

Joint Stock Company Conexus Baltic Grid

Non-audited interim period shortened
financial statements for the period from
4 January 2017 until 31 March 2017

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Information of the Company

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

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

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

Company	JSC Conexus Baltic Grid
Registration number	40203041605
Registration date and place	Riga, 2 January 2017
Address	6 Aristida Briāna Street, Riga, LV –1001, Latvia www.conexus.lv
Largest shareholders	PAS Gazprom (34.1 %) Marguerite Gas I S.à r.l. (29.06 %) Uniper Ruhrgas international GmbH (18.31 %) ITERA Latvija SIA (16.05 %)
Period of the Financial Statements	4 January 2017 – 31 March 2017

Council

(term of office from 22 December 2016)

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

Board of Directors

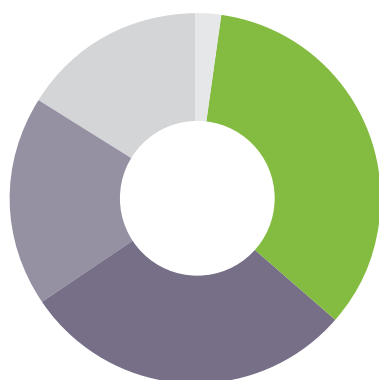
(term of office from 22 December 2016)

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

Shares and shareholders

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

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



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

Management Report

Characterisation of activity environment

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

The natural gas market in the first quarter of 2017 was marked with a dynamic direction towards new market rules and forms. By opening the natural gas market, it was necessary to determine new tariffs for transmission

system services and storage services. On 28 November 2016 the PUC approved the methodology for the calculation of the tariffs for natural gas transmission system services in accordance with which, on 5 January 2017, the Company submitted the Draft Tariffs for Natural Gas Transmission System Services. On 16 March 2017 the PUC approved the methodology for the calculation of the tariffs for natural gas storage services.

On 16 March 2017, the PUC determined a coefficient for re-calculation of the tariffs for transmission and storage services from normal cubic metres to energy units, which came into force on 3 April 2017. The Company has submitted the draft regulations for the use of transmission system and storage to the PUC for approval.

Main activity indicators

Main activity indicators 31.03.2017		Main financial indicators 31.03.2017	
Transmitted natural gas, mill. m ³	537	thous. EUR	
Active natural gas at the Inčukalns UGS, mill. m ³	457	Net turnover	13 674
Length of upstream gas pipelines, km	1 191	EBITDA	10 672
Number of employees, average	328	EBITDA, %	77%
		Net profit	4 555
		Net return, %	33%

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

During the reporting period the Company ensured a continuous supply of natural gas in Latvia from the Inčukalns underground Gas Storage by gaining income

from the main activity in the amount of **13 674 thous. EUR** and profit in the amount of **EUR 4 555 thous. EUR**

Activity results of the segments

Income of the transmission segment in the first quarter was 8.182 mill. EUR and EBITDA reached 6.379 mill. EUR, which ensures 60% of the total EBITDA of the Company. Profit of gas transmission reached EUR 3.247 mill. In the first quarter the storage segment operated with income of 5.710 mill. EUR, which ensured EBITDA in the amount of EUR 4.292 mill. and profit in the amount of 1.308 mill. EUR

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

Events after the end of the reporting period

Until 3 April 2017 the supply of natural gas was a completely regulated service in Latvia. After the end of the reporting period, i.e. on 3 April 2017 the natural gas market will be opened for all merchants in Latvia in conformity with that laid down in the Energy Law.

Notification regarding responsibility of the Board of Directors

Non-audited interim period shortened financial statements regarding the period from 4 January 2017 until 31

March 2017 have been prepared in conformity with the International Financial Reporting Standards approved in the European Union.

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

The non-audited interim period shortened financial statements regarding the period from 4 January 2017 until 31 March 2017 have been approved by the Board of Directors of the Company on _____ 2017.

