.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with IFRSs as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG Baltics AS
Licence No. 55

Armine Movsisjana

Armine Movsisjana
Chairperson of the Board
Latvian Sworn Auditor
Certificate No. 178
Riga, Latvia
12 March 2020

This report is an English translation of the original Latvian. In the event of discrepancies between the two reports, the Latvian version prevails