

Condensed interim unaudited financial statements

For the 6-month period ended 30 June 2019

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

RIGA 2019



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Company information



Company information

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

Conexus offers its clients natural gas transmission and storage services, subject to the rates determined by the Public Utilities Commission (hereinafter referred to as PUC, or as the Regulator).

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

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

Conexus vision, mission and values

VISION (Who we want to become?)	MISSION (Why we exist?)	VALUES (What is important to us?)
 <p>Become the most trusted energy source in the region.</p>	 <p>Promote a sustainable regional energy market by ensuring a reliable operation of natural gas transmission and storage system</p>	<ul style="list-style-type: none">  Secure system operation  Professional and united team  Flexibility and openness through competent solutions  Sustainable development

Conexus objectives

✦ The key mid-term (2019—2023) objectives of Conexus are related to three areas: **market development, provision of infrastructure and operational development.** The strategic objectives have been set in line with the Conexus values, the company’s vision and its mission: supporting sustainable operation of the energy market in the region, ensuring reliable operation of the natural gas transmission and storage system.

STRATEGIC OBJECTIVES		
1	Development of the regional gas market to achieve a sustainability of Inčukalns UGS operations in market conditions	2
	Managing safe and accessible infrastructure appropriate for market conditions	3
		Implementation of sustainable management of internal and external resources

Alongside strategic objectives, Conexus has defined three development guidelines closely related to all the planned mid-term activities. These development guidelines complement the strategic objectives and contribute to their implementation:

DIGITALIZATION	CONEXUS – ENERGY COMPANY	TOGETHER WITH OTHER REGIONAL TSOs
Operations of Conexus will be focused on technological advancements, improvement, decentralised management of assets, staff and finances, as well as introduction of effective resource management model.	The vision of Conexus is to become the most reliable source of energy in the region, as a result of which Conexus is planning to introduce services not only to the natural gas users, but also to electricity users.	In the medium term, Conexus intends to promote cooperation with other transmission system operators in the region by coordinating routine cooperation and implementing a periodic comparative analysis system with other TSOs in the region.

Company	Joint Stock Company (JSC) ‘Conexus Baltic Grid’
Registration number	40203041605
Date and place of registration	2 January 2017, Riga
Address	Aristida Briāna iela 6 Rīga, LV – 1001 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 – 30 June 2019