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

Aigars Kalvītis

Chairman of the Board of Directors

Zane Kotāne

Member of the Board of Directors

Financial Statements

PROFIT OR LOSS STATEMENT

	Annex	04.01.2017. - 31.03.2017.
		EUR'000
Revenue from the main activity	1	13 674
Other income	2	219
Cost of materials	3	(808)
Personnel costs	4	(1 781)
Depreciation, amortisation and decrease in value of fixed assets		(5 283)
Other operating expenses	5	(632)
Gross Profit		5 389
Financial income, net expenses		(51)
Profit before taxes		5 338
Corporate income tax		(783)
Profit for the reporting period		4 555

BALANCE SHEET

	Annex	31.03.2017
		EUR'000
ASSETS		
Long-term investments		
Intangible assets	6	1 169
Fixed assets	7	327 975
Long-term deferred expenses	11	1 713
Total long-term investments:		330 857
Current assets		
Inventory	8	4 808
Advance payments for stocks		11
Receivables		5 315
Cash and its equivalents		17 929
Total current assets:		28 063
TOTAL ASSETS:		358 920
LIABILITIES		
Equity:		
Share capital		39 786
Reserves		234 299
Retained earnings		4 555
Total equity:		278 640
Long-term liabilities		
Income of next periods	9	8 268
Provisions for pensions and similar liabilities		1 539
Loans from credit institutions		32 375
Provisions for expected taxes		30 686
Total long-term liabilities:		72 868
Short-term liabilities		
Loans from credit institutions		2 625
Trade payables		326
Other liabilities	10	4 194
Income of next periods	9	267
Total short-term liabilities:		7 412
TOTAL LIABILITIES:		358 920

STATEMENT ON CHANGES IN EQUITY

	Share capital	Reserves	Retained earnings	Total
	EUR'000	EUR'000	EUR'000	EUR'000
4 January 2017				
Opening balance	39 786	234 299	-	274 085
Profit for the reporting year	-	-	4 555	4 555
Total other joined income	-	-	4 555	4 555
31 March 2017	39 786	234 299	4 555	278 640

CASH FLOW STATEMENT

	31.03.2017
	EUR'000
Cash flow from operating activity	
Profit before enterprise income tax	5 338
Adjustments:	
- depreciation of fixed assets	5 112
- amortisation of intangible assets	171
- loss from sale of fixed assets	2
Paid credit interest	51
Changes in assets and liabilities of economic activity:	
- accounts receivable	(5 297)
- advance payments for stocks	(11)
- stocks	330
- creditors	2 227
Net cash flow from operating activity	7 923
Cash flow from investment activity	
Acquisition of fixed assets	(522)
Purchase of intangible assets	(5)
Participation in transnational cross-border project	(1 713)
Net cash flow from investment activity	(2 240)
Cash flow from financial activity	
Paid credit interest	(51)
Net cash flow from financial activity	(51)
Net cash flow	5 632
Cash and cash equivalents at the beginning of the reporting period	12 297
Cash and cash equivalents at the end of the reporting period	17 929

ANNEXES TO THE FINANCIAL STATEMENT

Segment information

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

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

04.01.2017-31.03.2017	Gas transmission	Gas storage	TOTAL
	EUR'000	EUR'000	EUR'000
Net turnover	8 083	5 591	13 674
Segment profit before taxes	3 662	1 677	5 338
Segment assets	183 712	157 279	340 991
Depreciation and amortisation	2 691	2 592	5 283
Acquisition of fixed assets and intangible assets	367	159	526
EBITDA	6 379	4 292	10 672

Comparison of segment information

	04.01.2017. - 31.03.2017
Segment assets	340 991
Cash	17 929
Total assets	358 920

Profit or loss account

1. Income

	04.01.2017
Income from the main activity	31.03.2017
	EUR'000
Income from transmission	8 083
Income from storage	5 591
	13 674

2. Other income

	04.01.2017
Other income	31.03.2017
	EUR'000
Income from EU co-financing	67
Other income	152
	219

3. Cost of materials

	04.01.2017
Cost of materials	31.03.2017
	EUR'000
Technological consumption	378
Cost of materials	216
System maintenance services	108
Maintenance of transport and mechanisms	66
Maintenance of IT infrastructure	40
	808

4. Personnel costs

	04.01.2017
Personnel costs	31.03.2017
	EUR'000
Salaries	1375
State social insurance mandatory contributions	313
Life, health and pension insurance	90
Other staff costs	3
	1781