Council

Term of office since 3 January 2018

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

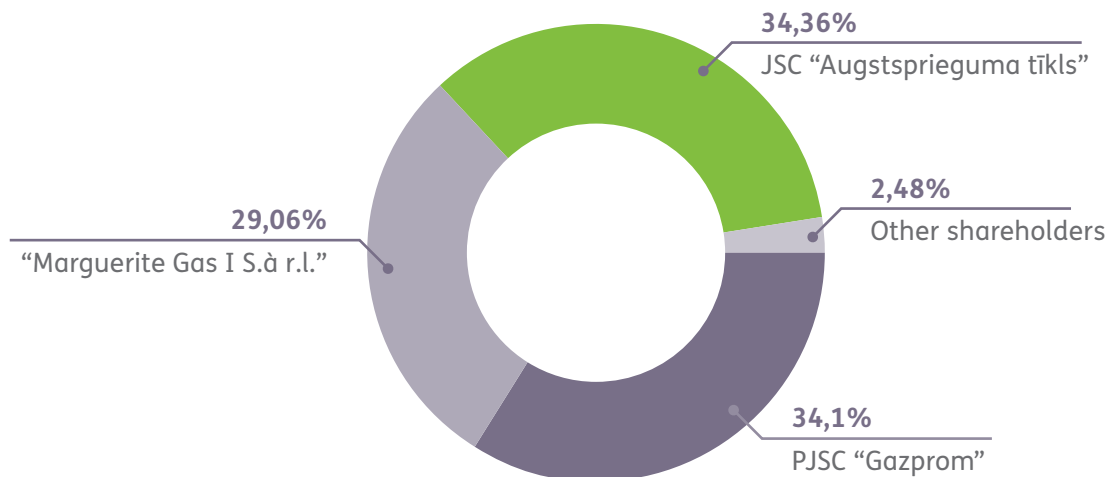
Board of Directors

Term of office since 31 December 2017

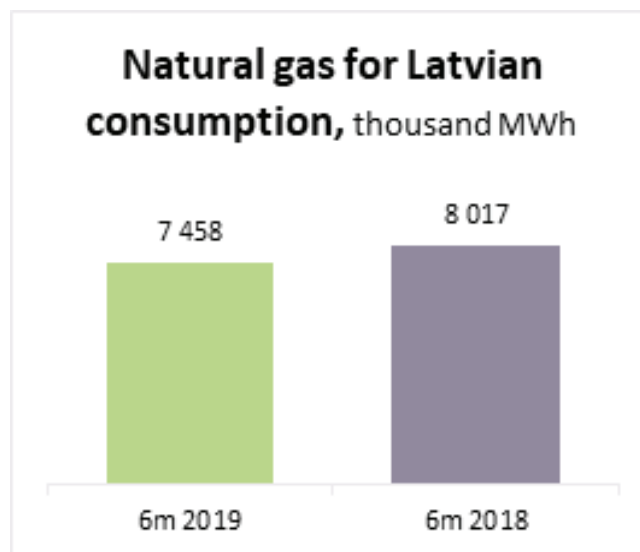
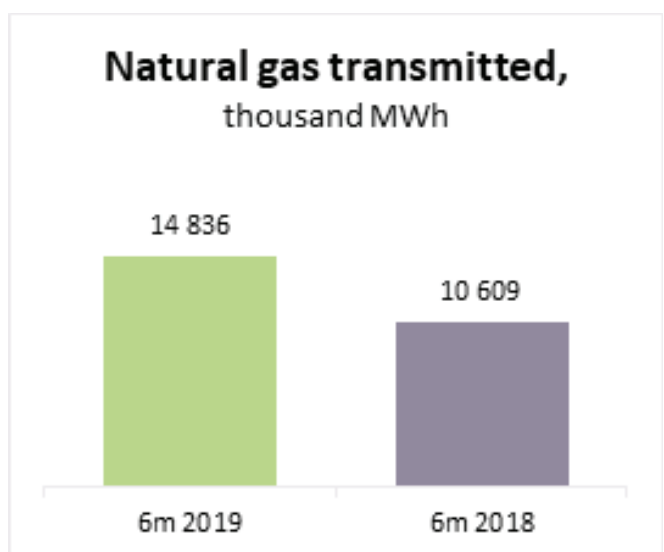
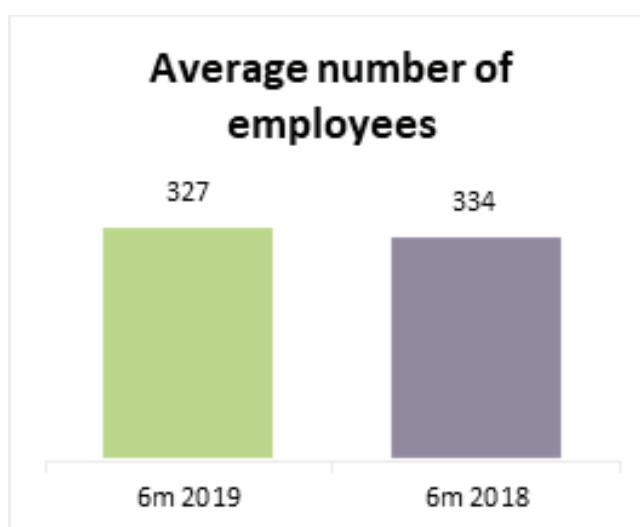
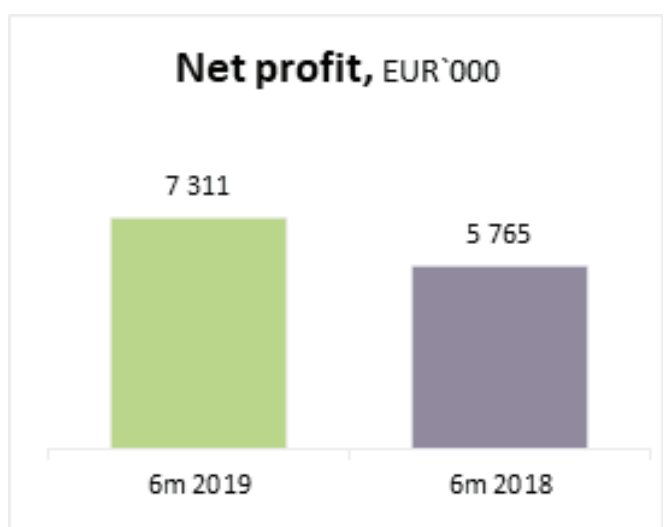
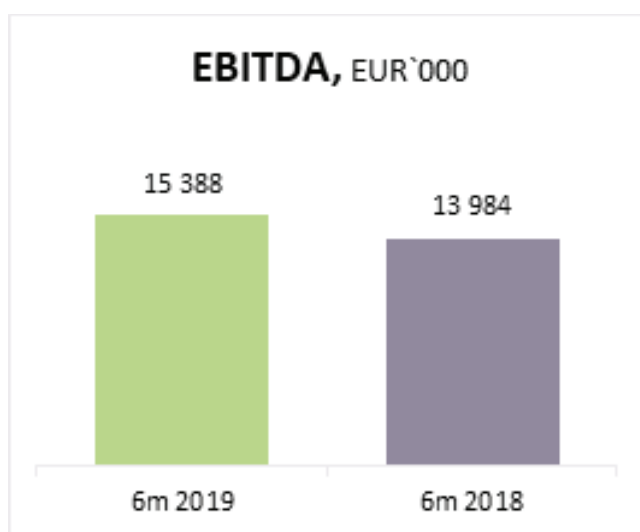
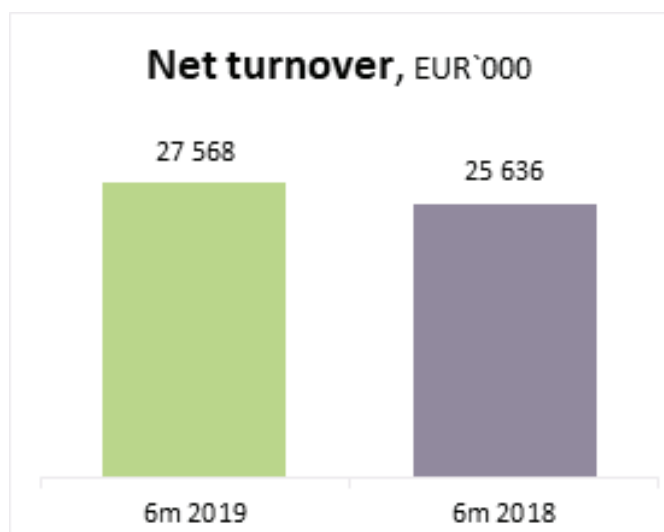
Zane Kotāne	Chairwoman of the Board
Gints Freibergs	Member of the Board
Mārtiņš Gode	Member of the Board

Shareholders

The Company is a private stock company whose shares are 100% bearer shares. The total number of shares is 39,786,089, with a par value of 1.00 EUR. The total number of shareholders exceeds 4.8 thousand. 97.52% of the total number of shares belongs to the three top shareholders.



Main operating indicators



Management report



Executive summary

- ◆ In the first half of 2019, the Company provided a continuous supply of natural gas for the needs of Latvia, Lithuania, Estonia and Russia. During the reporting period, the injection of gas was started sooner than last year - on 1 May, thus increasing the volume of gas transmitted by 40% in comparison to the same period in 2018 and allowing it to reach 14.8 TWh. This proves the trustworthiness and ability of the Company to fulfil the maximum gas demand;
- ◆ In the first half of 2019, the net turnover of the Company was 27 568 thousand EUR, which is 8% more than the year before. The Company generated profits in the amount of 7 311 thousand EUR, with an EBITDA of 15 388 thousand EUR. The financial indicators of the Company were positively affected by the higher volume of gas transmitted in May and in June, as well as the higher reserved capacities of the storage facility. In the injection season of the 2019/2020 storage cycle the reserved capacities are 19.3% higher than it was initially forecasted;
- ◆ On 30 April 2019 the Inčukalns UGS withdrawal season ended, during which the market participants withdrew 10.8 TWh of natural gas from the storage facility.
- ◆ In 2019 the Company is continuing active work on the unified natural gas market for Estonia, Latvia and Finland;
- ◆ In accordance with Cabinet Regulations, the Company fully provides the necessary capacity for withdrawing natural gas from the storage facility during the next season, organising an auction and fully or partially approving the offers received.

Conexus operating indicators		30.06.2019	30.06.2018	30.06.2017
Natural gas transported	thousand MWh	14 836	10 609	8 343
Active natural gas at Inčukalns UGS	thousand MWh	7 760	2 882	3 662
Natural gas for Latvian consumption	thousand MWh	7 458	8 017	7 682
Length of main pipelines	km	1 188	1 188	1 191
Number of employees	Average (based on working hours)	327	334	335

Main activities

Users of natural gas have been provided with the opportunity to connect to the natural gas transmission system

On 30 April 2019, the Regulator approved the regulations in the natural gas industry that improve the setting-up process of natural gas system connections - "Regulations of natural gas transmission system connection for manufacturers of biomethane, operators of liquefied natural gas system and natural gas users". In cooperation with the Company, manufacturers of biomethane, operators of liquefied natural gas system and users of natural gas now have an opportunity to connect to the natural gas transmission system on their own. Thereby, Latvia has joined those countries of European Union that implement the requirements of Europe regarding the implementation of free access to the transmission system.

Since the regulations adopted by the Regulator have entered into force, the users are provided with the opportunity to organise arranging the connection to the transmission system subject to the necessary requirements. The installation of new connections is carried out subject to strict technical requirements and natural gas transmission infrastructure operation safety regulations. It should be noted that Conexus only provides an opportunity to connect to the system where it is technically possible.

Filling of Inčukalns UGS

The injection season 2019/2020 has been commenced significantly earlier than previously and at the end of the reporting period 15.7 TWh of natural gas are reserved, which is 4.6 times more than in the same period of last year and also more than forecasted. The increasing demand affirms the strategic importance of Inčukalns UGS for the security of gas supply in Latvia and in the region and is a positive signal of the necessity of the storage facility in spite of it being underfilled in previous seasons.

The natural gas extraction season of Inčukalns Underground Gas Storage Facility has ended

On 30 April, the natural gas extraction season of Inčukalns UGS ended, during which 10.8 TWh of active natural gas have been extracted from the storage facility. In the season 2018/2019, 90% of the volume of active natural gas stored in the season 2017/2018 was actually stored. It was enough to meet the gas supply needs of Latvia and the nearest region.

On 1 May, Inčukalns UGS started the natural gas injection season. For the 2019/2020 storage cycle, customers are offered to purchase a market product, a grouped capacity product, a two-year grouped capacity product, and a virtual counter-flow product.