5. Other operating expenses

	04.01.2017
Other operating expenses	31.03.2017
	EUR'000
Costs for maintenance of premises and territory and other services	303
Taxes and fees	178
Office and other administrative expenses	151
	632

Balance Sheet

6. Intangible assets

Intangible assets	31.03.2017
	EUR'000
Intangible assets	
04.01.2017	5 352
Purchased	5
At the end of the period	5 357
Amortisation	
Initial value	-
04.01.2017	4 017
Amortisation during the reporting period	171
At the end of the period	4 188
Remaining value at the end of the period	1 169

7. Fixed assets

	Land, buildings, structures	Technological equipment and devices	Other fixed assets	Costs for non-finished construction objects	TOTAL
	EUR'000	EUR'000	EUR'000	EUR'000	EUR'000
Initial of revaluated value					
04.01.2017					
Opening balance	635 266	105 659	4 331	12 419	757 675
Purchased	-	-	-	584	584
Re-classified	7	45	70	(184)	(62)
Written off	-	(6)	-	-	(6)
31.03.2017	635 273	105 698	4 401	12 819	758 191
Depreciation					
04.01.2017					
Opening balance	366 126	55 994	2 988	-	425 108
Calculated	3 180	1 844	88	-	5 112
Written off	-	(4)	-	-	(4)
31.03.2017	369 306	57 834	3 076	-	430 216
Remaining balance value as of 04.01.2017					
Remaining balance value as of 31.03.2017	265 967	47 864	1 325	12 819	327 975

8. Stocks

Stocks	31.03.2017
	EUR'000
Natural gas	1 809
Material and spare parts	3 085
Provisions for stocks of slow circulation	(86)
	4 808

9. Income of next periods

Income of next periods	31.03.2017
	EUR'000
Long-term part	8 268
Short-term share	267
	8 535

Changes in income of next periods	31.03.2017
	EUR'000
Opening balance	8 602
Included in income of the reporting period	(67)
Transferred to next periods	8 535

10. Other liabilities

Other liabilities	31.03.2017
	EUR'000
Accumulated costs	978
Enterprise income tax	783
Immovable property tax	725
Value added tax	672
Accumulated costs for non-used leave	464
Remuneration for employees	267
Social insurance contributions	154
Personal income tax	88
Other short-term liabilities	58
Natural resource tax	5
	4 194

11. Long-term deferred expenses

Long-term deferred expenses	31.03.2017
	EUR'000
	1 713

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

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

12. Transactions by related parties

No separate merchant controls the Company. The Company has had transactions with such merchants,

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

Income or loss	31.03.2017
	EUR'000
Income from the provision of goods and services to related parties	
PAS "Gazprom"	26
JSC Latvijas Gāze	13 532
	13 558
Expenses from the provision of goods and services to related parties	
JSC Latvijas Gāze	178
	178

Claims and commitments against related parties	31.03.2017
	EUR'000
Amounts owed by related parties	
PAS "Gazprom"	26
JSC Latvijas Gāze	4 267
	4 293
Amounts owed to related parties	
JSC Latvijas Gāze	59
	59

13. Separation balance sheet

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

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

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

14. Accounting bookkeeping policy

Intangible investments

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

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

Fixed assets

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

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

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

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

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

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

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

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

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

Inventory

Inventory shall be indicated in the lowest value of the cost price or net sale in the balance sheet.

Stocks of natural gas, materials and spare parts shall be assessed at the weighted average price. Costs for Inventory shall be recognised in the profit or loss account in the reporting period when they are used.

Receivables

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

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

Cash and its equivalents

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

Equity

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

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

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

Creditors

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

Provisions

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

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

Provisions for commitments against employees regarding benefits in the case of termination of employment relationships shall be indicated in the current value on the last day of the reporting period. Provisions shall be calculated for each reporting period. Assumptions laid down by the actuary and available to the public regarding variable demographic and financial statements shall be used for calculations. Commitments in respect of benefits shall be calculated by taking into account the present level of the salary and the number of employees which

have the right or for whom such right will arise in the future to receive these payments, and also assumptions of the actuary.

Accrued commitments and accrued income

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

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

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

Loans and interest expenses

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

Taxes

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

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

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

Income of next periods

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

Revenue

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

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

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

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

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

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

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

Significant estimations and assessments

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

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

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

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

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

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

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