Silver category Sustainability index award

Conexus has been awarded the prestigious Silver category Sustainability index award from participation in the Sustainability index assessment conducted by the Institute for Corporate Sustainability and Responsibility. The sustainability index, which is based on an internationally recognized methodology, helps companies assess the sustainability of their operations and the level of corporate responsibility. It is also an objective point of reference for the society on companies which demonstrate courage, openness and commitment to improving their performance. The Silver category is an awards for the work Conexus has done over the past year to improve its activities related to environmental protection, work environment, strategic planning, market relations and community support. The award also signifies that Conexus adheres to long-term cooperation principles in relation to both employees and partners.

New transmission tariffs in force since 1 July

The regulator's council approved the new natural gas transmission tariffs in April, to be in force since 1 July. It is planned that the new tariffs will remain in force until the launch of the unified natural gas market for Estonia, Latvia and Finland on 1 January 2020.

Legal events

On 18 September 2018 Conexus filed an application to the District administrative court against the decision of the Regulator council "On JSC "Conexus Baltic Grid" natural gas transmission system tariffs" dated 18 June 2018, in relation to expenses not included in the transmission system tariff project and issuance of a new

administrative act, intending to include the excluded expenses in the tariff project in the next period. With the decision of the District administrative court dated 17 May 2019, the proceeding was closed and the Company's application dismissed. With the decision by Administrative cases department of the Senate dated 19 July 2019, the District administrative court's decision of 17 May 2019 was revoked and the case was referred for repeated review. The next review of the case is scheduled for January 2020.

On 18 September 2018 the Company's application for cancellation of the decision of the Regulator's Council No. 112 "On certification of the unified natural gas transmission and storage system operator" in relation to parts 1.1. and 1.2. dated 28 September 2018. A court ruling on this case is scheduled for end of August 2019.

Financial indicators

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

The natural gas **transmission** segment involves the transportation of natural gas via high-pressure pipelines, to be delivered to Inčukalns UGS, other countries, and to the distribution system. The transmission sys-

tem tariffs are approved by the Regulator.

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

In the first half of 2019, the net turnover of the Company was 27 568 thousand EUR, which is 8% more than the year before. The Company generated profits in the amount of 7 311 thousand EUR, with an EBITDA of 15 388 thousand EUR. The financial indicators of the Company were positively affected by the higher volume of gas transmitted in May and in June, as well as the higher reserved capacities of the storage facility.

Conexus financial indicators	30.06.2019	30.06.2018	+/-	%
	EUR'000	EUR'000		
Net sales	27 568	25 636	1 932	8%
EBITDA	15 388	13 984	1 404	10%
Net profit	7 311	5 765	1 546	27%
Asset segments	342 244	338 152	4 093	1%
Cash and its equivalents	13 479	8 673	4 806	55%
Total assets	355 723	346 825	8 898	3%
Regulated asset base	322 444	324 396	(1 952)	-1%
Net loans	13 646	21 952	(8 306)	-38%
Investments	4 317	3 968	349	9%

Financing and liquidity

The financial assets available to the Company are sufficient to cover its needs. As of 30 June 2019, the loan of the Company amounted to 27 125 thousand EUR, with a repayment period of 2.5 years, and an

annual interest of 0.6% (0.6% + 6M EURIBOR; in the event of a negative rate, EURIBOR=0). All the financial limitations specified in the current loan agreement of the Company were complied with in the first half of 2019.

Conexus financial factors	30.06.2019	30.06.2018	30.06.2017
EBITDA profitability	56%	55%	71%
Net profitability	27%	22%	22%
Return on equity ratio (ROE)	2.36%	1.85%	1.92%
Sufficiency of equity (>50%)	86%	87%	78%
Burden of liabilities (net loans/EBITDA) (<2)	0.98	1.57	0.72

Abbreviations and formulas

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

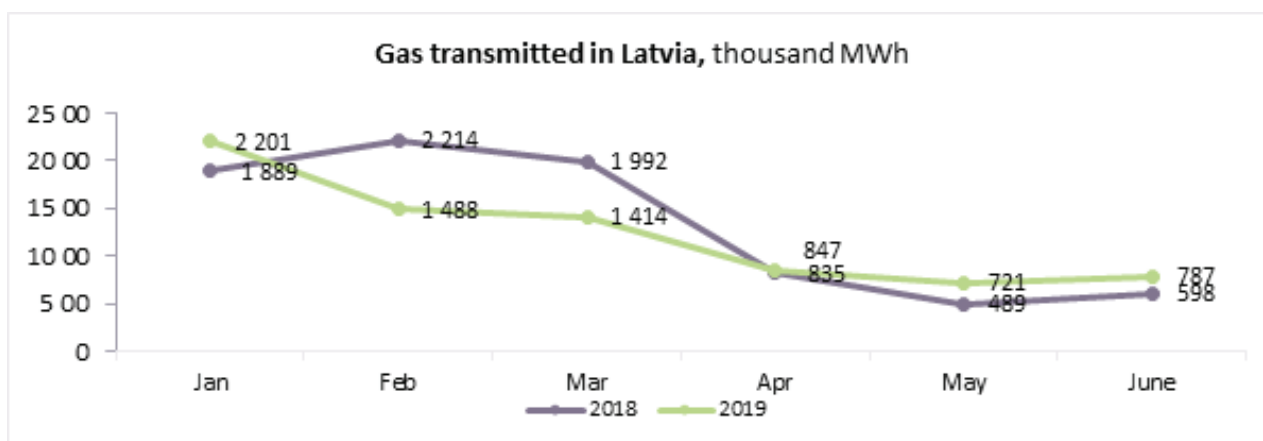
Transmission

The transmission segment gains income from trading capacity both for consumers in Latvia, and for international transmission of natural gas. The transmission segment income during the reporting period was 17 million EUR with an EBITDA of 8.2 million EUR, accounting for 53.1% of the total EBITDA of the Company. The transmission segment profit amounted to 3.4 million EUR (2% higher than in the same period of last year).

In spite of the warm weather conditions in the Q1

2019, which decreased the transmission revenue in winter months, the volume of gas transmitted for Latvian consumption in May and in June was significantly higher than in the same period of the last year, thereby significantly improving the total 6 months revenue.

In the first six months of 2019, the total volume of gas transmitted reached 14.8 TWh, which is 40% higher in comparison to last year due to the earlier commencement of the injection season. During the reporting period the gas transmitted for Latvian consumption was 7% lower than last year, reaching 77% of the total transmitted volume.



The company's EBITDA was negatively affected by the costs of the auctions for Q1 2019 that took place in autumn 2018, with the costs being significantly (875 thousand EUR) greater than the comparative costs a year before. In view of the fact that, last year, the storage tariffs for 2019/2020 were approved in due time, the Company organised the next auction much sooner, as early as March 2019, which led to more interest from natural gas traders, and accordingly, to lower costs.

The transmission segment assets at the end of the reporting period amounted to 179 million EUR, accounting for 52.2% of the total assets of the Company. The reduction in investments is related to offsets in the project implementation schedules relative to the construction schedule across the quarter. Significant capital investments are to take place during the rest of the year, as planned.

Gas transmission	30.06.2019	30.06.2018	+/-	%
	EUR'000	EUR'000		
Net sales	17 061	16 896	165	1%
EBITDA	8 177	8 244	(67)	-1%
Segment net profit	3 350	3 430	(79)	-2%
Segment assets	178 588	179 098	(510)	0%
Depreciation and amortisation	4 767	4 750	17	0%
Acquisition of fixed assets and intangible assets	2 187	1 755	432	25%
Regulated asset base	171 820	173 772	(1 952)	-1%

Storage

The storage segment revenue during the reporting period was 10.5 million EUR (20% higher than in the same period of last year), which is related to the earlier commencement of capacity reservations in 2019. The revenue level allowed to reach EBITDA of 7.2 million EUR and 4 million EUR net profit.

The assets of the segment at the end of the reporting period amounted to 164 million EUR, accounting for 47.8% of the total assets of the Company. The reduction in investments is related to offsets in the project implementation schedules relative to the construction schedule across the quarter. Significant capital investments are to take place during the rest of the year, as planned.

Gas storage	30.06.2019	30.06.2018	+/-	%
	EUR'000	EUR'000		
Net sales	10 507	8 740	1 767	20%
EBITDA	7 211	5 740	1 471	26%
Segment net profit	3 961	2 335	1 626	70%
Segment assets	163 656	159 054	4 603	3%
Depreciation and amortisation	3 217	3 372	(155)	-5%
Acquisition of fixed assets and intangible assets	2 132	2 213	(99)	-5%
Regulated asset base	150 624	150 624	0	0%

Subsequent events

In injection season 2019/2020, the booked capacity in Inčukalns Underground Storage (Inčukalns US) exceeded the initially forecasted capacity by 24.4% thus reaching the maximum filling of storage during this season. Considering the high demand, JSC “Conexus Baltic Grid” (Conexus) does not accept new bookings of capacities.

The initial forecast testified that the system users will store 14.9 TWh natural gas in the storage during the injection season, but currently the total volume of storage capacity sold by Inčukalns US has reached 18.54 TWh, that according to the technical assessment of Conexus and recommendations of storage author’s supervision organization is also the maximum amount of natural gas to be stored during season 2019/2020.

Although the technological project of Inčukalns US prescribes that the maximum volume of active natural gas to be stored in the storage is 24 TWh, from 2015 the actual filling of storage has reduced. So, this year’s increasing demand shows the strategic importance of Inčukalns US in gas supply safety in Latvia and in the region.

In July, the company determined 24-hour limitation for injection capacities in the storage to 104 GWh/day to implement and balance the demand of system users for the services of Inčukalns US. At the same time, it was decided to extend the injection season 2019/2020 to 13 November 2019.

Statement of the Board’s responsibility

The Board of the Company is responsible for preparing its financial statement

The unaudited financial statement of the Company for the 6 months period ending on 30 June 2019, was

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

Zane Kotāne
Board Chairwoman

Gints Freibergs
Board Member

Mārtiņš Gode
Board Member

Financial Statements



Profit and loss statement

	Note	01.01.2019 - 30.06.2019	01.01.2018- 30.06.2018 Adjusted
		EUR'000	EUR'000
Revenue	1	27 568	25 636
Other income	2	709	(374)
Materials and services	3	(6 016)	(5 014)
Personnel expenses	4	(4 968)	(4 399)
Depreciation, amortisation and impairment of property, plant and equipment	6, 7	(7 984)	(8 122)
Other operating expenses	5	(1 905)	(1 865)
Operating profit		7 404	5 862
Financial expenses, net		(93)	(97)
Profit before taxes		7 311	5 765
Corporate income tax			
Profit for the period		7 311	5 765

The accompanying notes on pages 20 to 29 form an integral part of these financial statements.

Zane Kotāne
Board Chairwoman

Gints Freibergs
Board Member

Mārtiņš Gode
Board Member

Balance sheet

Assets

	Note	30.06.2019	31.12.2018
		EUR'000	EUR'000
Non-current assets			
Intangible assets	6	1 130	990
Property, plant and equipment	7	326 609	331 681
Non-current prepaid costs		1 311	1 411
Total non-current assets:		329 050	334 082
Current assets			
Inventories	8	5 280	2 182
Advances for inventories		4	1
Trade receivables		7 032	6 859
Other current assets	9	878	371
Cash and cash equivalents		13 479	18 068
Total current assets:		26 673	27 481
TOTAL ASSETS:		355 723	361 563

The accompanying notes on pages 20 to 29 form an integral part of these financial statements.

Zane Kotāne
Board Chairwoman

Gints Freibergs
Board Member

Mārtiņš Gode
Board Member

Balance sheet (continued)

Liabilities and shareholders' equity

	Note	30.06.2019	31.12.2018
		EUR'000	EUR'000
Shareholders' equity:			
Share capital		39 786	39 786
Treasury shares		(37)	(38)
Reserves	10	143 631	146 914
Retained earnings		121 763	123 104
Total shareholders' equity:		305 143	309 766
Non-current liabilities			
Deferred income	12	7 667	7 800
Employee benefit obligations		1 061	1 061
Borrowings	11	23 625	25 375
Other creditors		419	-
Total non-current liabilities:		32 772	34 236
Current liabilities			
Borrowings	11	3 500	3 500
Trade payables		2 646	3 666
Other liabilities	13	3 398	8 510
Provisions		1 421	1 421
Deferred income	12	3 234	302
Advances from customers		3 609	162
Total current liabilities:		17 808	17 561
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY:		355 723	361 563

The accompanying notes on pages 20 to 29 form an integral part of these financial statements.

Zane Kotāne
Board Chairwoman

Gints Freibergs
Board Member

Mārtiņš Gode
Board Member

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	-	-	-	(13 926)	(13 926)
Transfer of revaluation reserve	-	-	(6 058)	6 058	-
Acquisition of treasury shares	-	1	-	-	1
<i>Other comprehensive income:</i>					
Other comprehensive income	-	-	(32)	-	(32)
Profit for the period				13 306	13 306
<i>Total other comprehensive income</i>			(32)	13 306	13 274
31 December, 2018	39 786	(38)	146 914	123 104	309 766
Reduction of the revaluation reserve	-	-	(3 283)	3 283	-
Dividends	-	1		(11 935)	(11 934)
Profit for the period	-	-	-	7 311	7 311
Total	-	1	(3 283)	(1 341)	(4 623)
30 June, 2019	39 786	(37)	143 631	121 763	305 143

The accompanying notes on pages 20 to 29 form an integral part of these financial statements.

Zane Kotāne
Board Chairwoman

Gints Freibergs
Board Member

Mārtiņš Gode
Board Member

Statement of cash flows

Note	01.01.2019 – 30.06.2019	01.01.2018 – 30.06.2018
Cash flows from operating activities	EUR'000	EUR'000
Profit before corporate income tax	7 311	5 765
<i>Adjustments:</i>		
- depreciation of property, plant and equipment	7 809	7 933
- amortisation of intangible assets	175	189
- loss on disposal of plant, property and equipment	18	67
- participation in the transnational cross-border project	101	101
- amortisation of EU grants	(133)	(134)
- interest expenses	93	95
<i>Change in operating assets and liabilities net of effects of reorganisation:</i>		
- increase in debtors	(680)	2 784
- increase in advances for inventories	(3)	11
- increase in inventories	(1 425)	178
- increase in creditors	(2 707)	(5 137)
Corporate income tax paid	(36)	(1 103)
Net cash inflow from operating activities	10 523	10 393
Cash flow from investing activities		
Payments for property, plant and equipment	(3 994)	(3 947)
Payments for intangible assets	(323)	(7)
Proceeds from sale of property, plant and equipment	-	11
Net cash outflow from investing activities	(4 317)	(3 957)
Cash flow from financing activities		
Interest paid	(93)	(95)
Repayment of borrowings	(1 750)	(1 750)
EU grants received	2 932	35
Dividendes paid	(11 884)	(13 839)
Net cash inflow from financing activities	(10 795)	(15 649)
Net cash flow	(4 589)	9 213
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	13 479	8 673

The accompanying notes on pages 20 to 29 form an integral part of these financial statements.

Zane Kotāne
Board Chairwoman

Gints Freibergs
Board Member

Mārtiņš Gode
Board Member

Notes to the financial statements

Notes to the statement of profit or loss

1. Revenue

	01.01.2019 - 30.06.2019	01.01.2018 - 30.06.2018 Adjusted
	EUR'000	EUR'000
Revenue from transmission services	17 061	16 896
Revenue from storage services	10 507	8 740
	27 568	25 636

2. Other income

	01.01.2019 - 30.06.2019	01.01.2018 - 30.06.2018 Adjusted
	EUR'000	EUR'000
Income from EU grants	133	134
Other income	576	(508)
	709	(374)

3. Materials and services

	01.01.2019 - 30.06.2019	01.01.2018 - 30.06.2018 Adjusted
	EUR'000	EUR'000
Natural gas	339	256
Materials	472	419
Maintenance of transmission and storage infrastructure	4 879	4 008
Maintenance of transport and machinery	85	119
Maintenance of IT infrastructure	241	212
	6 016	5 014

4. Personnel expenses

	01.01.2019 - 30.06.2019	01.01.2018 - 30.06.2018
	EUR'000	EUR'000
Salary	3 809	3 369
State social insurance contributions	927	799
Life, health and pension insurance	226	219
Other personnel costs	6	12
	4 968	4 399

5. Other operating expenses

	01.01.2019 - 30.06.2019	01.01.2018 - 30.06.2018 Adjusted
	EUR'000	EUR'000
Premises and territory maintenance and other services	653	668
Taxes and duties	632	552
Office and other administrative costs	602	578
Net loss on disposal of property, plant and equipment	18	67
	1 905	1 865

Notes to the balance sheet

6. Intangible assets

Cost	30.06.2019	31.12.2018
	EUR'000	EUR'000
Cost		
Beginning of period	5 959	5 712
Additions	315	364
Transferred	-	4
Disposals	-	(121)
End of period	6 274	5 959
Amortisation		
Beginning of period	4 969	4 674
Amortisation charge	175	382
Disposals	-	(87)
End of period	5 144	4 969
Net book value as at the end of the period	1 130	990

7. Property, plant and equipment

	Land and buildings	Machinery and equipment	Other fixed assets	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
Depreciation						
31.12.2017	377 393	60 827	3 642	-	-	441 862
Depreciation charge	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
Net book value 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 fixed assets	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	433	10	80	-	3 904	4 427
Reclassified	(1 904)	(27)	-	-	(249)	(2 180)
Disposals	(96)	(4)	(49)	-	-	(149)
Transferred	-	-	-	-	-	-
30.06.2019	649 072	120 681	6 262	1 435	11 488	788 938
Depreciation						
31.12.2018	387 129	63 981	4 049	-	-	455 159
Depreciation charge	5 593	1 967	249	-	-	7 809
Revalued	-	-	-	-	-	-
Disposals	(78)	(4)	(49)	-	-	(131)
Reclassified	(485)	(23)	-	-	-	(508)
30.06.2019	392 159	65 921	4 249	-	-	462 329
Net book value as at 30.06.2019	256 913	54 760	2 013	1 435	11 488	326 609

8. Inventories

	30.06.2019	31.12.2018
	EUR'000	EUR'000
Non-current assets held for sale	1 673	-
Materials and spare parts	1 677	1 699
Natural gas	1 999	552
Provisions for impairment of slow-moving inventories	(69)	(69)
	5 280	2 182

9. Other current assets

	30.06.2019	31.12.2018
	EUR'000	EUR'000
Prepaid expenses related to the participation in the transnational cross-border project	101	101
Prepaid expenses	701	199
Other debtors	76	71
	878	371

10. Reserves

	30.06.2019	31.12.2018
	EUR'000	EUR'000
Property, plant and equipment revaluation reserve	118 626	121 909
Post-employment benefit revaluation reserve	358	358
Reorganisation reserve	24 647	24 647
	143 631	146 914

11. Borrowings

	30.06.2019	31.12.2018
	EUR'000	EUR'000
Borrowings from credit institutions – non-current part	23 625	25 375
Borrowings from credit institutions – current part	3 500	3 500
	27 125	28 875

12. Deffered income

	30.06.2019	31.12.2018
	EUR'000	EUR'000
Non-current part	7 667	7 800
Current part	3 234	302
	10 901	8 102

Movement of deferred income	01.01.2019 – 30.06.2019	01.01.2018 – 31.12.2018
	EUR'000	EUR'000
Beginning of period	8 102	8 395
EU funds received	2 932	125
Amortised in profit or loss	(133)	(418)
Carried forward as at 31.12.2018	10 901	8102

13. Other liabilities

	30.06.2019	31.12.2018
	EUR'000	EUR'000
Value added tax	1 209	756
Accrued bonuses	529	1 338
Real estate tax	478	-
Accrued vacation costs	437	437
Salaries	237	301
Social insurance contributions	207	203
Personal income tax	105	103
Dividends	126	74
Other non-current liabilities	45	41
Natural resource tax	23	27
Corporate income tax from theoretically distributed profit	2	36
Accrued costs for non-received invoices	-	5 194
	3 398	8 510

Financial risk management

The principles and guidelines for general management of financial risks are set out in the Company's financial risk management policy. Conexus is exposed to the following financial risks: capital risk, interest rate risk, currency risk, credit risk and liquidity risk. The financial assets of JSC "Conexus Baltic Grid" include trade and other receivables, cash and cash equivalents.

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. The liquidity reserves of the Company are made of the Company's own cash and cash equivalents and credit lines provided by credit institutions.

Interest rate risk

The interest rate risk arises from the use of borrowed cash resources to ensure liquidity. JSC "Conexus Baltic Grid" uses general borrowing to finance its operations. The Company's financial risk management policy stipulates that the interest rate of the largest portion of the borrowings is variable.

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. Credit risk is related to the largest customers of JSC "Conexus Baltic Grid".

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 proportion of borrowed capital against total capital.

Currency risk

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

Accounting Policies

Basis of preparation

Conexus financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union. These financial statements cover the period 1 January 2019 to 30 June 2019.

Financial statements are prepared on a going concern assumption. Assets and liabilities in the financial statements are measured on the historical cost basis, property, plant and equipment are measured at fair value. The cash flow statement has been prepared in accordance with the indirect method. Financial indicators in the financial statement of JSC "Conexus Baltic Grid" are reported in thousands of the euro, unless otherwise stated.

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

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

Intangible assets

Intangible assets of JSC “Conexus Baltic Grid” mainly consist of software licenses and patents.

Amortisation of intangible assets is calculated on a straight-line basis over its estimated useful life. The average useful life of intangible assets is 5 years.

Property, plant and equipment

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

The Company’s buildings and structures, transmission gas pipelines and associated machinery and equipment, as well as structures, equipment and machinery of Inčukalns underground gas storage facility 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 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, 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 surplus of written-off PPEs is transferred to the retained earnings under equity. During the useful life of the revalued within each reporting period, part of the revaluation reserve calculated as

the difference between depreciation of the carrying amount of the revalued asset and depreciation of the from the initial cost value are recognized as accumulated profits under equity.

From the date when the asset is ready for its intended use, it is depreciated and its value is gradually written off. No depreciation is calculated on land, prepayments for fixed assets, 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 fixed assets	Estimated useful life in years
Buildings	20-100
Engineering structures	20-60
Equipment and machinery	5-30
Other fixed assets	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.

Leases

The management of JSC “Conexus Baltic Grid” has elected to adopt new standard IFRS 16 from 01.01.2019.

Under IFRS 16, a contract is or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For such contracts, the new model requires a lessee to recognise a right-of-use asset and a lease liability. The right-of-use asset is depreciated and the liability accrues interest. This will result in a front-loaded pattern of expense for most leases, even when the lessee pays constant annual rentals.

The new Standard introduces a number of limited scope exceptions for lessees which include:

- ◆ leases with a lease term of 12 months or less and containing no purchase options, and
- ◆ leases where the underlying asset has a low value ('small-ticket' leases).

The standard IFRS 16, when initially applied, is likely to result in the Company having to recognise in its balance sheet assets and liabilities relating to operating leases for which the Company acts as a lessee.

Non-current prepaid costs

Classified as non-current prepaid expenses are balances of payment made by JSC "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.

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 stock and the sale.

The cost of natural gas, materials and spare parts is determined using the weighted average method. 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.

Cash and cash equivalents

Cash and cash equivalents comprise balances of current accounts and demand deposits at banks.

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 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 thousands of the 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. 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.

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.

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.

Taxes

The Enterprise Income tax rate is 20% and the taxable base includes:

- ◆ distributed profit (dividends calculated, payments equivalent to dividends, conditional dividends) and
- ◆ conditionally distributed profit (non-operating expenses).

Subsidies

Subsidies received to cover capital investments are initially recognised in deferred income which is gradually recognised as revenue over the useful life of the fixed assets received or acquired using subsidies. Subsidies received to cover expenses are recognised in the same period when the related expenses have arisen, if all the conditions of receiving the subsidies are met.

Revenue

IFRS 15 was adopted by the Company in 2018, Revenue should be recognised when (or as) a Company transfers control of goods or services to a customer at the amount to which the Company expects to be entitled. Depending on whether certain criteria are met, revenue is recognised:

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

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 Co-

nexus expects to be entitled in exchange for such goods or services.

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.

Net Income from balancing

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.

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.

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

Revenue from storage

The storage service is considered to be one performance obligation under IFRS 15. JSC Conexus Baltic Grid provides Inčukalna 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.

Significant estimates and judgements

The financial statements are prepared in accordance with IFRS, using significant management estimates and judgements. It should be noted that actual results may differ from the estimates and assumptions for the outcome of future events.

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.

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